TRANSCRIPT

Sky News – Sunday Agenda

2 April 2017

Topics: company tax, energy, regulation

DAVID SPEERS: Jennifer Westacott, thank you for joining us. Let's get straight to the company tax cut deal. When we spoke during the week you were dismissive of a company tax cut for businesses up to $10 million and the benefit the economy would see out of that. What will we see out of the tax cut for those businesses with a turnover up to $50 million dollars?

JENNIFER WESTACOTT: I think we need to accept this is actually quite a historic agreement and it's quite a big change. I mean three months ago people were writing this off, not even for $10 million, they were just saying the government can't get this thing done, and they have got it done, and I think it says, in a broader sense, it says we've got a problem with the competitiveness of our corporate tax rate, doing it for very small businesses isn't enough, and we hope that that will build the momentum to get the whole package through. What would this mean? I mean companies who are $50 million with an annual turnover of $50 million, it's the same thing if you've got better cash flow it allows you to reinvest, it allows you to expand, it allows you to export, it allows you to be competitive exporting, that allows you to employ more people and of course pay them higher wages, so you know these will have real flow on effects throughout the economy. We would argue of course that, and I'm very pleased to see the Prime Minister committing to the whole plan, we would argue that the real benefits, the big economic benefits will come from the whole economy being included down to 25 per cent and we'll continue to argue for that but we shouldn't underestimate this is a very, very significant victory for the government, a very, very significant victory.

DAVID SPEERS: Okay. And you're obviously confident this will build momentum towards the full company tax cut package but this has been a battle to get this far. Are you aware of any modelling that you've done, that Treasury's done, that anyone else in the private sector might have done, as to what economic growth we'll get out of the deal done on Friday, a tax cut up to $50 million dollars?

JENNIFER WESTACOTT: Well I don't think anyone's done that modelling yet because you know the modelling that was done was for the whole package so obviously we'll start doing that modelling but let's not underestimate you know there is an agreement now that our tax rate is uncompetitive, there's an agreement that you need bigger companies involved and there's an agreement that we need more momentum from the government and certainly that's a very, very significant change from where we were three months ago.

PAUL KELLY: But do you accept, Jennifer Westacott, that the Prime Minister's capacity to extend these tax cuts will depend to a great extent on the dividends we get from these decisions in terms of growth and jobs?

JENNIFER WESTACOTT: It clearly will. And look, there's economic modelling but what was interesting last week was Andrew Mackenzie from BHP, the world's largest mining company saying that within months, was his comment, within months companies would start making different decisions and those decisions would flow into regional communities in particular.

I think this has got to be brought down to kind of what does this mean for people? Who really benefits from this? And it's the people who are relying on companies to export, it's the person who works in a mining community, who's going to get higher incomes, have better jobs, more jobs, because the mining companies will reinvest. It's the people in regional communities where we need agribusiness to get cracking and we need large investment. It's the whole energy system that needs big licks of capital.

We've got to get this debate down to what this really means for people as opposed to kind of in this macroeconomic sphere, and I think you'll see companies starting to change and you know to have the world's biggest mining company say very clearly last week they would start making decisions right away and that companies across the economy would start making decisions right away.

You know, the other point you and I have talked about both David and Paul, is what is the alternative? The alternative is you don't do it, and nobody really has a proper answer for what do we do about our lagging business investment.

DAVID SPEERS: OK but to flip it around though, Jennifer Westacott, and you talked about the big miners, BHP, Andrew Mackenzie, and what he said this week, isn't the reality they didn't get a company tax cut this week? This week was confirmation the Senate will not support a company tax cut now for the biggest companies in Australia, anything above $50 million turnover, you might hope you might see momentum and have some confidence and take heart in what the Prime Minister said but the Senate this week itself, this Senate, has said no.

JENNIFER WESTACOTT: Well they haven't. They've said no at this stage but you know let's kind of remember that where we are is a long way from where they were three months ago. I mean you know we'll obviously be working very hard with them because we're in for the long haul here to make the point that we really need an across the economy tax cut and we certainly don't need in perpetuity a two-tier tax system for big and small businesses or medium businesses that you know when it's been done across the world has been gotten rid of pretty quickly, so I'm pretty confident now we've got momentum.

DAVID SPEERS: Just on that, what are the dangers there of the two-tiered approach we're going to have now for businesses that might be just either side of that $50 million dollar turnover figure?

