COMMERCIAL IN CONFIDENCE

RESEARCH PAPER

How to fund the fiscal response to a global pandemic and avoid an economic catastrophe

Policy responses to pay for Coronavirus (COVID-19) stimulus expenditure

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THE CENTRE FOR INTERNATIONAL ECONOMICS
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CANBERRA

Centre for International Economics
Ground Floor, 11 Lancaster Place
Canberra Airport ACT 2609

Telephone +61 2 6245 7800
Facsimile +61 2 6245 7888
Email cie@TheCIE.com.au

Website www.TheCIE.com.au

SYDNEY

Centre for International Economics
Level 7, 8 Spring Street
Sydney NSW 2000

Telephone +61 2 9250 0800
Email ciesyd@TheCIE.com.au

Website www.TheCIE.com.au

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Contents

Summary **1**

1 Introduction **3**

2 Sale of public trading enterprises/government business enterprises **6**

Historical sales 6

Potential future sales 8

3 Indirect taxation measures and taxation benchmark variations **15**

GST rate increase and broadening the base 16

Excise tax increases 19

Taxation benchmark variations 20

4 Conclusion **22**

References **23**

BOXES, CHARTS AND TABLES

1.1 Legislated Coronavirus (COVID-19) stimulus expenditure 3

1.2 Australia's estimated net-debt before and after the Coronavirus (COVID 19) stimulus expenditure 4

2.1 Proceeds from the sale of public trading enterprises 6

2.2 Sale of public trading enterprises 7

2.3 Commonwealth Government Business Enterprises (GBE) 8

2.4 Australia Post's profit from regulated mail services and profit before tax 12

2.5 Australia Post CSO costs 13

2.6 Australia post additional government obligations 13

3.1 Australian tax receipts 15

3.2 Australian indirect tax receipts 15

3.3 Additional annual state/territory revenue from raising the GST to 15 per cent 17

3.4 OECD VAT Revenue Ratios (VRRs) & VAT/GST rates 18

3.5 2018-19 excise and customs duties collected 19

3.6 Large measured 2019-20 benchmark variations 21

Summary

The Commonwealth Parliament recently legislated ~$200 billion of Coronavirus (COVID-19) stimulus expenditure for the period 2019-20 to 2021-22. This will increase Australia's annual net debt to an estimated $600 billion over the next few years.

This paper outlines possible revenue raising and taxation measures the current and future Australian governments may employ to finance the Coronavirus (COVID-19) stimulus expenditure. Namely:

- the sale of public trading enterprises
- increasing indirect taxes (goods and services tax (GST) and excise/customs duties), and
- removing taxation benchmark variations.

Both Australian Labor and Liberal Governments have a track record of selling (privatising) public trading enterprises (PTEs) to reduce government debt.[1] For example:

- Commonwealth Bank (Labor and Liberal) - $8.157 billion (nominal)
- Qantas (Labor) - $2.1 billion (nominal)
- Telstra (Liberal) - $45.6 billion (nominal), and
- Brisbane, Melbourne, Perth and Sydney airports (Liberal) – 7.494 billion (nominal).

The above PTE sales provided a total of $63.4 billion (nominal), or $101.5 billion in real terms inflated to $2020. NBN Co Limited, Australia Post and WSA Co Limited present as plausible privatisation candidates in the medium term, based on their underlying market characteristics and feasibility for sale. However, consideration on the impact of competition, foregone revenue and the establishment of robust regulatory arrangements will need to be considered prior to any privatisation.

Tax increases and removing taxation benchmark variations are an alternate source of government revenue raising. The OECD identified that members are increasingly using taxes on general consumption to raise revenue and accounted for 20.8 per cent of total tax revenue in 2016, up from 11.9 per cent in 1965.[2] Indirect taxes accounted for 26 per cent of total Australian Government taxes in 2018-19, down slightly from 28 per cent in 2014-15.

1 Reserve Bank of Australia 1997, *Privatisation in Australia*, Reserve Bank of Australia Bulletin, December, https://www.rba.gov.au/publications/bulletin/1997/dec/pdf/bu-1297-2.pdf

2 OECD 2018, c*onsumption tax trends 2018: VAT/GST and excise rates, trends and policy issues*, p, 18, OECD Publishing, Paris, https://read.oecd-ilibrary.org/taxation/consumption-tax-trends-2018_ctt-2018-en#page20

The chosen policy measures to fund Government debt are at the behest of the Government of the day and parliamentary approval. Both of which are accountable to the voting public.

Irrespective of whatever policy measures are implemented, three things are of central importance to policy makers, governments and the Australian public when deciding on the chosen policy responses to fund the Coronavirus (COVID-19) stimulus expenditure and avoid an economic catastrophe:

1. the available revenue gained from undertaking a chosen approach
2. opportunity costs associated with all options as, "there is no such thing as a free lunch[3]," and
3. equity concerns associated with who will bear the brunt to fund the revenue raised and opportunity costs.

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3 McTaggart et. al, 2003, *Macroeconomics*. Fourth edition. Frenches Forest, Pearson Education p. 5

1 Introduction

In March 2020, the Commonwealth Parliament legislated ~$200 billion of Coronavirus (COVID-19) stimulus expenditure for the period 2019-20 to 2021-22 (table 1.1).

1.1 Legislated Coronavirus (COVID-19) stimulus expenditure

Coronavirus (COVID-19) stimulus measures	2019-20	2020-21	2021-22	Total
	$billions	$billions	$billions	$billions
JobKeeper payments	40.0	90.0	0.0	**130.0**
Boosting cash flow for employers	14.9	17.0	0.0	**31.9**
Jobseeker payment	5.2	8.8	0.0	**14.1**
Households stimulus	4.9	3.9	0.0	**8.8**
Backing business investment	0.0	1.5	5.2	**6.7**
Enhancing the Instant Asset Write-Off	0.0	2.3	0.2	**2.5**
Appropriation (Coronavirus Economic Response Package) Bill (No. 1) 2019-2020	1.7	0.0	0.0	**1.7**
Assistance for apprentices and trainees and the aviation sector	1.0	0.7	0.0	**1.6**
Assistance for Severely Affected Regions	0.1	0.9	0.0	**1.0**
Others[a]	0.8	0.5	0.3	**1.6**
Amendments to support the childcare sector	Unquantified	Unquantified	Unquantified	**Unquantified**
Total	**68.5**	**125.6**	**5.7**	**199.8**

[a] Appropriation (Coronavirus Economic Response Package) Bill (No. 2) 2019-2020; Early release of superannuation; Medicare levy and Medicare levy surcharge low-income thresholds; Structured Finance Support; Waive the Great Barrier Reef Marine Park environmental management charge; Australian Business Growth Fund.

