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Automotive Industry Enquiry
Productivity Commission
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**Submission to the
Automotive Industry Enquiry**

by Peter A Jarrad

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small scale steam power systems)

Recommendations

This submission proposes that the Productivity Commission recommend to the Federal government that:

1. All Australians be allowed to convert accumulated compulsory superannuation assets to cash and spend this cash in any manner the government deems fit and proper, including
 - (a) paying out any existing debts, including any home loan or credit card liabilities, and
 - (b) the purchase of 'approved' Australian made products, including a home or new Australian motor vehicle.

Application of this recommendation will result in continued expansion of motor vehicle manufacturing in Australia and consequently have a beneficial impact on Australian employment and other economic and social activities.

2. The Federal government hold another enquiry into the present tax system (all three levels of government). The objective of this enquiry is to develop further tax reforms to shift various existing Federal, state, and local government taxes onto physical imports destined for consumption. This will require a new and additional broad-based consumption tax system consistent with WTO rules (as briefly outlined in §6 and Attachment 1).
3. The Productivity Commission works with the Australian automotive industry to develop a comprehensive set of automotive performance standards to which all automotive components, systems and vehicles can be tested. The purpose of these performance standards is to provide an independent certification system by which the Australian automotive industry can prove to consumers that their products are designed, manufactured and tested to the highest possible engineering standards.

This submission argues that the above three recommendations are in the national interest and the Australian automotive industry.

Submission to the Automotive Industry Enquiry

1. Introduction

Australia, with a large agricultural surplus, significant fossil energy reserves and mineral resources, is arguably, on a per capita basis, the wealthiest nation on earth. However, Australia must export at competitive global prices to pay for essential imports, such as oil, and other products that can not practically be made in Australia.

Manufacturing essential to the operation of the Australian economy is bread and butter activity. This includes the Australian automotive industry which must be managed in the national interest to expand significantly during the next few years. This expansion is required to maximise net foreign exchange earnings that car exports and import replacement generates.

The three recommendations proposed above are intended to support expansion of the automotive industry in Australia. Australia is one country in the world where unemployment can be cut to negligible levels with significant numbers of workers opting to work part-time.

2. Recent restructuring of the Australian economy

During the last 20 years, the Federal government has undermined 'low profit' manufacturing in the Australian economy. The author argues this has occurred in three main ways:

- (i) by shifting tax collected on imports (tariffs) to income tax and excise (on petrol, diesel, beer, wine and cigarettes), thus inflating the price of Australian labour
- (ii) by maintaining high levels of immigration, rather than training Australians to higher levels of expertise. This has increased numbers on welfare, which cost is built mainly into the price of Australian labour, and
- (iii) by imposing a recessive and inflationary compulsory superannuation 'tax' on Australian labour, which monies can be invested overseas to the detriment of both employment and manufacturing in Australia.

The effect of the above Federal government policies means that those Australians in employment must work harder for less i.e. effectively pay higher levels of tax to support greater numbers on welfare (apparently peaking in 1996 under Prime Minister Keating - see Ref.1, Table 2.2).

3. The Australian welfare state and the demise of family life

Very poorly managed restructuring of the Australia economy during the last twenty years has badly damaged family life in Australia. The author holds the view that nothing is more important than the spiritual values that underpin relationships between members of a family, and between families, which values (love thy neighbour as thyself) flow over into the day to day operation of the economy. The author suggests very few Australians couples form a household and have children so as to end up in a bitter dispute over property and child custody rights.

In essence, a couple, living in a harmonious relationship, can share the same roof, bed, hot water service, refrigerator etc. The demise of family life in Australia results in a huge fossil energy inefficiency as one household divides into two. This energy inefficiency is built into the cost of welfare and hence the tax system (mainly income tax and excise), inflating the price of Australian labour and hence the price of Australian products and services.

