

**Address by Chris Bowen to**

**THE INVESTMENT AND FINANCIAL SERVICES ASSOCIATION  
- BREAKTHROUGH 2007 CONFERENCE -  
3 August 2007**

*Check against delivery*

**SECURING THE FUTURE: THE NEXT STEP IN LABOR'S  
ASIAN FUNDS MANAGEMENT HUB POLICY**

Thank you for the invitation to be with you today, I'm pleased to be here at an important conference for an important sector of the economy.

Labor is interested in your industry because it is one which has the capacity to add even more value to the Australian community than it already does.

We see the investment and financial services industry as one which can play a vital role in dealing with Australia's trading imbalance, producing highly skilled, well paid jobs for young people in particular.

We see the investment and financial industry as enormous opportunity. An opportunity which will be squandered unless the Federal Government, whoever forms an administration later in the year, removes the obstacles to the government imposed obstacles to your industry's competitiveness.

It certainly true that Australia has experienced some good economic times, for a variety of reasons, including the macro and micro economic reforms delivered by both sides of politics over the last 25 years, and of course the ferocious demand for our commodities from China, which have delivered the best terms of trade we have experienced for fifty years.

But if we fail to proceed with further reform, if we fail to recognise the export potential of industries such as yours, then the period of economic growth and stability which we currently enjoy will in time be seen in a similar light to the way we view the 1950s and 60s: a time when international economic conditions lulled Australian policy makers into a false sense of security and the zeal for reform was lost.

When the world commodity market turns down, as it eventually and inevitably must, the Australian people will be asking what did the Australian government do in the time of plenty to future-proof us, to ensure we are well placed in this downturn, whether it comes in 5, 10 or 20 years time?

What did the Government do, as Kevin Rudd has said, to ensure we are more than Japan's beach and China's quarry, as important as the resources and tourism industries are.

For example, did the national government ask why an industry with as many strategic advantages as the funds management industry has, runs a trade deficit?

Did the national government ask if it makes sense that a nation in a strategically beneficial time zone, with well respected prudential regulation, with expertise built up by managing \$1 trillion in superannuation savings, is about to be taken over in terms of funds under management by Ireland?

Does it make sense that the finance and insurance industry which comprises a bigger segment of our domestic economy than agriculture, only exports 2.9% of the value of its production, as highlighted by Lateral Economics, in a work commissioned by IFSA?

This is what industry policy is about in modern Labor. It's not about picking winners, your industry has already won.

You don't need me to tell you how Australia's innovative property trusts for example, are transforming the way property is securitised around the world.

However it is about giving your industry a competitive playing field, removing the competitive constraints imposed by government and then getting out of the way and letting you get on with your jobs.

That was the basis of Kevin Rudd's announcement at this conference last year that a Labor Government will establish a Funds Management Asia Export Taskforce as part of Austrade.

That is the basis of Kevin Rudd's announcement that a Labor Government will institute a flat and final 15% withholding tax rate for distributions from Australian managed funds for non resident investors.

This was announced in Kevin Rudd's address in reply to the budget. The fact that we chose to make this announcement in one of the Leader's most important speeches all year shows how important we regard this industry to the economic future of the country.

Today is not a day for political point scoring and I don't propose to engage in a slanging match with the Government over this policy.

Suffice it to say that we are disappointed that there is not bipartisan support for this policy.

I'm also disappointed that the debate was degraded by outlandish costings of Labor's proposal, which were based on blatantly false assumptions.

It is simply unacceptable to us that Australia has a withholding tax rate which puts an innovative world class industry like yours at a disadvantage to our competitors.

And that should be unacceptable on a bipartisan basis.

But we do not think that giving Australia a competitive withholding tax regime is the be all and end all and we won't be resting on our laurels.

It seems to me that more reform is necessary to ensure we have a competitive tax regime as it applies to your industry.

This doesn't just apply to rates, but also to unnecessary complexity and the administrative burden that goes with our tax system.

Division 6C is a prime example of a tax law that at one stage served a vital role in protecting the revenue base. Since the introduction of dividend imputation amongst other things, the relevance of the division is less readily apparent.

Our consultations with industry tell us that the operation of Division 6C is an ongoing administrative problem, with seemingly minor matters and small sources of income having major administrative impacts.

This is a matter which has been often raised by IFSA and the Institute of Chartered Accountants.

If the test is for Australia to have a simple, transparent and internationally competitive system of taxation, then I think the operation of Division 6C has a lot to answer for.

Today, I can announce that the first reference a Rudd Labor Government will send to the Board of Taxation will be the operation of Division 6C.

As part of this reference, we will be asking the Board of Tax to examine the opportunity of a managed investments tax regime in Australia, including the potential for a specific tax regime for REITs.

