

MEET THE PRESS

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INTERVIEWS WITH AUSTRALIAN INDUSTRY GROUP CEO HEATHER RIDOUT AND ACCESS ECONOMICS' CHRIS RICHARDSON. DISCUSSIONS ABOUT THE HENRY TAX REVIEW AND THE GOVERNMENT'S PROPOSED TAX REFORMS, THE PROMISED INCREASE TO EMPLOYER SUPERANNUATION CONTRIBUTIONS, THE NUMBER OF RECOMMENDATIONS BY THE HENRY TAX REVIEW BEING IMPLEMENTED BY THE GOVERNMENT, CLIMATE CHANGE ACTION AND THE EMISSIONS TRADING SCHEME AND THE EFFECT OF THE UPCOMING ELECTION ON BOTH THE GOVERNMENT AND OPPOSITION IN TERMS OF THEIR POLICIES.

'MEET THE PRESS' PRESENTER PAUL BONGIORNO: Hello, and welcome to 'Meet the Press'. The pace of the election year, already helter-skelter, will accelerate this week with the Budget on Tuesday. The Henry Tax Review has finally seen the light of day, with a limited response the Government hopes will be voter-friendly.

AUSTRALIAN INDUSTRY GROUP CEO HEATHER RIDOUT: Good morning, Paul. Good to be back.

PAUL BONGIORNO: Happy Mother's Day.

HEATHER RIDOUT: Thank you. I should be being served breakfast-in-bed at this moment but I'm here with you.

PAUL BONGIORNO: And paid more money.....Well, let's go to the Budget - what is the highest priority in the Australian Industry Group's view for the Treasurer on Budget night?

HEATHER RIDOUT: Look, I think what needs to happen is that the important gets precedence over the urgent and often in pre-election budgets the urgent gets precedence over the important. We're looking for the Budget to do its heavy lifting in terms of restoring the fiscal position of the Government and returning the debt faster and making use of our shallower than expected recession, and also investing in good spending going forward - spending that will increase the productive capacity of the economy. That's in education and training, that's in support for export development and capability in business. But very prudent and very cautious spending.

PAUL BONGIORNO: Well, your group has pushed training very hard. I see some speculation on Friday that there will be something for training in there. How important's that?

HEATHER RIDOUT: Well, it's absolutely vital. I mean, we've done a survey of members and 75% of them expect to be hit by skills shortages at an extreme level over the next five years. Skills Australia, the board that I'm on, has calculated we're going to be 240,000 skilled people short per year by the year 2015, even with high immigration rates and current training levels. So there's

not a much more important issue than that and compounding all that is that 46% of Australians don't have functional literacy levels suitable for a modern workplace. So we've got a big challenge on our hands in this education area.

PAUL BONGIORNO: So, as you say, you want some good spending but how important is it for the Government to rein in spending in terms of its relationship with interest rates? Business, of course, is finding it hard to get affordable credit. Do you think there is - there will be and there is a strict link between spending and interest rates?

HEATHER RIDOUT: Oh, I have very little doubt about that. The Reserve Bank will be looking very closely at the Budget to see whether fiscal policy does its share of the heavy lifting. The monetary stimulus has been withdrawn from the economy. We're back at pre-GFC average levels of interest rates. For business it's a full percentage point at least above it. The covenants banks are imposing on business, especially small businesses, are very restrictive and tough. A quarter of our members are complaining. It's a tough scene, but if the Budget doesn't do some pretty smart work on fiscal policy, it will put more pressure on interest rates, as night follows day.

PAUL BONGIORNO: Looking for relief for business and especially small business, the Government has announced a company tax cut and more generous write-offs for assets. Now, the Australian Chamber of Commerce and Industry says that, um, that the Government should split the company tax cut and the assets write-off from the resource tax. They say that business needs this no matter what happens with the resource tax. Would you echo that call?

HEATHER RIDOUT: Look, I think it's very important that the proceeds from the resources tax - super tax - aren't necessarily sustainable because you can have cycles in commodity booms and to devote all of it to recurrent expenditure and recurrent reforms can be dangerous. We support part of it being devoted to it but part of it being invested in other things. But in terms of ACCI's proposal, I think the Henry Review actually supported stronger support for small business so we have some sympathy with that view but it will leave a billion-dollar-plus hole in the Budget.

PAUL BONGIORNO: Well, that's the point, isn't it? That the Government's got to pay for tax cuts in some way.

HEATHER RIDOUT: Indeed. The Henry report isn't about tax cuts. It's about tax reform to try and put in place a more robust tax system for the future that's consistent with our aspirations. So I think they're in a bit of strife with that.

PAUL BONGIORNO: Well, the Government is promising to raise employer funded compulsory super contributions from 9% to 12%. Tony Abbott says it's bad for business.