The Office of Minister for Family and Community Services (Ref. 2) has provided the author with some recent data on the number and structure of welfare beneficiaries as set out in the following table:

Welfare Payment Type (as at 14-12-01 from Ref. 2)

Age Pension	1795722	
Childcare Benefit	638341	
Carer Allowance	253843	***
Disability Support Pension	646163	
Family Tax Benefit Part A	1816009	
Family Tax Benefit Part B	1231212	
Newstart Allowance	616531	***
Parenting Payment Single	433291	***
Parenting Payment Partnered	211472	***
Partner Allowance	103022	***
Rent Assistance	1023355	
Youth Allowance	383150	
Other	balance	
Total	9473260	

*** denotes able-bodied adult

From the above table there are some 1.6 million able-bodied adults dependent on welfare to some extent plus some 380,000 youths. These numbers comprise some 430,000 sole parents and a further 600,000 on the dole (Newstart). Note over 1 million receiving some amount of rent assistance (rental properties funded by tax dollars!!).

It beggars belief that the poorest Australians on the lowest incomes can not access compulsory superannuation assets to minimise any debts or purchase 'approved' Australian made assets, including a reasonable quality car or home. Consequently, it is proposed (**Recommendation 1**) that the compulsory superannuation system be reformed to allow Australian to rationalise their assets in accordance with rules and regulations approved by the government. This change will pump billions of superannuation dollars through Australian businesses and maximise employment in Australia. Millions of Australians, including those on welfare, have no choice but to live a simple, hand to mouth existence, with few assets over and above a home and car.

The 2001/02 Federal government budget estimate for Social Security and Welfare is some 68 billion dollars (Ref. 3). This is enough money, going around in circles, to buy and import some 210 billion litres of crude oil (at a current price of about 28 USD per barrel and an exchange rate of 54 US ¢/AUD). Welfare beneficiaries don't even begin to consume this amount of energy (or some other cheaper energy form), either directly or indirectly.

As I will try to illustrate in §5, the cost of welfare is chronically inflated by taxes and other charges. In reality, most welfare recipients are living on a pittance, when one measures their direct consumption of physical product including food, fossil energy and material resources. In other words, the government is collecting tens of billions of tax dollars, to give it to welfare beneficiaries, most of which dollars are clawed back by a whole host of government taxes and charges built into the AUD 'cost of living' and the AUD price of Australian labour.

A whole lot of financial wanking that is going on in the payment of welfare benefits must now be eliminated in the national interest. Future tax reform must lower the 'essential' AUD cost of living in a principled and equitable manner. This change must be reflected in the CPI and the AUD cost of welfare paid to various beneficiaries.

It is proposed that the overheads of government (all three tiers), including welfare, be recovered by new broad based consumption taxes. This will push up the price of physical imports and lower the AUD price of Australia labour, leading to a surge in 'essential' manufacturing in Australia, including the automotive industry.

4. Greenhouse climate change

The Intergovernmental Panel on Climate Change (Ref. 4) has concluded that the earth's climate has changed during the last 50 years.

The author, who has a Master of Engineering Degree in aerodynamics, has been researching changes in the 'dynamics' of the atmosphere over Australia during the last 140 years since meteorological record keeping began.

Based on the author's research (yet to be published), there is **no** doubt that past greenhouse gas emissions have changed the earth's oscillatory atmospheric flow pattern. Consequently, rainfall patterns have changed (refer Ref. 5, Figures 6 and 8). In some localities the rainfall trend is decreasing (in an oscillatory manner) whilst in other localities it is increasing. The explanation lies in the non-linear shift in the behaviour of the earth's (oscillatory) boundary layer over the past seventy years. Such changes are manifest in the rainfall record.

Based on the author's research into the effect of past greenhouse gas emissions on the dynamics of the atmosphere, land-owners who have been damaged by changing rainfall patterns will sue major greenhouse gas emitters for financial compensation. The cost of cumulative damage from changes in rainfall (just in Australia) over the past 50 years could easily run into many billions of AUD. State governments in Australia, who have run power plants for electricity production, been major greenhouse gas emitters, and consequently changed rainfall patterns will be sued for damages.

Measuring continuing changes in rainfall patterns will become a growth industry. As rainfall changes are measured and the agricultural impacts quantified, the courts will be required to work out the cost of damages, year by year for decades to come. The Kyoto protocol can be thrown out the window as a lot of middle-class hot air. The consequences of changing rainfall patterns will be thrashed out in the law courts. Every land-owner in the world damaged by changing rainfall patterns will be suing US greenhouse gas emitters.