This regime would largely replace the operation of Division 6C as it impacts on your industry.

We recognise, however, that the Board of Tax necessarily takes some time to properly examine these matters. In the mean time, our competitors are improving their tax systems on an ongoing basis.

Accordingly, soon after taking office we would be asking the Treasury, in consultation with industry, to consider the best way to streamline and simplify the operation of Division 6C as an interim step while the Board of Tax undertakes its deliberations.

We'll be asking the Treasury to seriously examine options such as:

- harmonising the definition of a trading trust with international practice, allowing a trust to receive up to 25% of its income from non eligible sources, without being taxed as a company.
- Overhauling the definition of eligible investment business to make it responsive to current business practices
- Abolishing or substantially curtailing the application of the control test to public trading trusts.

So this is a two stage approach: moving to fix the more inefficient aspects of division 6C in the short term, while moving to replace it with a modern, fit for purpose, specifically designed managed investments tax regime in the longer term.

Of course, as the alternative government, we have released a range of other policies which impact directly or indirectly on your sector of the economy.

We have put the need to address over regulation front and centre of our micro-economic agenda.

Of course, sensible regulation plays a valuable role in protecting consumers and ensuring smooth functioning of competition.

But lack of harmonisation between jurisdictions, and the over regulation in the form of red tape is counter productive to consumer protection as it lulls people into a false sense of security and overloads both consumers and business with unnecessary paperwork.

We've announced a number of initiatives in this regard.

Firstly, we've announced an incentive approach to encourage states to harmonise regulation wherever possible and appropriate.

This will be based on the national competition model. That is, the Productivity Commission will be charged with determining prioritising areas for reform and then assessing the progress of states and territories.

We all know that national competition policy simply would not have worked if the states and territories did not receive payments for their reforms, it simply would not have happened.

And we recognise that eliminating over regulation and poor harmonisation will have positive economic benefits that will increase Commonwealth Government revenue, and we are happy to share that increased revenue with the states and territories to bring about the necessary level of reform.

What sort of issues will this process tackle? Let's look at a few examples.

It makes very little sense, in our view, for Australia to have different payroll tax bases in different states in the 21<sup>st</sup> century.

Competition between the states on rates is fine, in fact it is a good thing. Competition drives rates lower.

But the administrative burden for companies which have employees in more than one state of having different payroll tax bases is just plain silly.

We don't believe the Commonwealth should just sit back, wash its hands and say "oh well" it's up to the states to fix. The Commonwealth should show leadership and lead the states to a solution. Labor will do just that.

A similar argument could and would apply to stamp duty bases for insurance products. Competition on rates: good. Lack of harmonisation of bases: bad.

The list of other areas of reform in this field is long. My personal favourite is in occupational health and safety. In every state and territory workplaces must have first aid kits: of course, very sensible.

However in NSW, bandages must be 2.5cm wide and WA they must be 1.5cm wide. You must have a quarter of a litre of eye wash in Qld, 60ml in Victoria, None is required in South Australia. I didn't realise that people bleed at different rates in different states. A uniform code which says that bandages must simply be of an appropriate width has avoided us since federation. It's time for Commonwealth leadership.

Labor has also announced that we will take an axe to the paperwork burden created by FSR.

Progress in this area has been slow and piece meal.

This is a prime example of excess paperwork being counterproductive.

Giving consumers hundreds of pages of disclosure documents means that in effect they will read none.

And the collapses of recent months show that consumers have not been protected. I think that there is an argument that they have been lulled into a false sense of security by the reams of paperwork they receive.

Under a Labor Government, disclosure documents will be dramatically reduced, and the rest of the information will need to be included on the website of the provider. The documentation will need to point the consumer to the website.

We believe this will be better for the industry, consumers, not to mention the environment!

I've spoken to you today about some of our policies as the alternative government for this nation. But more important than any specific policy is our alternative vision for our nation.

It comes as no revelation to you that this will be the century of Asia.

For years our distance from Europe was our big disadvantage. Now our proximity to Asia and our links to Asia can be our big advantage.

Asian funds under management are expected to grow by 14% per annum over the next ten years.

This is a river of funds.

At the moment, we're putting a thimble in the river and extracting a small amount value for Australia.

If we can upsize the thimble to a cup, we will be doing our country a great service. But our ambition is greater than that.

We want Australia to be the funds management capital of Asia.

The people in this room are the ones that can make this happen.

But only if government gets out of your way.

Only if the constraints of government which reduce your competitive are eliminated.

We will eliminate them.

Capitalising on that level playing field, going out and attracting the river of Asian funds into Australian management will be your job.

Given your success domestically over the last fifteen years, we have no doubt that you will do it very well.