Note: Totals may not sum due to rounding. Excludes other Government Coronavirus measures which did not require Parliamentary approval.

Source: The Parliament of the Commonwealth of Australia 2020, *Coronavirus Economic Response Package (Payments and Benefits) Bill 2020 Explanatory Statement*, p. 5; The Parliament of the Commonwealth of Australia 2020, *Coronavirus Economic Response Package Omnibus Bill 2020 and associated Bills Explanatory Memorandum*, pp. 6, 9, 10, 11, 14, 15, 16, 19, 20, 21 and 22.

Chart 1.2 shows Australia's estimated net-debt before and after the Coronavirus (COVID-19) stimulus expenditure. Prior to the Coronavirus (COVID-19) outbreak, the Australian Government was forecasting Australia's net debt of:[4]

- $392.3 billion in 2019-20 (19.5 per cent of GDP)
- $379.2 billion in 2020-21, and

4 Australian Government 2019, *Budget 2019-20: Mid-Year Economic and Fiscal Outlook – Part 4 Debt Statement, p. 66,* https://budget.gov.au/2019-20/content/myefo/index.htm

- $364.5 billion in 2021-22.

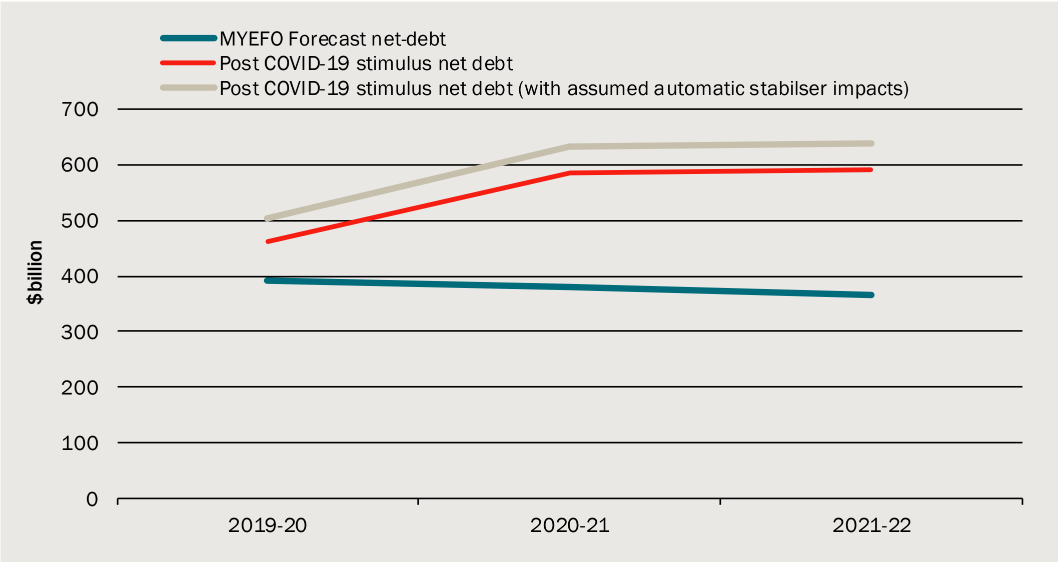
The unanticipated Coronavirus (COVID-19) stimulus expenditure increases Australia's forecast net debt to an estimated:

- $460.8 billion in 2019-20 (22.9 per cent of GDP)
- $586.4 billion in 2020-21, and
- $592.1 billion in 2021-22.[5]

Estimated future net debt increases further when the impact of automatic stabilisers is considered (i.e. higher welfare costs and reduced taxation associated with reduced economic output and higher unemployment). For example, an annual 10 per cent reduction in income taxation receipts and 5 per cent increase in social security and welfare payments compared to those forecast in the 2019-20 MYEFO statement, results in estimated net debt of:

- $504.1 million in 2019-20 (25.1 per cent of GDP)
- $631.5 million in 2020-21, and
- $639.4 million in 2021-22.

1.2 Australia's estimated net-debt before and after the Coronavirus (COVID 19) stimulus expenditure



Data source: Australian Government 2019, Budget 2019-20: Mid-Year Economic and Fiscal Outlook – Part 4 Debt Statement, p. 66, https://budget.gov.au/2019-20/content/myefo/index.htm; Australian Government 2019, Mid-Year Economic and Fiscal Outlook 2019-20, Appendix B Table B1: Estimates of Australian Government general government sector expenses by function and sub-function, p. 298, December 2019, https://budget.gov.au/2019-20/content/myefo/download/MYEFO_2019-20.pdf?2; CIE

The additional expenditure will be paid for in the short term by issuing additional Australian Government Securities (AGS) to investors, managed by the Australian Office of Financial Management (AOFM).

5 Ceteris paribus. These estimates do not account for changes in other variables that have an impact (direct or indirect) on Government expenditure and revenue receipts. For example, reductions in income taxation revenue associated with higher unemployment.

Australian Governments have historically financed its debt by raising revenue from asset sales and increasing taxes. The remainder of this report discusses possible revenue raising and taxation measures the current and future Australian governments may employ to finance the Coronavirus (COVID-19) stimulus expenditure.

The chosen funding approach will be determined by three key political economy considerations:

1 the available revenue gained from undertaking a chosen approach,

2 opportunity costs associated with all options as, "there is no such thing as a free lunch,"[6] and

3 equity concerns associated with who will bear the brunt to fund the revenue raised and opportunity costs.

6 McTaggart et. al, 2003, *Macroeconomics*. Fourth edition. Frenches Forest, Pearson Education, p. 5

2 *Sale of public trading enterprises/government business enterprises*

Historical sales

Both Australian Labor and Liberal Governments have a track record of selling (privatising) public trading enterprises (PTEs) to reduce government debt.[7] For example:

- Commonwealth Bank (Labor and Liberal) - $8.157 billion (nominal)
- Qantas (Labor) - $2.1 billion (nominal)
- Telstra (Liberal) - $45.6 billion (nominal), and
- Brisbane, Melbourne, Perth and Sydney airports (Liberal) – 7.494 billion (nominal).

The above PTE sales provided a total of $63.4 billion (nominal), or $101.5 billion in real terms inflated to $2020 (table 2.1 and box 2.2).