The re-organisation of the Australian economy to cut per capita fossil energy consumption to sustainable levels is beyond the scope of this submission. However, further reform of the present tax system is required to foster fossil energy conservation in Australia hence **Recommendations 1 and 2**.

5. The 'essential' cost of living in Australia

The propose of this section is to illustrate how the AUD cost of living in Australia is inflated by taxation (the current tax system is still well and truly up itself).

Australia has three independent tax systems (Federal, state and local) plus the financial system (which charges interest on borrowed money) plus the compulsory superannuation system. These five systems are essentially controlling and allocating food, fossil energy and material resources to be consumed by Australians, including those on welfare.

The Age Pension is currently \$427.60 per fortnight (Ref. 6). At face value, this amount of money could buy some 1,300 litres of imported crude oil (@ ~ 0.324 AUD/litre) or about 475 litres of petrol at the bowser (~0.90 AUD/litre), where the petrol at the bowser is heavily taxed by excise.

The dole (Newstart) is currently \$369.00 per f/n (Ref. 7) which would buy 410 litres of petrol at the bowser, much less than the Age Pension. To add insult to injury (in my experience), the banks will not lend to those on the dole, except possibly by way of a Credit Card (at obscene interest rates).

However, the tax systems of state and local government are clawing a very significant part of these welfare payments off recipients by way of various unavoidable taxes and charges. For example, property taxes levied on commercial properties like supermarkets are built into the cost of a loaf of bread etc. The same argument applies to the cost of money and compulsory superannuation added to the price of labour and built into the cost of all products and services.

In simple terms, the Age Pension or some other welfare benefit may be quantified as a **flow** of fossil energy (oil, electricity, coal & gas) plus food (digestible energy) plus human services (human energy coming from digestible energy). In practise, all of these energy flows are subject to various imposts and charges such as:

- interest on debt
- compulsory and non-compulsory superannuation
- income tax and the Medicare levy
- Company tax
- GST
- payroll tax
- various stamp duties
- local and state government property taxes
- compulsory school fees
- excise on petrol, diesel, beer, wine and cigarettes
- property taxes on the delivery of sewage treatment services (in SA)
- Emergency Service Levy (in SA)
- motor registration, Compulsory Third Party Insurance plus Insurance Stamp Duty (in SA)
- financial debits tax.

In reality, the wholesale cost and value of food and fossil energy directly consumed by individual welfare beneficiaries is only a few thousand AUD per year (work it out you people). The rest of the cost comprises redundant recirculating money numbers chronically inflating the cost of living. Each successive year of inflation is making the situation worse.

Example 1 - the cost of wholemeal flour and bread

The author has a small flour mill whose original (insignificant) cost is lost in antiquity. It costs virtually nothing in terms of electricity to turn a kg of wheat into cracked wheat for porridge or stone-ground wholemeal flour at 0.32 AUD/kg (\$13/40 kg bag of chicken wheat).

So theoretically, I can produce a loaf of wholemeal bread in my breadmaker in about 10 minutes, using 500 gm of home-ground flour, for about 0.30 AUD. The current cost of a loaf of white sliced supermarket bread is now about 1.80 AUD, nearly 5.5 litres of imported oil!!!

The cheapest grade of supermarket flour (unsuitable for breadmaking) is now around 0.65 AUD per kg, involving a labour cost multiplier of about 2, while the last bag of high protein bread flour cost me about 1.15 AUD per kg.

All of the above costs are inflated by taxation and other charges.

Example 2 - the cost of treating sewage

The author knows of one age pensioner in Adelaide who is paying the SA government over 500 AUD in a sewage property tax for the privilege of crapping in her toilet. The local Mt. Barker Council is currently charging 240 AUD for those connected to a council sewage treatment plant. These charges are inflated by taxation and compulsory superannuation.

The author has his own sewage system which has a current capital value of about 1000 AUD per person (which is a cost or value inflated by various taxes and charges as set out above).

