Annex I

Policy issues in periods of declining public debt

There are ongoing debates regarding the costs and benefits of eliminating the public debt (see OECD 2002a, b and OECD 2001b). The main argument against this option is that an active debt market can only be sustained with a minimum volume of government debt issuance. Maintaining a minimum level of gross debt would reduce the costs of re-establishing the government bond market in the future when the ageing population is expected to put pressure on the government's net debt position, or if cyclical influences need to be accommodated.* A declining stock of government securities also raises issues for the implementation of monetary policy. Although the monetary policy actions are now more isolated from debt management ones, it is recognised that the monetary transmission mechanism may still be affected through the effect of the debt structure on market expectations (Mylonas *et al.* 2000). Moreover, it is sometimes argued that the absence of a liquid government debt could affect the functioning of the private bond market through two opposing channels: on the one hand, reduced government debt could be expected to make room for expansion of the private sector debt market; on the other hand, a significant reduction of liquidity in the government bond market may render it more difficult for private bond markets to expand and develop. In Australia, there is no evidence supporting the latter effect (Edey and Ellis, 2002).

Advocates of public debt elimination argue that such policy action would increase national saving and make more funds available for private use, leading in turn, to increased productivity and output growth, and thereby higher earnings. In the case of Australia, the overall macroeconomic effect – *via* reductions in interest rates associated with reduction in the supply of the Commonwealth Government Securities (CGS) – is expected to be "extremely modest". Moreover, the impact of changes in CGS may not be visible, in view of continuing changes in economic activity (Commonwealth of Australia 2002d).

Regarding the debate over whether private debt can fulfil all the desirable functions of public debt, some argue that corporate securities (even when they are government-sponsored) cannot achieve the same risk status as government debt and therefore cannot function in a satisfactory way as a substitute benchmark for a risk-free security. This in turn may affect the pricing of private assets and the development of corporate security markets. Others support the view that certain classes of corporate debt could fulfil similar functions to those performed by the public debt despite a different risk status. Market participants could use collateralisation or employ implicit government guarantees to upgrade certain types of private debt, making them closer substitutes for government debt with respect to risk characteristics. Some analysts argue that even when the risk and liquidity characteristics of private debt securities differ from those of government debt, they may still able to fulfil some functions of the latter. In any case, the need for, or existence of a risk-free security can be questioned: stock-markets function efficiently without risk-free shares, and government bonds are not devoid of risk when unanticipated inflationary episodes occur.

* See for example, Blythe, 2002.

Annex II

The new tax system

The main features of *The New Tax System* (TNTS), implemented on 1 July 2000, include:

– The introduction of a 10 per cent goods and services tax (GST) to replace the wholesale sales tax and a range of State based taxes, such as accommodation taxes.[1] The GST is broad-based, covering most goods and services, the main exceptions being basic food, most health services, education, childcare, and local government rates and charges.

– All GST revenue will accrue to the State governments, as a compensation for the removal of a range of narrowly based State indirect taxes and the abrogation of the Commonwealth General Financial Assistance Grants. The States have been guaranteed by the Commonwealth that, in each of the transitional years following the introduction of the GST, their budgetary positions will be no worse than in the absence of the tax reforms. The GST revenue will be distributed between the States according to horizontal fiscal equalisation principles recommended by the Commonwealth Grants Commission. These principles take into account differences in State revenue mobilisation capacity and their expenditure needs based on national standards of service delivery.

– The introduction of an income package to offset the effects on the cost of living resulting from the introduction of the GST. The package provides for cuts in the personal income tax rates, delivered through an increase in the tax-free threshold and reductions in marginal tax rates; increases in family assistance; and assistance for low income and older Australians. These measures ensure that most low- and middle-income individuals will benefit from an increase in real disposable income after adjusting for changes in the indirect taxation. The compensation package delivers personal income tax cuts worth A$ 12 billion per year. As a result, more than 80 per cent of taxpayers are estimated to have a marginal tax rate of just 30 per cent or less, compared to 30 per cent of tax payers previously. In addition, by increasing exemption thresholds for families to A$ 28 200 and lowering the benefit withdrawal rates (from 50 per cent to 30 per cent), the package reduces the marginal effective tax rates for low income working families from 85.5 per cent to 61.5 per cent over a substantial range of income, thereby reducing the disincentives for work. The package also delivers from 2000-01 increased assistance of A$ 2.4 billion a year to over 2 million families. It further provides for a 4 per cent increase in all pensions and allowances, ensuring that pensioners and other recipients will be 2 per cent better off than they otherwise would have been, regardless of the impact of the GST on prices.