JENNIFER WESTACOTT: Well people start doing business planning for tax planning. I mean that's the main thing. You start you know carving off bits of your business because you know if we're going to 25 per cent it's actually quite material this, so you know you're kind of 48.5 million you're heading towards a 5 per cent different tax you know you potentially start planning your business for tax purposes rather than growth. Now what we want businesses to do…

DAVID SPEERS: So you reckon that'll happen including breaking up businesses to get around it?

JENNIFER WESTACOTT: Yeah and in the UK they had this two-tiered tax system and they got rid of it pretty quickly and they headed down the path of a kind of lower right for all businesses. Now that's the risk that we run if we kind of end up in perpetuity with a two-tiered tax system that is not healthy for the economy.

But let's be really clear. The Business Council argued for this not for big business, we argued it for the whole economy. We accepted the government's 10 year plan and we accepted it had to be phased in. We'll continue to work with the Senate to drive home the point that our big businesses – not even the big, big companies but the companies over $50 million dollars – they need to export, they need to be competitive globally if we are to grow wages in this country, if we're to expand, if we're to employ more people. And we'll keep pushing that point, we'll keep campaigning on it, we'll keep pushing it hard, but what was really good this week was an acceptance that a tax cut relates to giving people higher incomes and more jobs.

PAUL KELLY: Now what's your message to the Labor Party? Labor of course have campaigned against the overwhelming bulk of this tax package for a very long period of time. They said it's not the priority, the country can't afford it, so what do you want Labor to do now that the Senate has committed to the $50 million turnover level?

JENNIFER WESTACOTT: Well the first thing would be to describe it accurately, instead of describing it as they have in the media this weekend as a tax cut for big business. It clearly isn't, so at least some kind of proper explanation of what has actually been agreed by the Senate.

The second is to kind of ask themselves the question why was this an important policy priority when they were in government but it's not an important priority now?

The third thing is you know they want to see incomes growing, we all want to see people's incomes growing. Well there's only one way for people's incomes to grow if you don't get a big terms of trade hit and that is to get productivity to rise and that can only be done through more investment.

So my question constantly to the Labor Party is: do you accept that business investment is the lowest it's been for some time? The answer is yes. Do you accept that business investment drives productivity? Yes. Do you accept that productivity drives higher incomes? Yes. Well then how do we create a more competitive business investment environment? So what I want them to do is put Plan B, their Plan B, on the table, show the modelling, show what their answer is to getting business investment up that will drive higher incomes.

PAUL KELLY: Now when you put those questions to the Labor Party though, what do they say?

JENNIFER WESTACOTT: Well they say: yes of course business investment is important and we'll have plans for that later. Well we want to see a plan now because the longer we take to do this, the more we'll see incomes declining or not growing at the pace people want, the more we'll see companies in Australia doing more of their new activity somewhere else other than this country so if they've got a Plan B, let's see it. Let's see the modelling.

PAUL KELLY: So what you're saying is you want Labor to accept this outcome on Friday?

JENNIFER WESTACOTT: Absolutely because you know you can't have it both ways. You can't argue three years ago when things were actually better than they are today in terms of business investment, this is really important. You can't make the same arguments we've made – this is vital for productivity, this is vital for growing incomes. You can't, as Bill Shorten did in 2011 say we can't possibly have a two-tier tax system for big business and small business and then say: well it's not a priority, and then say we can't afford it because of the AAA credit rating but be willing to put the budget into more deficit early on in their term if they win government. I mean it just doesn't add up for me.

DAVID SPEERS: Now what about the Prime Minister, the government here? We heard the Prime Minister say on Friday evening that he remains committed to the rest of the Enterprise Tax Plan for big business. Is that good enough for you? Are you satisfied with the guarantees you've had from the government here? Are you confident it will still be in the budget in May?

JENNIFER WESTACOTT: Well we have to take that at face value and I think the Prime Minister has shown tremendous leadership here. I mean you know this is a difficult policy to prosecute although it's interesting that in the latest opinion poll more people support a reduction to the company tax than are willing to vote for either of the major political parties.

So you know we're confident that the Prime Minister, I mean he understands this, he went to an election, he won the election with this is as the centerpiece because he understands that to get incomes up, to get jobs created, to get the economy to grow, to get revenues to government, you actually have to have more productive businesses, so he gets that. Now he's made it very clear he's not going to put things up on this unless the Senate's willing to agree to them, so look we've got to play a long game here and people keep forgetting we're two years out of an election and in that time we'll see the President of the United States lower his company tax rate possibly to 15 per cent, we will see a big shift of capital back to the United States. We'll be using that as momentum to sort of bring this forward.