The author's treated sewage effluent has been used to grow pumpkins and is now watering fruit trees. The agricultural productivity from using the author's sewage effluent has been nothing less than astounding. In practise, the retail value of agricultural produce from using treated sewage effluent greatly exceeds the annualised long-term cost of the system.

(Why would one pay to transport sewage effluent tens of kilometres through tankers or ever increasing pipe sizes when the effluent can be managed on-site and turned into a diverse range of agricultural produce, including firewood, at a huge retail cost saving, year after year for decades?)

Conclusion.

The lunacy built into the current tax system should need no further explanation. The tax system in Australia is collecting tax dollars to pay various taxes and compulsory superannuation charges built into the cost of every product and service delivered in Australia. Those building superannuation assets are trying to build up an income stream that has to be sufficient to pay compulsory superannuation charges built into the price of future products and service delivered over decades. Compulsory superannuation is a nonsense - essentially, a cat chasing its tail. Compulsory superannuation can not create oil for Australians to waste in the future.

In essence, all welfare, including any superannuation, funds a flow of food, energy and human services. Energy and material efficiency is the principle aim of the game. Physically inanimate superannuation assets, which may be reversionary, intrinsically obsolete and inflated in cost by bunny investors with more money than sense, can not substitute for the future delivery of food, fossil energy and human services delivered by younger generations caring for older generations through the tax and welfare systems. Mark my words, everyone is going to sit down and eat from the same table.

6. The need for further tax reform (Recommendation 2)

The objective of further reform of the tax system in Australia is very simple - cut imports of manufactures and maximise the number of part-time jobs in Australia whereby the greatest number of Australians can work to support a simple, sustainable, energy efficient lifestyle.

One of the most sensible expenditures an individual can make is to capitalise the real cost of motor vehicle depreciation by investing in or redeveloping a home closer to where they work. Such expenditures from superannuation entitlements must be allowed by future tax reform.

Attachment 1 proposes that the overheads of all three tiers of government, including most welfare payments and Company tax, be funded by new broad-based consumption taxes that will apply equally to physical imports as on Australian manufactures. In the process, the excise on petrol, diesel, beer, wine and cigarettes (which are actually very important business inputs) will be reduced to be no greater than the total consumption tax on any physical import destined for consumption. Consequently, the AUD price of labour will fall in real terms as Australian manufacturing and employment increases. This will allow the government to cut income tax rates, especially for those on the lowest incomes.

In practise, the CPI, or changes to the CPI, is measuring changes in taxation as well as changes in the cost of fossil energy, especially imported oil. The basket of products and services that make up the CPI need not change, but the tax reform proposed in Attachment 1 will lower the pre-tax price of Australian products and services while increasing the after tax price of physical imports destined for consumption. This means, the current tilt of the playing field that favours imports

will be markedly reduced. Consequently, all three tiers of government will collect a greater proportion of tax dollars from physical imports unless this flow of tax monies is reduced by an increase in Australian manufacturing.

Further discussion of potential future tax reform is set out in Attachment 1. This tax reform will maximise the potential of Australians to pay for imported oil at a much higher AUD/USD price in the future (in view of further anticipated cuts in OPEC oil production).

7. Upgrading and maximising production in Australian car plants (Recommendation 1)

At the moment, the AUD price of labour is inflated by compulsory superannuation, which monies are not properly flowing through Australian businesses. Consequently, the author argues that all Australians must be allowed to access their compulsory superannuation for expenditures that are deemed to be in the national interest e.g. buying a more fuel efficient Australian made motor vehicle.

All Australians can still maintain any manner of investments via their superannuation funds in any country. What is proposed here, is that the compulsory superannuation part of an individual's labour cost can be accessed at a marginal tax rate not exceeding the prevailing consumption tax rate (GST) for 'approved' expenditures.

In practise, individuals could be allowed to pump their superannuation money through Australian manufacturing plants to cut their long-term fossil energy consumption.

8. Improving the quality of Australian made motor vehicles (Recommendation 3)

The author owned a 1982 Ford Falcon which degraded by natural wear and tear from brand new to a wreck in just 14 years. This vehicle proved to be the most poorly engineered car the author has ever owned - and the problem is in the Board room, not on the factory floor. The author then purchased a 1980 Honda Accord (in 1996) which has proven to be the best engineered, most reliable, cheapest to run, vehicle the author has ever owned.