2.1 Proceeds from the sale of public trading enterprises

PTE	Proceeds
	$billion (2020)
Commonwealth Bank	14.7
Qantas	3.8
Telstra	71.0
Brisbane, Melbourne, Perth & Sydney airports	12.0
Total	**101.5**

Note: Values inflated to $2020 using ABS 2020, 6401.0 - Consumer Price Index, Australia, Dec 2019; All groups CPI; Australia; https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6401.0Dec%202019?OpenDocument

Sources: Reserve Bank of Australia 1997, Privatisation in Australia, Reserve Bank of Australia Bulletin, December, Appendix A, https://www.rba.gov.au/publications/bulletin/1997/dec/pdf/bu-1297-2.pdf; Australian National Audit Office 2008, Third Tranche Sale of Telstra Shares, p. 9, https://www.anao.gov.au/work/performance-audit/third-tranche-sale-telstra-shares ; Australian National Audit Office 1998, Sale of Brisbane, Melbourne and Perth Airports, p. 22 https://www.anao.gov.au/sites/default/files/ANAO_Report_1997-98_38.pdf?acsf_files_redirect; Australian National Audit Office 2003, The Sale of Sydney (Kingsford Smith) Airport, p. 22, https://www.anao.gov.au/sites/default/files/anao_report_2002-2003_43.pdf?acsf_files_redirect

7 Reserve Bank of Australia 1997, *Privatisation in Australia*, Reserve Bank of Australia Bulletin, December, https://www.rba.gov.au/publications/bulletin/1997/dec/pdf/bu-1297-2.pdf

2.2 Sale of public trading enterprises

Commonwealth Bank (Labor and Liberal)

Sold via four public share offers for a total of **$8.157 billion** (nominal):[8]

- 1.311 billion in 1991[9]
- 1.686 billion in 1993
- 3.390 billion in 1996, and
- 1.770 billion in 1997.

Qantas (Labor)

Sold over two phases for a total of **$2.1 billion** (nominal) following the passage of the *Qantas Sale Act 1992:* [10]

- Phase 1 - the sale of 25 per cent share to British Airways in 1993 for $0.665 billion (nominal), and
- public float of the remaining 75 per cent of Qantas in 1995 -$1.45 billion (nominal)

Telstra (Liberal)

Sold via three public share offers (Telstra 1, Telstra 2 and Telstra 3), for a total of **$45.6 billion** (nominal):[11]

- Telstra 1 initial public offering of one-third of Telstra in 1997 -$14.2 billion (nominal)
- Telstra 2 secondary public float of 16.6 per cent of issued shares in 1999 - $16.0 billion (nominal), and
- Telstra 3 third public float for the remaining Government equity share in 2008 - $15.4 billion (nominal)

Brisbane, Melbourne and Perth airports (Liberal)

Sold as long-term leases (for an initial term of 50 years with the option of a further 49 years) to third parties in 1997 for a total of **$3.261 billion** (nominal):[12]

- Brisbane airport leased to Brisbane Airport Corporation Ltd for $1.375 billion (nominal)
- Melbourne airport leased to Australian Pacific Airports Corporation for $1.255 billion (nominal), and
- Perth airport leased to Airstralia Development Group for $0.631 billion (nominal).

Sydney airport

The sale of Sydney (Kingsford Smith) Airport was completed in 2002 following a competitive tender process for **$4.233 billion** (nominal) to Southern Cross Airports Corporation Pty Limited.[13]

Potential future sales

Nine Government Business Enterprises (GBEs) are prescribed under current Commonwealth legislation, comprising two corporate Commonwealth entities and seven Commonwealth companies (table 2.3).[14]

2.3 Commonwealth Government Business Enterprises (GBE)

Corporate Commonwealth entities	Commonwealth companies
Australia Post	ASC Pty Ltd Limited
Defence Housing Australia	Australian Naval Infrastructure Pty Ltd
	Australian Rail Track Corporation (ARTC)
	Moorebank Intermodal Company Limited
	NBN Co Limited (nbn)
	Snowy Hydro Limited
	WSA Co Limited

Source: Australian Government 2020, Government Business Enterprises, Department of Finance, https://www.finance.gov.au/business/government-business-enterprises

NBN Co Limited, Australia Post and WSA Co Limited present as plausible privatisation candidates in the medium term, based on their underlying market characteristics and feasibility for sale.

8 Reserve Bank of Australia 1997, *Privatisation in Australia*, Reserve Bank of Australia Bulletin, December, Appendix A, https://www.rba.gov.au/publications/bulletin/1997/dec/pdf/bu-1297-2.pdf

9 The Commonwealth Bank's first share issue in 1991 was for the purpose of raising funds to acquire The State Bank of Victoria.

10 Reserve Bank of Australia 1997, *Privatisation in Australia*, Reserve Bank of Australia Bulletin, December, Appendix A, https://www.rba.gov.au/publications/bulletin/1997/dec/pdf/bu-1297-2.pdf

11 Australian National Audit Office 2008, *Third Tranche Sale of Telstra Shares*, p. 9, https://www.anao.gov.au/work/performance-audit/third-tranche-sale-telstra-shares

12 Australian National Audit Office 1998, *Sale of Brisbane, Melbourne and Perth Airports*, p. 22 https://www.anao.gov.au/sites/default/files/ANAO_Report_1997-98_38.pdf?acsf_files_redirect

13 Australian National Audit Office 2003, *The Sale of Sydney (Kingsford Smith) Airport*, p. 22, https://www.anao.gov.au/sites/default/files/anao_report_2002-2003_43.pdf?acsf_files_redirect

14 Australian Government 2020, *Government Business Enterprises*, Department of Finance, https://www.finance.gov.au/business/government-business-enterprises

NBN Co Limited

NBN Co was established in 2009 to design, build and operate Australia's wholesale broadband access network. The *National Broadband Network Companies Act 2011* explicitly provides for a future privatisation of NBN Co, subject to:[15]

- the national broadband network being built and fully operational, and
- the Finance Minister, on advice from the Productivity Commission and the Parliamentary Joint Committee, declares that conditions are suitable for the entering into and carrying out of an NBN Co sale scheme.

The first condition will be met in the short term, with the NBN Co on track to complete the volume build of the nbn by the end of June 2020,[16] with 95 per cent (10.9 million) of Australian homes and businesses able to connect to the NBN access network as at February 2020.[17]

Two key considerations will likely determine if suitable conditions exist to carry out the sale of NBN Co, as identified in the *National Broadband Network Companies Act 2011*:[18]

- the impact on competition in telecommunications markets, and
- the impact on future annual Commonwealth budgets.