– Simplification of the number and administration of benefits available to families.

– Simplification of the tax administration through: *i*) the replacement of all existing income tax collection and reporting systems, with a new, integrated "Pay As You Go" (PAYG) system; *ii*) the introduction of the Australian Business Number (ABN), as a single business identifier; and *iii*) the introduction of a new simplified system for reporting tax obligations and entitlements.[2] PAYG is a single, integrated system for reporting and paying withholding amounts, tax on business and investment income, and the GST. It replaces 11 existing systems, including Pay as You Earn (PAYE), prescribed payment system (PPS), reportable payments system (RPS), provisional tax and company instalments. PAYG's main advantage is that it aligns payment dates for different types of taxes. Under PAYG both individuals and companies pay tax on their business income tax at the same time. The new arrangements enable business to make one net payment (after offsetting credible amounts, such as diesel fuel credits and GST input credits), or to claim one net refund, quarterly, and abolish provisional tax and the uplift factor. Companies will have to pay tax earlier than in the old system, but the effect of the earlier payments will be more than offset by the GST cash flow benefits for all but larger firms.

Notes

1. Financial Institutions Duty (FID) and stamp duties on marketable securities were abolished in July 2001. The time limit for abolishing the debits tax (on bank accounts) has been postponed to 1 July 2005 and is subject to a review by the Ministerial Council for Commonwealth State Financial Relations. The need for retaining a range of other business stamp duties will also be reviewed by the Ministerial Council by 2005.
2. The new arrangements aim at reducing the number of times businesses have to report to the Australian Taxation Office (ATO). Under the new tax system, businesses who are registered for GST can use the "Business Activity Statement" (BAS) to report and pay their obligations for GST and PAYG instalments. Business not registered for GST, or individuals who have to pay PAYG instalments (such as self-funded retirees), can use an "Instalment Activity Statement" (IAS) for reporting and paying their PAYG obligations. The government introduced, in February 2001, significant changes, to simplify streamline the GST payment and reporting arrangements for small business, aiming at easing the compliance burden for tax payers in the PAYG system. (See Commonwealth Treasurer Press Release No. 007(2001) at *www.treasurer.gov.au*.

Annex III

Business tax reform implementation

Measures commenced before or on 1 July 2000

- Phased reduction in the company tax rate (34 per cent in 2000-01 and 30 per cent in 2001-02).
- Reform of the capital gains tax (CGT) arrangements through: removing indexation and averaging; lowering the nominal CGT rate, by subjecting only 50 per cent individuals' capital gains and 67 per cent of superannuation funds' capital gains to taxation; concessions for small business, venture capital and scrip-for-scrip rollovers.
- Removal of accelerated depreciation and balancing charge rollover relief, adoption of effective life depreciation.
- Introduction of measures to address the alienation of personal services income; broadening the tax base of life insurers; integrity measures relating to prepayments, losses and lease assignments, loss duplication, value shifting.
- Establishment of the Board of Taxation – greater community consultation in developing tax legislation.

Measures commenced on 1 July 2001

- The Simplified Tax System, which provides eligible small businesses with a cash basis of recognising income and deductible expenses, simpler depreciation and trading stock rules.
- The Uniform Capital Allowances system, which will reduce compliance costs by simplifying the many amortisation regimes currently in the law. It will also recognise certain capital allowance "blackhole" expenses.
- New thin capitalisation arrangements, to prevent multi-national corporations allocating a disproportionate amount of debt to their Australian operations.
- A debt/equity test, establishing a coherent and certain basis for classifying hybrid (part debt/part equity) instruments as either debt (eligible for "deductibility") or equity (eligible for "frankability").