The AUD price of labour in Australia, chronically inflated by taxation, has been forcing design compromises in Australian made vehicles to lower their sale price. This must end. A guaranteed flow of superannuation dollars will support this objective. The label 'Made in Australia' must be synonymous with the highest level of quality and reliability.

The Australian car industry must be underpinned by independent performance standards whereby vehicle and component manufacturers can prove the quality of their products to customers. These engineering performance standards must be internationally accepted and thereby support the export of Australian made vehicles.

Working class Australians can not and will not be able to buy and wreck a 1.5 tonne motor vehicle every 10 to 15 years. After greenhouse climate change financial penalties are worked out in the law courts, the cost of emitting greenhouse gases will go through the roof. Consequently, all Australians are going to be economically forced to reduce their greenhouse gas emissions. This will involve driving fewer kilometres and keeping a car longer. Consequently, one of the most important engineering performance standards to be set in Australia is the mandatory corrosion protection system to be applied to every imported and Australian built vehicle.

9. The fate of the Mitsubishi Motors factory in South Australia (Recommendation 1)

The Magna is a politically correct vehicle - the sort of car that the public service could engineer and build. The Mitsubishi plant in SA must be viewed as a foreign exchange earner, helping to prop up the SA economy and earning foreign exchange revenue for government in Australia.

The continuing manufacture of the Magna in SA should and can be propped up by the expenditure of compulsory superannuation funds by any Australian prepared to buy a new Magna.

At the moment, there is a whole lot of dishonest public posturing going on regarding the future of the obsolete Mitsubishi factory. Mitsubishi in Japan is propped up by the Japanese government and hence the Bank of Japan. Government in Australia seems to have Mitsubishi by the short and curlies. The clear reason why Mitsubishi has not shut down its factory in SA is because of the cost of its closure, consequent forced redundancy payouts and site clearance costs (even if developed and sold as prime residential allotments).

The Mitsubishi factory must be upgraded and production significantly increased in the national interest. The redevelopment cost of the factory must be built into the future cost of cars coming out of the plant. The release of superannuation funds to buy Magna's at a marginal tax rate of not more than the GST will maintain the viability of this plant indefinitely, as the specification for the next vehicle is worked out.

I propose that the Federal government buy the Mitsubishi Motors factory for something less than the current cost of employee entitlements. Consequently, nearly all of the existing employees will become public servants. I propose that the next model for the Mitsubishi factory be an **all-wheel drive V8 sports car** with a maximum weight of around 1100-1300 kg, capable of running on four cylinders at low speeds, or 8 when pulling a caravan of some maximum weight (yet to be determined). This sports car, designed to Australian specifications and conditions, will be the cheapest mass produced sports car in the world and have a power to weight ratio at least equal to a current V8 Commodore. Specifically, this vehicle will allow working-class Australians to cruise around Australia in retirement, go anywhere and pull a decent sized caravan, whilst running on four cylinders in metropolitan areas. It will be lighter and cheaper than any Commodore when the Mitsubishi factory is upgraded and run at maximum capacity.

I propose the government investigate the purchase of the Ford manufacturing plant in Australia over the next twenty years and redevelop this facility for the production of an electric hybrid car akin to the Toyota Prius. (In practise, the Ford factory could be leased and managed by Toyota.) The current production of Ford Falcons will transfer to other Australian car plants. This electric hybrid car must be designed to take some electricity out of the national grid or from a future domestic mini steam power plant (refer Attachment 2 for further discussion of this technology).

10. Tax efficiency vs. energy efficiency

Increased mechanisation that has taken place in factories throughout Australia over past decades has had the effect of reducing tax receipts (direct and indirect) collected by government from the pay packets of fewer workers. Increased mechanisation frequently does nothing more than substitute increased fossil and material consumption for human effort and puts another labourer on welfare. These so-called 'productivity' improvements are both increasing the welfare bill and reducing government tax revenue (considering all three levels of government).