The nbn is regulated by the ACCC as per the *Competition and Consumer Act 2010*. This includes:

- a role in determining the terms and conditions of access to services provided over the nbn, such as through special access undertakings and access determinations
- publishing and maintaining explanatory material about the non-discrimination obligations that apply to NBN Co, and
- involvement in determining and reviewing the locations of the NBN points of interconnect.

The ACCC are of the view that privatisation of natural monopolies, such as NBN Co, are best achieved when a well-functioning regulatory system is in place. Rod Sims, the ACCC Chairman states,

"The lack of effective regulation will see higher prices for users and so can see reduced investment by them, thus causing inefficiencies."[19]

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15 Australian Government, *National Broadband Network Companies Act 2011* https://www.legislation.gov.au/Details/C2020C00019

16 NBN Co 2019, *Half-Year Report For the six months ended 31 December 2019*, https://www.nbnco.com.au/content/dam/nbnco2/2020/documents/media-centre/NBNCo-Half-Year-Report-FY20.pdf

17 NBN Co Limited 2020, *Monthly Progress Report February 2020*, https://www.nbnco.com.au/corporate-information/about-nbn-co/updates/dashboard-february-2020

18 Australian Government, *National Broadband Network Companies Act 2011* https://www.legislation.gov.au/Details/C2020C00019

19 ACCC 2016, *Privatisation needs smarter regulation*, https://www.accc.gov.au/media-release/privatisation-needs-smarter-regulation

As such, the regulatory arrangements for the nbn would have to be reviewed prior to privatisation.

The potential sale of NBN Co may have a decreasing impact on competition over time. The CIE 2020[20] conclude that people are currently using fixed line and mobile together to patch gaps in service reliability, with mobile only customer numbers remaining stable. As such, potential competition for fixed line broadband services exists in the form of mobile broadband providers, however, to date the potential competition has not transformed to strong actual competition at this time. This may change with telecommunication technology evolution and shifting consumer preferences. Current usage patterns indicate that 58 per cent of fixed line users could have their download usage needs met by current mobile services. Further, the substitution between fixed line and mobile is anticipated to continue from two fronts:

1 **supplier-led substitution** where service providers may be able to substitute between fixed and mobile technologies to provide connectivity solutions for their customers, and
2 **customer-driven substitution** — where customers decide between access technologies based on price, technology characteristics and consumer preferences.

The impact on future annual Commonwealth Budgets of the potential NBN Co sale is less clear, as it depends on uncertain future financial outcomes:

- **Dividend revenue** — No dividends have been paid or declared since NBN Co was established in April 2009.[21] This will eventually change as revenue increases from the growth in new connections and subscriber payments to Telstra decrease.
- **Commonwealth Government Contributed Equity and loan agreement** — the Commonwealth Government agreed to provide equity funding to NBN Co until 30 June 2021, unless terminated earlier. As at 30 June 2019, the Commonwealth has provided equity funding of $29.5 billion. The Commonwealth Government and NBN Co also have a $19.5 billion loan agreement to 30 June 2024.[22] The terms and conditions of these agreements may change in the future, at the discretion of the Government of the day.
- **Community Service Obligation (CSO) costs** — The CIE 2018[23] identified 18 telecommunications CSOs, costing an estimated $1 785 million annually for the

20 The CIE 2020, *Mobile and fixed line convergence: An update - Current and future usage of fixed and mobile broadband services*

21 NBN Co 2019, *Half-Year Report For the six months ended 31 December 2019*, p. 27, https://www.nbnco.com.au/content/dam/nbnco2/2020/documents/media-centre/NBNCo-Half-Year-Report-FY20.pdf

22 NBN Co 2019, *Annual Report 2019*, p. 132, https://www.nbnco.com.au/content/dam/nbnco2/2019/documents/corporate-reports/nbn_annual_report_2019.pdf

23 The CIE 2018, *Infrastructure-Related Community Service Obligations: Final Report prepared for Infrastructure Australia*, p. 54, http://www.thecie.com.au/infrastructure-related-community-service-obligations. NBN Co CSO calculated as an estimated annual repayment of the forecast $9 800 million present value loss of providing regional nbn services over 30 years, using a 6.46

financial year 2017-18. Of which, $646 million (36 per cent) was associated with NBN Co providing network access to regional Australia, that would otherwise be non-commercial. The value of the CSO and funding of non-commercial services may change depending on available alternate revenue sources, such as cross-subsidisation from other users.

- **Sale revenue from the potential NBN Co privatisation** — Potential revenue from privatisation is highly contingent on the prevailing market conditions at the time of sale, as demonstrated by the varying revenue outcomes from the three Telstra share offerings.

Australia Post

Australia Post's principle function is to supply postal services within, between and outside Australia, as per the *Australian Postal Corporation Act 1989* (APC Act). Australia Post is also required to undertake CSOs to provide an accessible and reliable letter service, at a uniform price, for all Australians, wherever they live.[24] Australia Post may also undertake subsidiary business activities incidental to the supplying of postal services within or outside Australia.[25]

The volume of letters mailed in Australia has continually fallen in recent times, down 28.4 per cent (822.1 million letters) between 2016 and 2019.[26] The decline in traditional letter deliveries caused Australia Post's profit from regulated mail services to decrease from -$186.9 million in 2011 to - $407.1 million in 2015, such that a negative profit before tax (352.1 million) was declared in 2015 for the first time (chart 2.4).[27]

per cent discount rate as described in, *NBN non-commercial services funding options Final report March 2016*, inflated to $2017 using the March to March CPI index.

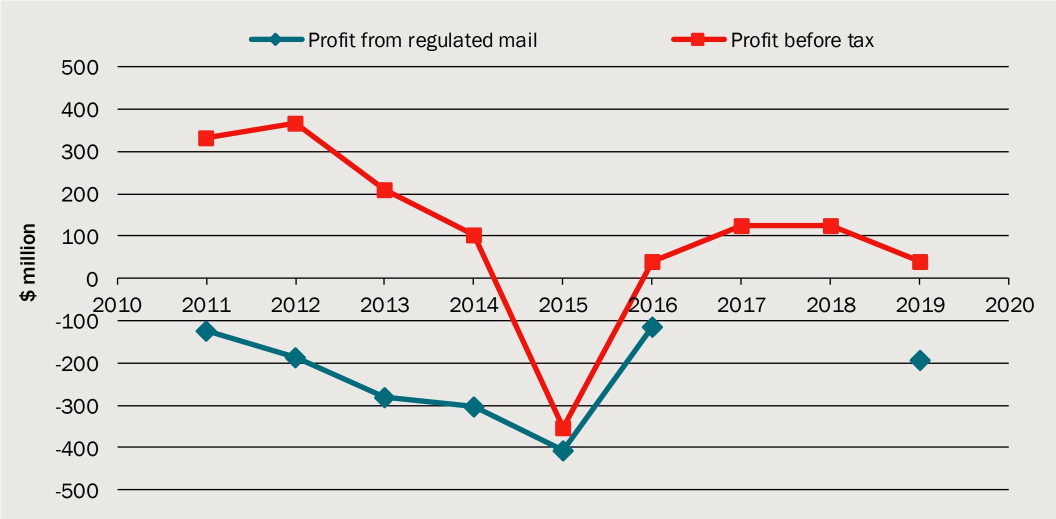
24 Australia Post 2019, *Annual Report 2019*, p. 2, https://auspost.com.au/content/dam/auspost_corp/media/documents/publications/2019-australia-post-annual-report.pdf