Measures commenced or scheduled to commence from 1 July 2002

- Consolidation regime to allow groups of wholly-owned companies to be treated as single taxpaying entity.

– General value shifting rules, to ensure that appropriate tax treatment is given to capital gains and losses generated through arrangements which cause shifts in value between assets.
– A demerger mechanism in the tax law to improve flexibility in business structures.
– Simplified imputation arrangements, to streamline the operation of the existing imputation system.

Measures with commencement dates yet to be determined

– Taxation of financial arrangements (TOFA), providing a comprehensive and coherent framework for taxing financial arrangements.
– The issues of leasing, the treatment of partnerships and joint activities; the application of the uniform capital allowance regime to buildings and structures; and changes to the transfer pricing provisions.
– Introduction of a Non Resident Withholding Tax regime.
– Exemption from tax of temporary residents on their foreign source income to encourage skill intensive businesses to locate in Australia.
– Development of a Tax treatment of rights and blackhole expenditures, in consultation with the business community.
– General anti-avoidance rule. The Government is continuing to consider measures that will streamline the existing anti avoidance provisions along the lines identified by the Ralph Report.

The Government announced in May 2002 a review of international taxation arrangements. This review will consider, amongst other issues, whether to proceed with previously announced measures such as the provision of imputation credits for foreign dividend withholding taxes, and the introduction of foreign income accounts.

Source: National Submission and *Treasurer Press Release*, No. 016, 22 March 2001, Canberra.

Annex IV

Some aspects of Australian immigration policy

Points-based entry

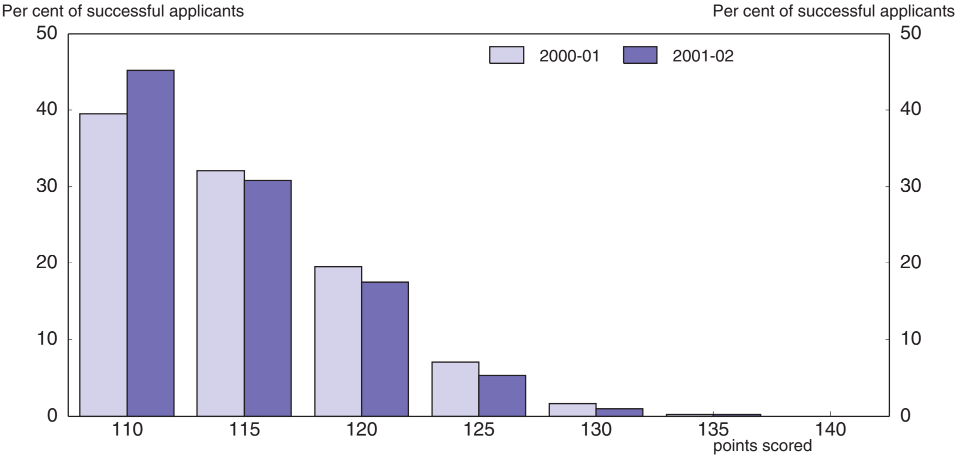
The central part of the selection process for General Skilled migrants is the points test, the main elements of which are outlined in the Box. In addition to core criteria for age, skill (including work experience) and English language ability, points can be awarded for a range of factors including those related to occupational targeting (the Migration Occupations in Demand List or MODL). In certain categories, migrants with close Australian relatives can benefit from a regional initiative designed to promote designated areas. The areas are designated by the states themselves, whose approaches vary; Victoria designated areas including the whole of its capital Melbourne, for example, whereas other states were more selective.[1] There are also occupation-specific schemes where the points test is not applied, although some "basic requirements" of educational level, English language proficiency and work experience are necessary; under this heading the Skill Matching database is used to circulate the details of potential immigrants to regions and employers who may wish to nominate them if they have a specific need. The Employer Nomination Scheme allows for a relatively small number of non-points tested admissions, where employers have made specific agreements with the immigration authorities to recruit people with particular skills.