The goal of increased mechanisation and computerisation is to continually reduce the amount of tedious, boring, manual labour carried out by workers and pass this benefit on to workers by reducing the number of boring hours they have to work.

The goal of any reorganisation of the Australian automotive industry must be to maximise the number of part-time work positions in the industry, where such workers pay the minimum amount of tax (direct and indirect) in the process of earning a simple living.

In carrying out a study on the Australian automotive industry, the Productivity Commission must look behind the flow of money numbers (which are going around in circles), and study the flow and real cost of food, fossil energy and materials that underlie the monetary flow. There is simply no point in recommending increased mechanisation of the Australian car industry without first working out how to increase taxation to support those that end up on welfare.

Close

Please contact me if the Productivity Commission would like further discussion on any of the matters raised in this submission. This submission may be published.

Yours sincerely

Peter A Jarrad

Attached:

Attachment 1 A Brief Outline of Future Potential Taxation Reform
Attachment 2 The future role of distributed mini steam power plants

References:

1. Income support and related statistics: a 10-year compendium, 1989-1999, Occasional Paper Number 1, 2001, Department of Family and Community Services.
2. Letter to P A Jarrad from Ms J Gregory, Office of Minister for Family and Community Services, dated 6 June 2002.
3. Reserve Bank of Australia Bulletin, July 2002, Table E.1
4. Climate Change 2001: The Scientific Basis, IPPC, Cambridge University Press.
5. A Hundred Years of Science and Service, 2001, Commonwealth Bureau of Meteorology, Figures 6 & 8 on p11.
6. Telephone call by P A Jarrad to Centrelink on 9/3/02.
7. Telephone call by P A Jarrad to Centrelink on 20/3/02.

Automotive Industry Enquiry - 2 August 2002

ATTACHMENT 1 A Brief Outline of Future Potential Taxation Reform

1. Three new consumption taxes to substitute for existing taxes, including excise and company tax

It is proposed that the government create three new consumption taxes that apply at exactly the same point that the GST is calculated and collected. A major objective of these three taxes is to give government (all three tiers) full control of taxation income whilst reducing excise on fuel, beer, wine and cigarettes and abolishing company and property taxes.

It is proposed that all the public service overheads of government (all three tiers), including most welfare payments, be funded by the new consumption taxes where one pays ones taxes as one earns and spends. Some 'essential' consumption could be consumption tax free, as is the present situation with some food products.

The three new consumption taxes are:

1. Exporters tax, denoted as Etax.
2. Importers tax, denoted as Itax, and
3. Manufacturers tax, denoted as Mtax.

(a) Exporters tax (Etax)

Etax will be applied to all physical products leaving Australia. However, for many categories of product, the rate will be zero or only a few percent. However, the government will be able to set and change any Etax rate it deems fit and proper.

It is proposed that when Exporters first pay Etax, the present system of calculating company tax be repealed.

(b) Importers tax (Itax)

Itax will be applied to all physical products entering Australia. The consumption tax rate could be any rate the Federal government deems fit and proper. However, the notional rate is the same rate of Mtax that applies to the same category of physical product manufactured in Australia.

For example, if an oil producer in Australia sells crude oil to a refinery in Australia, the Mtax applied at the point of sale will be identical to the Itax rate on crude oil imported into the refinery from overseas.

(c) Manufacturers tax (Mtax)

Mtax will be applied to all physical products manufactured and sold in Australia.

The rate of Mtax could be any rate the Federal government deems fit and proper. However, as set out in (b) above, the rate is notionally the same as the rate of Itax for the same category of product.

2. The introduction of Exporters tax, Importers tax and Manufacturers tax and the abolition of Company tax

An important objective of the creation of Etax, Itax and Mtax is to simplify the taxation system by abolishing the present system of calculating company tax. The specific intention of introducing these three taxes is to allow the tax system (and auditing process by the ATO) to be fully computerised whilst eliminating a host of ambiguities (rorting) associated with the calculation of company tax.

The system of imposing a consumption tax system on Australian businesses allows the government **to take a proportion of the output** from various sectors of the economy, including imports destined for consumption. By increasing the consumption tax rate, the government can increase its 'take' from the economy. However, this 'take' must occur in a manner that is principled, equitable, bureaucratically efficient, difficult to rot and readily audited.