25 Australian Government, *Australian Postal Corporation Act 1989*, https://www.legislation.gov.au/Details/C2019C00272

26 Australia Post 2019, *Annual Report 2019*, p. 15, https://auspost.com.au/content/dam/auspost_corp/media/documents/publications/2019-australia-post-annual-report.pdf

27 Australia Post 2016, *Annual Report 2016*, p. 11, https://auspost.com.au/content/dam/auspost_corp/media/documents/annual-report-2015-2016.pdf

2.4 Australia Post's profit from regulated mail services and profit before tax



Data source: Australia Post Annual Reports 2013-19, https://auspost.com.au/about-us/news-media/publications#annual

In response, Australia Post decreased operating expenditure, increased stamp costs and expanded its product and service offerings to include bulky delivery services, e-commerce, financial services and retail goods.[28] Profit has since returned to positive figures, however traditional mail deliveries continue to fall and the profit from regulated mail decreased to -$191.7 million in 2019, despite lower operating expenditure and increased stamp costs (chart 2.4).

Australia Post's operating environment has substantially changed since the APC Act was enacted in 1989, such that 68 per cent of Australia Post's revenue is now derived from non-letter services, operating in fully competitive markets.[29] Australia Post therefore seems primed for privatisation, except for consideration on the continuation and funding of its CSOs and additional government obligations.

Australia Post estimate that costs associated with providing its CSOs has increased 46 per cent in the last 5 years to $392 million (chart 2.5). Australia Post is also required to undertake $2.93 million in additional government obligations associated with ombudsman services, regulatory record keeping, heritage and subsidised medical/educational parcel service (table 2.6).

28 Australia Post 2019, *Annual Report 2019*, p. 15, https://auspost.com.au/content/dam/auspost_corp/media/documents/publications/2019-australia-post-annual-report.pdf

29 Australia Post 2019, *Annual Report 2019*, p. 2, https://auspost.com.au/content/dam/auspost_corp/media/documents/publications/2019-australia-post-annual-report.pdf

2.5 Australia Post CSO costs

Data source: Australia Post 2019, Annual Report 2019, p. 16, https://auspost.com.au/content/dam/auspost_corp/media/documents/publications/2019-australia-post-annual-report.pdf

2.6 Australia post additional government obligations

Other government obligation	2018-19 cost
	$ million
Postal Industry Ombudsman	0.85
ACCC record keeping	0.15
Maintaining heritage properties	1.9
Medical/Educational Remote Area Parcel service[a]	0.03
Total	**2.93**

[a] Estimated foregone revenue.

Source: p. 149, https://auspost.com.au/content/dam/auspost_corp/media/documents/publications/2019-australia-post-annual-report.pdf

CSO funding approaches applied to the telecommunications, energy and transport sectors provide possible arrangements for Australia Post's CSOs in a privatised environment. For example:[30]

- direct government contributions
- cross subsidies between users
- uniform tariff pricing, and
- surcharges.

We note best practice dictates that CSOs,

30 Refer to The CIE 2018, *Infrastructure-Related Community Service Obligations: Final Report prepared for Infrastructure Australia*, http://www.thecie.com.au/infrastructure-related-community-service-obligations for further details.

> "… should be well-defined, transparently disclosed to the community, paid for by taxpayers rather than other users and, wherever possible, exposed to a competitive process to ensure services are routinely delivered at the right level, for an efficient price."[31]

Ombudsman, regulatory and heritage costs are common across all industries and considered a legitimate cost of doing business for both GBEs and private entities. The remote area parcel service obligation is clearly a CSO and would require government consideration of its underlying policy and/or funding arrangements should Australia Post be considered for privatisation.

WSA Co Limited

Western Sydney Airport (WSA) is in the early development stage, with the airport anticipated to open in 2026 and built to immediately accommodate 10 million annual passengers, with no curfew.[32] WSA Co Limited is funded via an Equity Subscription Agreement of $5.3 billion from the Commonwealth Government up to 2026. The equity contribution will fund business establishment and core Airport infrastructure capital works. As at 30 June 2019, total equity of $594.0 million had been provided to WSA Co Limited.[33]

The likelihood of privatising WSA has already been flagged by the founding CEO Graham Millett, sighting the history of the Commonwealth governments not wanting to compete with private operators.[34] Privatisation is also consistent with the divestment of previous Commonwealth owned airports in the major capital cities around the country described above, as well as the smaller regional Avalon Airport at Geelong.

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31 Infrastructure Australia 2016, *Australian Infrastructure Plan; Priorities and reforms for our nation's future – Report*, February 2016, p. 102 available at http://infrastructureaustralia.gov.au/policy-publications/publications/files/Australian_Infrastructure_Plan.pdf

32 https://westernsydney.com.au/

33 WSA Co 2019, *Annual Report 2019 For the period ended 30 June 2019*, pp. 23-24, https://westernsydney.com.au/sites/default/files/2019-10/WSA%20Annual%20Report_2019_18%20FA-Web.pdf

34 Wiggins, J 2018, *Western Sydney Airport to consider IPO when sold off by Commonwealth,* Australian Financial Review, https://www.afr.com/companies/western-sydney-airport-to-consider-ipo-when-sold-off-by-commonwealth-20181220-h19cix

3 *Indirect taxation measures and taxation benchmark variations*

Tax increases are an alternate source of government revenue raising. The OECD identified that members are increasingly using taxes on general consumption to raise revenue and accounted for 20.8 per cent of total tax revenue in 2016, up from 11.9 per cent in 1965.[35] Indirect taxes accounted for 26 per cent of total Australian Government taxes in 2018-19, down slightly from 28 per cent in 2014-15 (table 3.1).