Figure A1 gives some indication of the distribution of scores obtained by successful applicants in 2000-2002. It is not clear how well these scores represent the underlying distribution, since one has little incentive to apply with insufficient points (though where the shortfall is modest, applicants, may be put on a waiting list and be successful later via the skill matching database, for example) or to provide full information once the minimum pass mark (plus a margin in case the pass mark is changed) has been reached.

The National Office of Overseas Skills Recognition (NOOSR) facilitates the recognition of overseas qualifications in Australia and Australian qualifications overseas. NOOSR does this by publishing information on overseas education systems – which includes guidelines for gauging the educational level of overseas qualifications in Australian terms – and by assessing individual qualifications to determine their educational level. In assessing the comparative educational level of overseas qualifications, NOOSR takes into account a range of factors, including:

- the education system. This can include historical factors and influences, the organisation of the various sectors, the role of external moderation and examinations, and regulation and quality assurance measures;
- the status of awarding institutions in the country of origin. This can include the date of establishment of institutions, whether they are public or private, student and staff ratios, library and laboratory facilities, programs offered, and quality control mechanisms;

Figure A1. **Points test score distribution**



Note: The pass mark was 110 in both years; applicants do not have a strong incentive to report more points than necessary to pass nor to apply if they have less than that.
Source: Department of Immigration and Indigenous Affairs.

– programme entry requirements. This can include the level of education required for entry to programmes of study, the role of entrance examinations, and the competitiveness of entry;
– the programme structure, *e.g.* the level, length, structure, orientation, breadth and depth of programmes of study.

Occasionally NOOSR takes marks or grades into consideration.

Australian qualifications are an advantage to an applicant, partly because employers tend to prefer them and, more recently, because foreign students who undertake higher education courses at Australian institutions (during which they are entitled to work part-time to help support themselves) can apply for a permanent visa on successful completion of the course.[2] Previously it would have been necessary for them to leave the country after completing their course before applying to re-enter.

Non-points entry

Whereas in the past immediate family members (spouses, fiancés, children and parents) had unrestricted access to permanent visas, and more distant family members were accorded fairly generous access (under a scheme known as "Concessional" Family visas) provided they met some minimum conditions of education or employment, this access became much more targeted during the 1990s. In 1997, while spouses, fiancés and dependent children still have unrestricted entry, restrictions were introduced on the immigration of permanent residents' parents, which are now subject to an annual quota (500 for 2002-2003), with

Box A1. Australian points system – General Skills Categories

The principal applicant* has to score at least 115 points in 2002-2003 (maximum 145).

Skills

– Occupations which require diploma or advanced diploma level qualifications.	40
– Generalist occupations which require degree level qualifications, but which do not necessarily require training for a particular occupation.	50
– Occupations that require degree (or higher) or trade level qualifications where entry to the occupation requires training which is specific to the occupation.	60

Occupational Targeting

– Occupations/specialisations included on the MODL.	5
– **Applicant has a genuine job offer in a MODL occupation/specialisation.**	**10**

Experience

– Applicant has been employed in an occupation on the skilled occupation list for three out of the four years before applying.	5
– Applicants nominating an occupation which attracts 60 points under the skill factor, and who has worked in this nominated, or a closely related, occupation for three of the four years before applying.	10

Age (45 years old maximum)

– 18-29 years	30
– 30-34 years	25
– 35-39 years	20
– 40-44 years	15

Language skills

– Vocational – Applicants achieves a score of at least five on each component of the IELTS test (general training module).	15
– Competent – Applicant obtains an IELTS score of six or more for each of the four components.	20

* The principal applicant would typically be the main breadwinner in a family. Each member of a family needs a visa and all visas would be counted in the skill stream statistics.