It is intended that Etax, Itax and Mtax apply at exactly the same point as GST, but these taxes can only be claimed back from the ATO by eligible businesses i.e. Exporters, Importers and Manufacturers. So the majority of businesses (wholesalers, retailers and service providers) will pay Itax and Mtax on all of their physical inputs and pass these taxes **plus GST** onto consumers. It is proposed that at the same time as these three new taxes are charged by a limited number of businesses, **the present system of calculating and paying company tax can be repealed.**

The creation and collection of Etax, Itax and Mtax will automatically index Federal government tax receipts as inflation takes place.

It is vital to the ongoing development of the Australian economy that current % fuel excise rates be dramatically reduced and all property and company taxes be abolished.

It is envisaged that the Federal government will produce a number of accounting systems on a CD ROM that will be provided to businesses (free of charge). These accounting systems will allow any business to calculate any tax payable and prepare all tax returns at the click of a mouse button.

The replacement of fuel excise and property and company taxes by Etax, Itax and Mtax can be used to provide tax incentives to encourage development of the Australian economy **in the national interest:**

Example 1. A manufacturer might be given a honeymoon period from the application of Mtax on particular products as a tax incentive to set up to make that product in Australia in the national interest. Furthermore, some manufacturers in Australia e.g. vehicle manufacturers, could enjoy a permanently lower Mtax rate than the respective Itax rate on the same category of import. **This is the methodology by which the standard of living of all Australians is going to be maintained at a higher level than in any other country in the world.**

Example 2. The Mtax rate on photovoltaic cells, insulation and other insulating products could be set at (say) **minus** 20%. So a manufacturer can claim back from the government a tax rebate intended to subsidise the manufacture of particular products in Australia **in the national interest.** This particular mode of operation of the tax system would be the exception, but the process is simple, computerisable and readily auditable.

3. The legal definition of Exporters, Importers and Manufacturers

The Federal government will legally define who are Exporters, Importers and Manufacturers and thus who are required to charge and collect these three new consumption taxes. Clearly, very few of the present number of businesses collecting GST will be involved in charging and collecting these three new taxes.

4. The rates of Exporters tax, Importers tax and Manufacturers tax

Initially, the rates of Etax, Itax and Mtax could be set to compensate the government for the abolition of company tax. However, rates could be set up to lower and rationalise the % excise rates on diesel, petrol, wine, beer and cigarettes to the same tax rate as on **nearly all imported** physical products destined for consumption. That is, Itax on imports will be increased to the same rate of Mtax on diesel, petrol, wine, beer and possibly cigarettes.

It is beyond the scope of this paper to project what the rates of Etax, Itax and Mtax would be to rationalise the current rates of excise, especially on diesel and petrol, and replace property and company taxes. However, it is expected that this rationalisation **would significantly push up the cost of most imports and dramatically lower the cost of diesel, petrol, wine and beer**, if not cigarettes.

In other words, **one spends one's money as one sees fit and the effective consumption tax paid is generally proportional to how much one spends and not the way in which one spends**.

Businesses who are not manufacturers and who are supplying services to Exporters, Importers and Manufacturers will be under pressure to minimise the cost of their inputs that will be inflated by Itax and Mtax. However, this is a second order influence, compared to the effect of the disproportionate rate of excise on diesel, petrol, wine, beer and cigarettes **built into the present price of Australian labour** subsequently inflating the AUD cost of living in Australia. The AUD price of Australian labour is also very much a function of the high taxation cost of welfare recipients locked out of the work force. This welfare cost, largely built into income and excise taxes, could be reduced if the economy expands and is reorganised to reduce unemployment.

The Productivity Commission must appreciate the rational that requires that physical products that involve very significant fossil energy consumption must be taxed at a much higher rate than pure human effort (services). This very important change to the taxation system will **tend** to offset the present and inevitable bias that promotes the elimination of human effort by increased mechanisation and (fossil) energy consumption. For example, **the process of repairing an aged product (involving significant human effort) must not be taxed at an effectively higher rate than the purchase of a new product (which manufacture involves very little human effort)**. This is the reason why the GST rate on human effort should be much lower than the consumption tax rate on pure (fossil) energy consumption. However, the present % tax rate on petrol, diesel, beer, wine and cigarettes is imposed in an unprincipled and inequitable manner compared to the % tax rate on most imports.