3.1 Australian tax receipts

	Income tax receipts	Indirect tax receipts	Total tax receipts	Income tax receipts	Indirect tax receipts
	$ millions	$ millions	$ millions	Per cent	Per cent
2018-19	333 449	115 130	448 579	74	26
2017-18	307 415	110 638	418 053	74	26
2016-17	275 498	103 773	379 271	73	27
2015-16	265 684	103 255	368 939	72	28
2014-15	256 125	97 369	353 494	72	28

Sources: Australian Government 2015-19, Mid-Year Economic and Fiscal Outlook 2015-16 to 2019-20, Part 3: Fiscal strategy and outlook, tables 3.9 and 3.10: Australian Government general government sector (cash) receipts, https://budget.gov.au/2019-20/content/myefo/download/MYEFO_2019-20.pdf?2

GST receipts account for 57 per cent of indirect taxes and 15 per cent of total tax receipts. Excise/customs duties on fuel, beer and tobacco account for 34 per cent of indirect taxes and 9 per cent of total tax receipts (table 3.2).

3.2 Australian indirect tax receipts

	GST	Excise and customs duty	Other indirect taxes[a]	Total indirect tax receipts	GST	Excise and customs duty
	$ millions	$ millions	$ millions	$ millions	Per cent	Per cent
2018-19	65 204	39 226	10 700	115 130	57	34
2017-18	63 235	38 357	9 046	110 638	57	35
2016-17	60 023	35 837	7 913	103 773	58	35
2015-16	60 312	35 671	7 272	103 255	58	35
2014-15	54 542	34 568	8 259	97 369	56	36

[a] Wine equalisation tax, luxury car tax, major bank levy, agricultural levies and other taxes.

35 OECD 2018, c*onsumption tax trends 2018: VAT/GST and excise rates, trends and policy issues*, p, 18, OECD Publishing, Paris, https://read.oecd-ilibrary.org/taxation/consumption-tax-trends-2018_ctt-2018-en#page20

Sources: Australian Government 2015-19, Mid-Year Economic and Fiscal Outlook 2015-16 to 2019-20, Part 3: Fiscal strategy and outlook, tables 3.9 and 3.10: Australian Government general government sector (cash) receipts, https://budget.gov.au/2019-20/content/myefo/download/MYEFO_2019-20.pdf?2

GST rate increase and broadening the base

The GST was introduced in 2000, as a broad-based indirect tax on private consumption to replace the wholesales sales tax and some state indirect taxes.[36] Some items are exempt from the GST (non-taxable supplies), for example:

- most health services
- most education services
- most childcare services
- fresh food, and
- water and sewerage services.

The GST is levied by the Commonwealth, with the states entitled to receive payments from the Australian Government equivalent to the revenue raised from the GST as per the *Federal Financial Relations Act 2009*.[37] Clause A4(c)(i) of the *Intergovernmental Agreement (IGA) on Federal Financial Relations* states that changes to the GST rate and base requires unanimous agreement from the Commonwealth Government and all states and territories.

The Australian GST rate was set at 10 per cent and has not changed in its 20 years of operation. Australia's GST rate is comparatively lower than the OECD unweighted average of 19.3 per cent, with member rates ranging from 27 per cent (Hungary) to 5per cent (Canada). The average rate for the 23 OECD European Union member countries is 21.8 per cent (chart 3.4).[38]

GST receipts account for ~25 per cent of state and territory government revenue.[39] Coronavirus (Covid-19) is a long-term health crisis, with state governments primarily responsible for health-related services. Raising the GST rate to 15 per cent is estimated to increase total annual revenue available to the states and territories by $32.6 billion.[40] Table 3.3 shows the estimated additional annual GST revenue to each state and territory.

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36 The Parliament of the Commonwealth of Australia 1998, A new tax system (goods and service tax) bill 1998, https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bId=r703

37 Australian Government 2019, *Budget 2019-20: Mid-Year Economic and Fiscal Outlook – Appendix C, p. 307,* https://budget.gov.au/2019-20/content/myefo/index.htm

38 OECD 2019, C*onsumption tax trends 2018: Australia,* OECD Publishing, Paris, https://www.oecd.org/tax/consumption/consumption-tax-trends-australia.pdf

39 Australian Government 2015, *Tax White Paper: State revenue from taxes – taking a look in six slides*, The Treasury, https://treasury.gov.au/review/tax-white-paper/in-five-slides

40 Applying a 5 per cent increase to 2018-19 GST receipts.

3.3 Additional annual state/territory revenue from raising the GST to 15 per cent

State	Share of adjusted population[a]	Additional GST revenue
	Per cent	$ billions
NSW	27.8	9.1
VIC	25.7	8.4
QLD	21.2	6.9
WA	5.3	1.7
SA	10.1	3.3
TAS	3.7	1.2
ACT	2.1	0.7
NT	4.1	1.3
Total	**100**	**32.6**

[a] Applying the share of adjusted population for GST revenue distribution as stated in Australian Government 2019, *Budget 2019-20: Mid-Year Economic and Fiscal Outlook, Table C10 – Appendix C, p. 309,* https://budget.gov.au/2019-20/content/myefo/index.htm

Source: CIE.

We note that although raising the GST rate does not immediately reduce Commonwealth Government debt, it will reduce future calls for additional Commonwealth Government grant funding by the states and territories to fund increased Coronavirus (COVID-19) related health care costs.

Some economists have called for the GST base to be expanded to cover a broader category of goods and services to account for changing consumer spending patterns since the GST was introduced in 2000. Exemptions reduce the GST's efficiency and introduce significant complexity. In total, around 47 per cent of Australia's national consumption is subject to GST,[41] down from approximately 66 per cent when the GST was first introduced.[42]

Australian Treasury estimate the following revenue foregone associated with current GST exemptions for the 2019-20 financial year:[43] [44]

- financial supplies — input tax treatment $3 650 million
- child care services $1 630 million
- water, sewerage and drainage $1 120 million
- education $4 850 million

41 Australian Government 2015, *Tax White Paper*, The Treasury, https://treasury.gov.au/review/tax-white-paper/at-a-glance

42 Janda, M 2019, K*en Henry's tax review is gathering dust, but its ideas could kick-start Australia's economy*, ABC, https://www.abc.net.au/news/2019-12-23/henry-tax-review-ten-years-on/11817328