TONY ABBOTT: (Tuesday) It's effectively a 3% tax on payroll. It's a \$10 billion a year slug on small business. It's a \$20 billion a year slug on the economy

generally.

PAUL BONGIORNO: Heather Ridout, you were on the Henry Review panel and in fact, your panel didn't recommend that the Government go this way. Do you think they've made a mistake?

HEATHER RIDOUT: I think we recommended a different approach which would have kept it at 9% but effectively increased it through changes to tax arrangements and other things. I think in the past when we've had these kind of increases in the SG, there's been a very formal trade-off with wage increases. And in fact, under the old Act, the parties were absolutely compelled to take it into account in minimal wage increases for example. So we'll be seeking, as an organisation, to make sure that through agreements with unions and enterprise bargains and any other way, we can get some formal trade-offs to ameliorate the impact on business. In a two-speed economy, which we're going to have over the next 5-10 years, structural pressure - huge on areas like manufacturing - we simply have to make sure these sorts of things work.

PAUL BONGIORNO: It's going to take nine years to get to the 12% and if history is anything to go by, employers, in fact, build the super into the wage arrangements.

HEATHER RIDOUT: They do. But then when you take on a new employee, you're stuck with a whole lot so it is quite a big issue for business and for small business in particular and that's why it's very important that when minimum wages are increased at the first point, they increase by 0.25% less, etc, etc.

PAUL BONGIORNO: So you're willing to live with it but do you regret the fact the Government's gone this way?

HEATHER RIDOUT: I don't think the Government needed to do it this way. There was always the tug of war between what Henry recommended, which we thought was prudent, would have given people on median earnings 88% of their pre-retirement incomes on retirement, and this kind of increase which is the populist kind of approach, but it had some pretty powerful advocates.

PAUL BONGIORNO: Time for a break. When we return with the panel, the Henry Tax Review. The miners say it's a prescription for economic disaster. And the coolness under provocation award goes to Financial Services Minister Chris Bowen.

MINISTER FOR FINANCIAL SERVICES CHRIS BOWEN: (Tuesday) In the retirement incomes of Australia...

MAN: Global warm is a hoax! Nick Minchin is a champion! He exposed the global warming hoax! Climate-gate!

CHRIS BOWEN: Any more questions?

MAN: Good on Nick Minchin! He's a champion!

PAUL BONGIORNO: You're on 'Meet the Press' with Australian Industry Group CEO Heather Ridout. And welcome to the panel Michelle Grattan of the 'Age' and Steve Lewis from News Limited. Good morning, Michelle and Steve.

THE 'AGE'S MICHELLE GRATTAN: Good morning.

NEWS LIMITED'S STEVE LEWIS: Good morning, Paul.

PAUL BONGIORNO: Well, despite the fact the Minerals Council urged the Henry Review to replace royalties with a tax on profits, the sector has declared world war three on the Government and the Opposition is right with them.

RIO TINTO IRON ORE CEO SAM WALSH: (Tuesday) The tax has been called a super profit tax. It's actually not. It's a super tax on profits, which coincidentally, if you look at the letters, it stands for the word 'STOP'.

TONY ABBOTT: (Tuesday) This is a very, very bad tax and I can see no way that the Coalition could support it.

MICHELLE GRATTAN: Ms Ridout, we're seeing or hearing some very extreme language from the mining industry. Do you think that it is going over the top? Do you think it is really true that this tax will stop or put on hold for a long time significant projects?

HEATHER RIDOUT: Look, I think it's inevitable it will put on hold for a while until the details are resolved about the design of the tax and how it's going to be imposed on companies. But there's no doubt that the conceptual - the concept behind a super profits tax is the right one and was, in fact, supported by the industry, and the whole task now has to be for the Government to sit down with the industry to get the allowance, the uplift factor, the starting point right so it is a genuine super profits tax and get the transition of the existing projects worked out into this new arrangement. We've got a petroleum rental tax, similar kind of concept. It works well. The Gorgon project went ahead with it. We shouldn't be too concerned. If we can get it right, it will work for both sides.

STEVE LEWIS: But Ms Ridout, the resources sector is promising a major campaign against the Government. There's talk that they will spend millions, perhaps tens of millions of dollars in the election lead-up. Are you concerned, as a very high-profile business lobbyist? Are you concerned that sort of campaign may actually undermine the relationship between the business community and the Rudd Government?

HEATHER RIDOUT: Well, the minerals industry has had a strong history of opposing a number of issues. The native title issue was tough for them. The CPRS issue was tough for them. So they're a very vocal and very powerful

lobby. My concern as the CEO of the Australian Industry Group, who have members that supply in and out of the industry in construction, in a whole lot of manufacturing and services areas, we want to get this tax worked out and work through and properly established for all of business. The Minerals Council do what they have to do for their constituency, but the business community as a whole has a real interest...