Look, we're in for the long game, we've got to play that and play it kind of properly, explain this to the community, put it in language they understand because this is absolutely vital economic reform and without it, I'm sorry, I can't see what Plan B is.

PAUL KELLY: But what's your response to the essential Labor Party argument that all this is completely unfair that we've got a government that wants to cut penalty rates on the one hand and give this massive tax cut to big business on the other; this is unjust, it can't be tolerated? What's your response to that?

JENNIFER WESTACOTT: Well this is a characterisation of the business community that is completely wrong. So what is big business? It's the big employers. It's the people who are employing three and a half, four million Australians. It's the people who generate over 40 per cent of all economic activity. You know, it's the people who work in Bunnings – I mean, are we saying that those people you know who we want to see Australians have higher incomes and more jobs – are we saying we don't want Australia's iconic businesses to thrive in a very competitive world? We're saying well you know we're going to lumber you know these big companies who have got to export with higher taxes?

So I simply don't accept the characterisation of big business as somehow some artificial construct that isn't actually about people. I mean what is it? It's big companies who've got lots of employees, lots of shareholders, paying lots of dividends, paying lots of tax by the way – 12 companies who pay 30 per cent of all company tax – that's big business, it's not a villain, it's absolutely essential to our economy and I think the Labor Party is wrong to characterise it in this way.

DAVID SPEERS: Now, Jennifer Westacott, part of the deal as you know with Nick Xenophon on Friday saw the government announce a number of things on the energy policy front including a Productivity Commission review of the energy market, a feasibility study of a gas pipeline from the Northern Territory down to South Australia, some direct handouts to pensioners to help them with their energy bills, a number of other measures as well. What do you make of these steps the government's taken on the energy front?

JENNIFER WESTACOTT: Well I think they seem broadly sensible things to do and I think you know it is important we have some investigations into some of these things. I can understand why the government would do the pension relief.

I think there's a couple of really important points to make about energy here. I mean this is a mess of our own making in terms of the policies we pursued for a long time. What we've got to be super-careful of is that we don't end up with a situation where somehow governments are taking over the energy market. This has still got to have strong private enterprise making investments running the retail sector, you know we've got to be very careful we don't do things to distort it.

DAVID SPEERS: Is that happening because we've seen the government over several weeks now put money into Snowy Hydro, or announce that it's going to put money into Snowy Hydro? This possibility now of government funding a gas pipeline that Mathias Cormann talked about. Where is the private sector investment and why isn't it happening?

JENNIFER WESTACOTT: Well there's a couple of comments there and of course South Australia, having made some policy decisions now of course asking the taxpayer to pay for the projects that turn it around.

Look I think there's always a balance between what do governments do and what does the private sector do, but here's the problem, and we've got to be very clear about what's gone wrong here. You've had a renewable energy target introduced at a time when demand was falling, so putting capacity in when demand was falling, prices went up – a renewable energy target when we didn't work out how to manage intermittent energy with baseload. We've had states put moratoriums on gas supply, we had a carbon price and a renewable energy target.

We have made a mess of this, now we have to find a way out of it and frankly there's a few things that have got to be done.

We've got to have better periods for notification of closure – things like Hazelwood, we need three-year periods so that we can actually plan for that instead of having it taken out of the system in pretty much a very short time. We've got to get rid of these moratoriums on gas in the states, we've got to get rid of these state-based renewable targets, we've got to fast-track the development of supply. Because if you don't do any of that you know you can't actually get things going and of course we've got to get investment to happen.

Now what's the problem with investment? Most companies are not going to be willing to put very large licks of money – we're talking billions of dollars here – for projects that are going to go for thirty years if they do not have a sense of the policy environment that they are facing. So everybody knows that at some point, because of the global agreements we've done, some kind of price signal is likely to be put into the market. What is that price signal going to be? If people don't know that, you're asking companies to put one, two billion dollars on the table without being clear about where we are on carbon policy, where we are on energy policy.

PAUL KELLY: How do we solve this problem? Is an emissions intensity scheme the answer or not?

JENNIFER WESTACOTT: I think, what's the question? I think that's where we've had this kind of debate about an EIS versus not-an-EIS. I think we've got to get back to basics here. What is the problem we're trying to fix? That business has got to get a signal to invest.