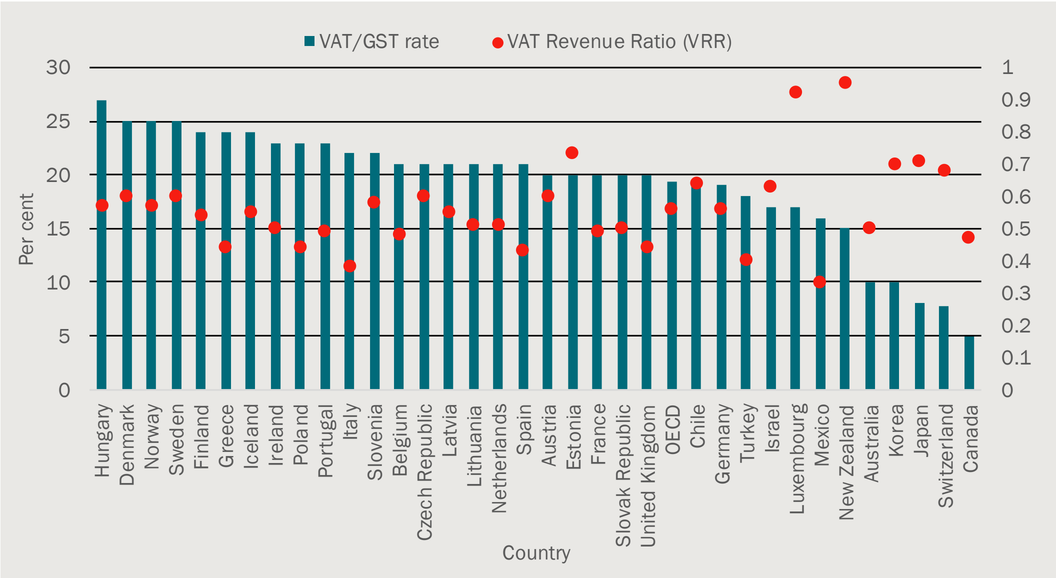
43 GST benchmark variations are calculated in a 'bottom up' manner by identifying components of consumption that are part of the GST benchmark that are taxed at less than 10 per cent. The benchmark variation can then be calculated as the concessional tax margin (10 per cent minus the observed rate of GST) multiplied by total consumption of that item.

44 The Australian Government the Treasury 2020, *Tax Benchmarks and Variations Statement 2019*, Canberra, https://treasury.gov.au/sites/default/files/2020-01/complete_tbvs_web.pdf

- health — medical and health services $4 550 million, and
- food $7 600 million.

We note that full coverage of the GST or Value Added Tax (VAT) to all goods and services is uncommon across the OECD. The OECD use the VAT Revenue Ratio (VRR) to estimate the revenue raising performance of a VAT system. A ratio of 1 would reflect a VAT system that applies a single VAT rate to a comprehensive base of all expenditure on goods and services consumed in an economy-with perfect enforcement of the tax. The OECD wide average VRR was 0.56 in 2016, compared to Australia's 0.50. OECD VRR values range from 0.95 in New Zealand to 0.33 in Mexico (chart 3.4).[45]

3.4 OECD VAT Revenue Ratios (VRRs) & VAT/GST rates



Data source: OECD 2019, Consumption tax trends 2018: Country summaries, OECD Publishing, Paris, http://www.oecd.org/tax/consumption-tax-trends-19990979.htm

However, raising the GST rate and expanding its base will have uneven equity impacts across household income ranges. NATSEM, commissioned by the Australian Council of Social Services estimate that an expansion in the base of the GST to cover fresh food, water and sewerage, health and education would reduce the disposable incomes of households in the bottom quintile by 4.6 percentage points, compared to 1.7 percentage points for those in the top income quintile.[46]

45 OECD 2019, *Consumption tax trends 2018: Country summaries*, OECD Publishing, Paris, http://www.oecd.org/tax/consumption-tax-trends-19990979.htm

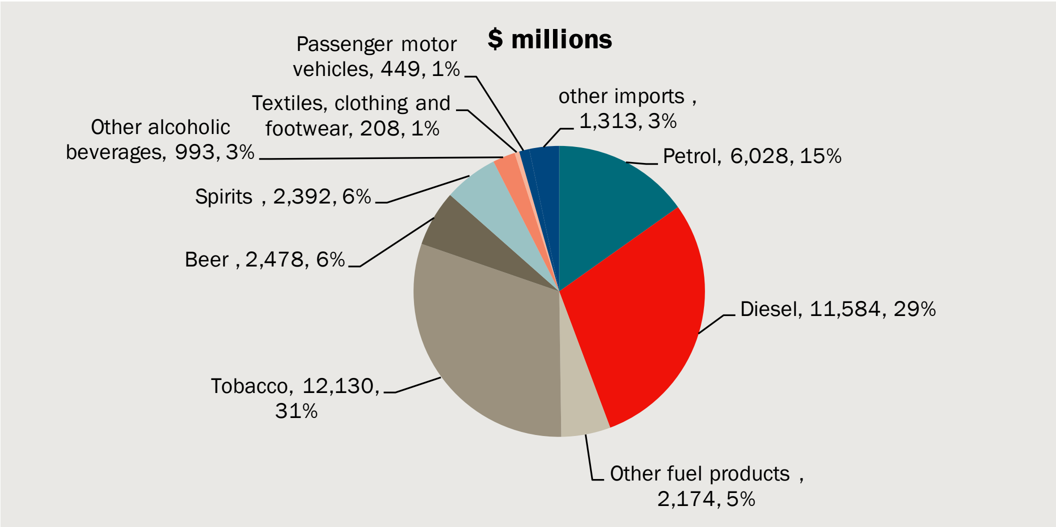
46 Phillips, B & Taylor, M 2015, *The Distributional Impact of the GST*, p. 12, NATSEM at the University of Canberra, https://www.acoss.org.au/wp-content/uploads/2015/11/ACOSS-GST-Report_NATSEM.pdf

Excise tax increases

The economic rationale for levying excise and customs duties on consumption goods is to ameliorate negative externalities and/or in response to the inelastic demand associated with the excised goods. Over 75 per cent of excise/customs duty collected in 2018-19 was from three goods (chart 3.5):

- Tobacco (31 per cent)
- Diesel (30 per cent), and
- Petrol (15 per cent).

3.5 2018-19 excise and customs duties collected



Note: Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).