STEVE LEWIS: It's hardly going to be constructive, though, is it? If the Minerals Council, BHP, Rio, etc, pour millions of dollars into a public campaign.

HEATHER RIDOUT: It's a democracy, Steve. They can do whatever they like with their money and they've got a legitimate right to strongly advocate their own position and they should do it.

PAUL BONGIORNO: Well, in trying to sell his big new tax on miners, the Prime Minister played the 'please explain' xenophobia card. Here he is.

KEVIN RUDD: (Sunday) BHP's 40% foreign-owned. Rio Tinto's more than 70% foreign-owned. That means these massively increased profits, the \$80 billion I referred to before, built on Australian resources, are mostly, in fact, going overseas.

STEVE LEWIS: Ms Ridout, he's got a point, hasn't he, the Prime Minister? That a lot of these profits are being repatriated overseas? Do you have some sympathy with the Prime Minister and that argument?

HEATHER RIDOUT: I have a sympathy with the view that these resources belong to Australia. You're not talking about bank profits or super profits in the chemicals industry or whatever. You're talking about profits that the Australian community have a right to a proper share of. The Prime Minister's job is to make a judgment as to how that is best achieved and that's what I guess he's trying to do. I mean, you can go into all those arguments about foreign ownership. Australia needs foreign investment very badly. We cannot develop this economy without foreign investment, so we have to get that argument fairly well balanced in my view.

MICHELLE GRATTAN: On the wider question of the Henry Review, you and your panel, or the Henry panel, put in months and months of very hard...

HEATHER RIDOUT: 18 months. 18 months for the national interest.

MICHELLE GRATTAN: Right. Of very hard work and yet the Government has really picked up only a tiny minority of that report and some of its measures weren't even recommended. Do you think that the Government will ever come back to the report and do many other big things? Or do you think really it's now shelved indefinitely?

HEATHER RIDOUT: Michelle, the last root-and-branch review of the Australian tax system was done in 1975 and I studied it at university – by

Justice Asprey - and it wasn't fully implemented ever, but three big recommendations – the FBT, capital gains tax, the GST – they weren't implemented for something like 10 to 25 years later. The Henry Review sets out 138 recommendations for a pathway to a much more robust tax base for Australia. It will take a long time to pick that up.

MICHELLE GRATTAN: But are you disappointed there wasn't more first up?

HEATHER RIDOUT: Yes. I mean, to some extent, but how many fights can the Government fight at the one time? There's some fairly radical and difficult proposals to communicate in the tax review and they're all - they all need to have the light shone on them. They need to be robustly argued through. So I think I have some sympathy with the feeling that the Government can't do too much at a time. But it does need to give some direction, I suppose, about how this is going to be achieved.

STEVE LEWIS: Ms Ridout, aren't we seeing, though, a pattern of behaviour from the Rudd Government - with tax, with ETS, with a whole lot of things. It's basically squibbing the hard reform, is it not? Are you concerned, as one of Australia's leading business lobbyists and someone who is close to the Rudd Government, that they appear to be squibbing the big reform and doing a series of backflips?

HEATHER RIDOUT: I think in the lead-up to an election, you always have a tug of war between caution by the Government and opportunism by the Opposition.

STEVE LEWIS: It's lost its reform mojo.

HEATHER RIDOUT: But I would say about the CPRS, we're talking about uncertainty in the mining industry about calls through the resources tax. Well, there's a lot of uncertainty out there in industry about what to do now that this CPRS is being put off and to put a price on carbon later. That's a disappointing hiatus and one that I'm really calling on the Government in the Budget to put some money into this climate change action fund because our members still want to be good citizens around this issue and they know eventually there will be a price on carbon, so it's a very important issue.

MICHELLE GRATTAN: Would you have preferred Kevin Rudd to stick to the Emissions Trading Scheme as a short-term objective? And what's the position now of your organisation on it? You were conducting a review of your attitude. Where have you come down?

HEATHER RIDOUT: We're still at it. We're still finalising our position. But I think given it's not going to start until at least 2012 and it was inevitable that we would have to extend the time that it started because of the problems with Copenhagen...

MICHELLE GRATTAN: Did he have to go that far, though?

HEATHER RIDOUT: Well, I don't think he did, but I think what we now have time to do is actually make a better scheme, improve the scheme, but a market-based scheme is the best way to achieve least-cost abatement. Our members are still committed to reducing emissions, are still committed to energy efficiency, are still committed to a market-based mechanism and we'll be saying to the Government, in the Budget, put some money back into the climate change action fund so that industry can get on with the job of doing what it needs to do so that when this thing does come into play, we'll be prepared and the whole thing will be better understood.

PAUL BONGIORNO: Thank you very much for being with us today, Heather Ridout.