Now the electricity sector says a closed emissions intensity scheme where people who are above the baseline basically subsidise people who are below the baseline for emissions is the best way of doing it. But whatever it is I think the debate would be more useful if we said what's the problem we're trying to fix here, which is that companies need a signal to invest and they need certainty because these are big licks of money and what we don't want to find is say I invest in a coal-fired power station and I find in five years' time I've got a big carbon price that kind of makes that investment unviable, well why would anyone put their money on the table?

PAUL KELLY: But it seems to me what you're really saying here is you want a bipartisan policy to reassure business and investors in this area, but of course this area is just plagued by intense political conflict.

JENNIFER WESTACOTT: Absolutely.

PAUL KELLY: And there's very little sign at the moment that you're going to get any sort of bipartisan policy. If that's the case, what's the consequence?

JENNIFER WESTACOTT: Well the consequence of that is you will not get the investment and I think that's what we have been saying for a long time, this is why you need bipartisanship because now you know people say that's naive, we're living in a very difficult political environment, but the consequence of the politics of this is that you will not get the investment that's needed and you do need investment. You need investment in transition, you need investment to get the gas resources out.

You know, if we don't actually get some certainty the consequence is that business investment will be slow or not at all and then the taxpayer is going to have to foot the bill.

And this isn't going away, this problem, and we've been warning about this for years, it's not going away. Potentially it can get a lot, lot worse and the consequence is people are going to be paying higher prices, security of energy is kind of under a cloud, you know are we going to have another argument for another five years, nit-picking the politics of this, or are we actually going to act in the national interest?

DAVID SPEERS: But, Jennifer Westacott, of course you know the government has ruled out any sort of price on carbon, including an emissions intensity scheme. How do we break this situation where there is, as Paul indicates, absolutely no bipartisanship and no sign of bipartisanship at all? What can the business community do to ram home the point you were just making that unless there is some bipartisanship, prices are going to keep going up?

JENNIFER WESTACOTT: Absolutely. Well I think going back to my point, let's stop talking about an EIS versus a not-EIS. Let's talk about the problem. What is the instrument that is going to encourage investment? What is the policy certainty that we can agree on?

Now, as I said, the electricity sector says an EIS is the best way of doing it but the government and the Opposition have to understand this: unless that certainty comes, you will not get the investment and then we will have higher prices.

Now we will keep pushing that and in our papers that we will be releasing and what we released to the Finkel submission, inquiry rather, you know we put some options on the table, we'll keep pushing those options. But I think the debate gets kind of sidetracked by people saying we want an EIS or we don't want an EIS, let's get to the bottom line: how are we going to send the signal to companies to invest?

PAUL KELLY: Let's move to the budget. Do you think it's possible for Australia to maintain its AAA credit rating, or do you feel that we're essentially on a slide here so that we'll lose it?

JENNIFER WESTACOTT: Well it's hard to know how the ratings agencies will make their determination and, from the latest reports, it would appear that revenue is back on track – or not back on track, but has improved – because of obviously improvements in commodity prices. But of course we're relying on these cycles that we don't control, and this is why we believe that we have got to get a serious budget strategy to control the sort of rate of growth in spending in health particularly to improve service quality, to get some initial savings through that the government has got in, to deal with the kind of federation which is still really you know at the heart of so much inefficiency and waste.

What I think the ratings agencies want to see is that there's a plan – there's a real plan with real actions, with really meaningful actions, that gets us not just a wafer-thin surplus but a real surplus and I think the community wants that as well.

DAVID SPEERS: Does that mean new measures on the spending cuts in this coming budget? Would you like to see the government go beyond some of the ideas that it's had mixed success on over the years?

JENNIFER WESTACOTT: Well think there's lots of places that you can go that don't necessarily impact on people's lives. I mean, what we don't want to see is heavy cost-cutting. What we don't want to see is people's services being dramatically reduced.

And there's 1,200 bodies now at the Commonwealth level. What are they all doing? I mean, what are they all doing, 1,200 bodies? There's hundreds of micro-programs that are less than $5 million dollars at a national level.

DAVID SPEERS: What about within the business community? Are there tax concessions, grants and so on? Is there anything that you would suggest business could give up?

JENNIFER WESTACOTT: We said have a look at the capital gains discounts. We said have a look at what Ken Henry said, you know the discount going from 50 to 40 per cent, that's worth looking at. I mean all these things people want to kind of, they all sound kind of straightforward, but of course they all have consequences, and they're all revenue measures again. We're not tackling the main problem which is that we've got spending which is both inefficient and growing at a very, very rapid rate.