The cost of Australian labour is a function of both Australian and imported goods and services. Future tax reform must increase the consumption tax rate on imports destined for consumption and reduce current indirect taxes built into the price of Australian labour and welfare payments. All state and local government property taxes must be abolished. Instead, these taxes can be built into consumption taxes that apply equally to physical imports. All three tiers of government can set and collect fees for government services that are not a back door form of indirect taxation.

The past strategy of the government in moving taxes on imports to excise at utterly ludicrous % rates has produced and is maintaining an unacceptably high unemployment rate, factored into current tax rates and biased towards imports. The proposed introduction of Itax, Mtax, Etax will allow the government to foster and expand 'essential' manufacturing in Australia in a manner that is both principled (WTO legal) and sustainable.

ATTACHMENT 2 The future role of distributed mini steam power plants

The author was Boiler Engineer for ETSA from 1985 to 1992 before appointment to Principal Engineer Power Development in 1992. The author left ETSA in 1994 to pursue the development of distributed mini steam power plants. Such plants have the potential for a much higher total energy efficiency where both electricity and hot water is required.

A mini steam power plant could have domestic/remote area applications and a useful energy efficiency greater than most centralised power plants by a factor greater than 2.5 (as high as 2.8 may prove possible). These domestic power plants could be inherently cheaper to build and run than centralised power plants for reasons not elaborated here.

Figure A2 on the next page sets out the system diagram for a typical house incorporating a mini steam power system with a potential energy efficiency of over 90% (compared to most centralised power plants of less than 35%). This increase in energy efficiency is necessary to reduce domestic greenhouse gas emissions to environmentally sustainable levels.

The author is presently working on the design of a mini boiler/turbine. The author is not aware of any other power company in the world working to commercialise a mini steam turbine power plant system with domestic applications.

This technology, if proven, could give many Australians cheaper and more energy efficient domestic electricity and hot water and reduce greenhouse gas emissions.

For example, the current cost of natural gas in metropolitan Adelaide is 1.7237 ¢/MJ including GST. If the mini steam power plant had a total energy efficiency of generating electricity and hot water of 90%, the cost of domestic electricity would fall to $(1.7237 \times 3.6 \text{ MJ/kW-hr} \div 0.9) = 6.89 \text{ ¢/kW-hr}$, less than half the current retail electricity price. (Why would one burn natural gas in Torrens Island Power Station at an overall energy efficiency of less than 35% when the same gas could produce domestic electricity and hot water with an efficiency of over 90% while achieving lower capital, operating and maintenance costs?).

However, if coal was distributed in bulk at a total cost of around \$80/tonne (for coal with a calorific value of 26 MJ/kg) the energy cost of domestic electricity and hot water would decrease to $(\$80/\text{tonne} \div 1000 \text{ kg/tonne} \div 26 \text{ MJ/kg} \times 3.6 \text{ MJ/kW-hr} \div 0.9) = 1.23 \text{ ¢/kW-hr}$.

Furthermore, some households could sell surplus electricity in the process of producing hot water. Alternatively, surplus electricity could be used to charge the batteries of an electric hybrid motor car like the Toyota Prius.

The key element to the technological advance of mini steam turbine power systems is the boiler design which the author is hoping to prove. The next prototype boiler involves a novel aerodynamic pattern with perceived benefits regarding the rate of fouling of the boiler and hence long-term cleaning costs (and hence the normal operating thermal efficiency).

The author is currently working to develop a mini boiler prototype that can burn wood and domestic rubbish successfully. Once the boiler design is proven (a perceived future reality) a modest increase in boiler/turbine size should be readily achievable. Consequently, some householders could readily afford to dump hot water into a spa or swimming pool as depicted in Figure A2.

ATTACHMENT 2
FIGURE A2

PAJ Domestic Power Plant System Diagram

2 August 2002