Data source: Australian Government 2019, Mid-Year Economic and Fiscal Outlook 2019-20, Part 3: Fiscal strategy and outlook, table 3.9: Australian Government general government sector (cash) receipts, p. 46, December 2019, https://budget.gov.au/2019-20/content/myefo/download/MYEFO_2019-20.pdf?2

Excise rates are indexed twice per year. Alcohol and fuel excise are indexed by the CPI, tobacco excise is indexed based on average weekly ordinary time earnings (AWOTE). In addition, excise rates for tobacco will increase by 12.5 per cent on 1 September 2020.[47]

Unlike all other taxes, excise rates can be increased and applied to excisable goods prior to Parliamentary approval if published in the Gazette by the Commissioner of Taxation and associated tariff proposal bills are tabled in the House of Representatives within 7 days of the Gazette notice.[48] The *Excise Act 1901* provides the Australian Taxation Office (ATO) with statutory protections to collect the announced, but not legislated,

47 ATO 2020, *Excise and excise equivalent goods*, https://www.ato.gov.au/Business/Excise-and-excise-equivalent-goods/

48 Australian Government, *Excise Act 1901 Section 160B*, https://www.legislation.gov.au/Details/C2019C00159

higher excise rate for 12 months, or prior to the termination of the current parliamentary session, whichever occurs first.[49]

Validation Bills can be used to retrospectively legitimise the revenue collected under the higher excise rates, if those rates do not receive Parliamentary approval within the 12-month timeframe described in the *Excise Act 1901*.

The Government used this approach in April 2008 to increase the excise duty on alcoholic beverages containing less than 10 per cent of alcohol (colloquially known as ready to drink mixers, or alco-pops) prior to receiving Parliamentary approval. Validation Bills passed by Parliament were subsequently used in April 2009 to legitimise the higher excise duty collected over the period May 2008 to April 2009.[50]

Although not a long-term taxation strategy, Tariff Proposals and Validation Bills provide the Government with the ability to raise a substantial amount of revenue quickly. Higher long-term excise rates can subsequently be implemented via the normal Parliamentary process.

Increasing excise rates may raise equity issues. The OECD conclude the distribution of excise taxes varies based on the goods on which they are imposed. They find that the combined excise taxes on fuel, tobacco and alcohol is regressive. However, excise taxes on transport fuels alone are not regressive.[51]

Taxation benchmark variations

Opportunities also exist to harmonise the coverage of excise rates across similar goods. For example, Australian Treasury estimate the following revenue foregone associated with lower excise rates compared to the benchmark applied to similar goods in the 2019-20 financial year:[52]

- Concessional rate of excise levied on aviation gasoline and aviation turbine fuel $1 360 million
- Excise concessions for 'alternative fuels' (including liquefied petroleum gas (LPG), liquefied natural gas (LNG), compressed natural gas (CNG) and domestically produced biodiesel and ethanol $160 million
- Concessional rate of excise levied on brandy $ 3 million, and

49 Australian Government, *Excise Act 1901 Section 114*, https://www.legislation.gov.au/Details/C2019C00159

50 The Parliament of the Commonwealth of Australia 2009, *Excise Tariff Validation Bill 2009 Explanatory Memorandum*, https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bId=r4108

51 OECD 2019, *consumption tax trends 2018: VAT/GST and excise rates, trends and policy issues,* OECD Publishing, Paris, p. 128, https://read.oecd-ilibrary.org/taxation/consumption-tax-trends-2018_ctt-2018-en#page1

52 The Australian Government the Treasury 2020, *Tax Benchmarks and Variations Statement 2019*, Canberra, https://treasury.gov.au/sites/default/files/2020-01/complete_tbvs_web.pdf

- Concessional rate of excise levied on draught beer $170 million.

We note that some differential tax rates are associated with international treaties agreed to by Australia. Consideration of withdrawing from these international agreements is required prior to changing taxation rates.[53]

Taxation benchmark variations are not exclusive to indirect taxes. The largest estimated taxation exemptions apply to capital gains taxation and retirement savings. This is followed by GST benchmark exemptions outlined earlier, business income taxation and personal income taxation exemptions (table 3.6).

3.6 Large measured 2019-20 benchmark variations

Taxation type	Exemption description	Revenue foregone
		$ million
Capital gains tax	Main residence exemption - discount component	23 000
Retirement savings	Concessional taxation of employer superannuation contribution	19 600
Capital gains tax	Main residence exemption	19 500
Retirement savings	Concessional taxation of superannuation entity earnings	17 800
Capital gains tax	Discount for individuals and trusts	9 480
GST	Food	7 600
GST	Education	4 850
GST	Health - medical and health services	4 550
GST	Financial supplies - input taxed treatment	3 650
Business income	Exemption from interest withholding tax on certain securities	2 450
Business income	Local government bodies income tax exemption	2 270
Retirement savings	Deductibility of life and total permanent disability insurance premiums provided inside of superannuation	2 260
Business income	Lower company tax rate	2 100
Retirement savings	Concessional taxation of capital gains for superannuation funds	2 050
Personal income	Concessional taxation of non-superannuation termination benefits	1 950
Personal income	Exemption of Family Tax Benefit payments	1 900
Personal income	Medicare levy exemption for residents with taxable income below the low-income thresholds	1 890

Note: Australian Treasury states, “Revenue forgone estimates reflect the existing utilisation of a benchmark variation and do not incorporate behavioural response to the reduction or removal of the variation to the tax benchmark. They measure the difference in revenue between the existing and benchmark tax treatments, assuming taxpayer behaviour is the same. ... Revenue forgone estimates are not estimates of the revenue increase if a variation to the tax benchmark were to be removed and estimates should not be added together as reducing one concession would often affect the utilisation of others.

Source: The Australian Government the Treasury 2020, *Tax Benchmarks and Variations Statement 2019*, Canberra, https://treasury.gov.au/sites/default/files/2020-01/complete_tbvs_web.pdf

Again, the underlying policy rationale, potential revenue to be raised and equity concerns should be considered prior to amending taxation benchmark variations. For example, the personal income taxation exemptions are associated with a progressive taxation system policy.

53 For example, Australia does not charge fuel excise on aviation fuel used for international civil aviation activities consistent with its obligation as a signatory of the Convention on International Civil Aviation.

4 Conclusion

The chosen policy measures to fund Government debt are at the behest of the Government of the day and parliamentary approval. Both of which are accountable to the voting public.

Irrespective of whatever policy measures are implemented, three things are of central importance to policy makers, governments and the Australian public when deciding on the chosen policy responses to fund the Coronavirus (COVID-19) stimulus expenditure and avoid an economic catastrophe:

1. the available revenue gained from undertaking a chosen approach
2. opportunity costs associated with all options as, "there is no such thing as a free lunch[54]," and
3. equity concerns associated with who will bear the brunt to fund the revenue raised and opportunity costs.

54 McTaggart et. al, 2003, *Macroeconomics*. Fourth edition. Frenches Forest, Pearson Education p. 5

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