Health, where people are saying the rate of waste is anywhere up beyond 10 per cent, well that's a lot. So you know we need to make sure we do what the New Zealanders did which is make our target getting better outcomes for people at a lower cost, not radical cost cutting.

We've still got time to get this right, but our anxiety is we just, we just keep kicking this down the road. We promise surpluses that – I mean you've made this point many times – that have not materialised.

PAUL KELLY: But isn't the real point here that there doesn't seem to be a lot of public support for spending restraint, whether we are looking at the Medicare debate at the last election campaign, whether we are looking at recent decisions about welfare savings in the Senate, to what extent do you think there is strong community resistance to spending restraint and if so, how can the BCA agenda in fact be pursued?

JENNIFER WESTACOTT: I think there is a lot of resistance to people feeling they are going to have cuts in their services and you know who could blame people for being worried about that? And obviously the scare campaigns that people run don't help that at all.

But I think most people, Paul, would be quite horrified if you really unpacked the waste in these systems. I think most people, if you said one-in-10 people when they go to hospital have an adverse event caused by the health provider that the taxpayer pays for.

So I think what we've got to do is step out, here are the opportunities for savings, here is the waste and inefficiency. Most people, when we do our virtual town halls, they complain bitterly about waste, they complain bitterly about the fact that they see governments wasting their money. Now some of that is fair, some of it's not fair.

So I think a kind of planned, very carefully communicated 'we are trying to get you better outcomes for a lower cost' because people want to see that their taxes are not being wasted.

Whenever I do media on how much we're paying on the interest bill – $12 billion a year – people are shocked because that's a school, that's more money for health, that's more money for education, you know that's money we're just basically parting with for no benefit.

DAVID SPEERS: Can I just turn finally if we may to another announcement from the government this week on a sugar industry code of conduct. It insists this has nothing to do with Pauline Hanson's demands for one. She had boycotted voting on all government legislation until one was introduced to help the cane farmers in North Queensland. As far as I'm aware this is the first industry code of conduct that does require compulsory arbitration if the two parties can't agree on terms. Of course it relates to the big foreign investor Wilmar which owns a lot of the mills in North Queensland. What do you think about the foreign investment signal this sends, requiring compulsory arbitration if a foreign investor in this case doesn't offer a price the local cane growers are happy with?

JENNIFER WESTACOTT: Well we are yet to see the detail of this code and we'll be looking at it very carefully. Look I understand the problem here and this will be seen as a problem to be solved. The question is what's the right way to solve it?

Look we're always anxious, particularly in an export-sensitive industry like sugar, that we do not send a signal to investors that we are just too difficult to do business with or they are going to be involved in a process where their decisions are out of their control.

But you know let's have a look at the code. I think we just have this tendency in this country: Problem? Regulation. And whenever I talk to people in foreign companies they say you know it is just so hard to do business in Australia, the cost of regulation, the complexity of regulation, the changing nature of regulation. You know, we've got lots of places we can put our money, we're sick of putting it in places where we don't know the rules.

So I think whatever we do here, we've got to be very careful we don't send a bad signal to foreign investment, we have the right outcome and we don't create more complexity, more cost.

DAVID SPEERS: I mean we may not see the detail on this until it actually becomes law, seems to be the indication here. I mean how would that leave a foreign investor like Wilmar feeling on the investment they've made in Australia?

JENNIFER WESTACOTT: One of the things we have constantly called for, and it's a technical issue, is to see these things called regulatory impact statements where people kind of explain what's the regulation.

DAVID SPEERS: There's not been one on this, Barnaby Joyce has confirmed.

JENNIFER WESTACOTT: Yeah and we would like to see one because all these things have unintended consequences which everyone says 'well that was a good idea' and then five years later … I mean we just talked about energy where so many things that people say 'yeah, yeah, yeah that'll be OK' and have been a disaster.

That's the whole point of having a regulatory impact statement, you can see exactly what's being proposed, people have done the costs and benefits. I'd like to see it for this code and I also think that we just have got to be very careful whenever there's a problem in this country we jump to a new rule that just creates complexity and it just turns people off putting their money here.

DAVID SPEERS: Jennifer Westacott, head of the Business Council of Australia, appreciate your time today, thanks very much for that.

JENNIFER WESTACOTT: Thanks a lot.

<ENDS>