Box A1. **Australian points system – General Skills Categories** (*cont.*)

Qualifications of spouse (includes *de facto* spouse)

– Applicant's spouse also meets the minimum requirements for skills (including work experience) age and English language ability. 5

Australian qualifications

– The applicant obtained a diploma, trade qualification or degree (this was introduced on 1 July 1998); or 10 points if the applicant holds an Australian PhD (doctorate degree) (introduced on 1 November 1999) from an Australian educational institution. 5

Bonus points

– Five bonus points if the applicant satisfies at least one of the following: 5
– six months Australian legal work experience in a skilled occupation within the previous four years;
– or commitment to bringing a high level of capital to Australia demonstrated by depositing A$ 100 000 in an approved Government investment for a minimum period of 12 months;
– or a high level of fluency in the national language of one of Australia's major trading partners;
– or a high level of fluency in a community language.

some 15 000 such people now "queued" having been granted a visa in principle, and around a further 7 400 applications submitted but yet to be decided. The Concessional Family stream was also redefined, covering all other family members (non-dependent children, siblings, nieces, nephews .and working age parents) and made subject to the usual points test with some additional points allocated for family connections; it was re-named Skilled Australian Sponsored (such entries are counted under the Skill heading rather than Family).[3] With these restrictions the number of family stream visas issued declined from over 60 000 in 1990-91 to under 40 000 in 2000-2001; over the same period the number of parents admitted fell from 10 300 to 500.

Business skill permanent visas, which account for around one fifth of the total permanent skill stream, are awarded under a number of different categories, each of which currently has a points test (distinct from the general skills points test detailed in the Box). These mainly relate to actual or intended ownership of an appropriate business in Australia. One subclass, the Investment-linked subclass, requires experience in managing business or investment assets and the making of an investment of at least A$ 750 000 for three years.[4] From 1 March 2003, legislative changes are proposed which will introduce two stage processing for most Business Skills visas. This will involve business people holding a provisional (temporary) visa and only being eligible for grant of permanent residence once active business or investment activity in Australia has been demonstrated. Investments will also be required to be held for four years.

Since 1985 the number of entrants under the Humanitarian programme has fluctuated between 11 000 and 16 000. Most humanitarian visas are issued "offshore", in contrast with the typical European experience of applicants arriving in the country and claiming asylum or refugee status on arrival. The authorities argue that this enables them to select people likely to be more deserving than those able to afford to pay for an illegal passage to Australia and try to discourage such activities, particularly following the substantial increase in the proportion of onshore visas at the end of the 1990s – the share was under 20 per cent in 1996-7 but 41 per cent in 2000-01.[5] Thus around 4 000 "offshore" places each year are reserved for people satisfying the UNHCR definition of refugee but a further 5 600 were granted onshore, *i.e.* to people already in Australia. The remaining offshore humanitarian visas are issued to people assessed by the Australian authorities as being in special need, but criteria such as family and community connections in Australia as well as the direct needs of the applicant are used to select them.

Unlike other immigrants, those with permanent offshore humanitarian visas are entitled to the full range of welfare and health benefits immediately a visa is granted. Some people arrive with a valid non-settlement visa and then claim protection; their ability to work or claim benefit will depend on their original visa and whether they apply in time for protection (generally within 45 days of arrival), but benefits are not usually available while applications are being processed. Unauthorised arrivals are generally detained while their applications are dealt with. Initially, applicants may be issued Temporary Protection Visas (TPVs) for up to three years which allow access to a narrower range of benefits (but more than for other immigrants), freedom of movement and permission to work in Australia while their applications are assessed. In 1999-2000, 871 TPVs were granted, 4 457 in 2000-2001 and 3 143 in 2001-2002.

In all non-humanitarian cases, applicants pay a non-refundable fee, currently A$ 1 745. Each dependant without sufficient English language ability has to pay a further A$ 2 485 to cover English language tuition in the AMEP (see main text). Some applicants sponsored by family in Australia may have to pay a refundable "Assurance of Support" bond in addition, A$ 3 500 for the primary applicant, A$ 1 500 for adult family members in the same application.

Notes

1. Once a migrant has a permanent visa there is no mechanism for preventing internal migration, however.
2. A number of Australian universities have "branches" in other countries – Singapore, Malaysia, South Africa, for example – which work partly by correspondence and partly by teaching staff from Australia travelling to the students. An Australian degree can thus be awarded to students without them having to spend any time in Australia. However, for the purposes of applying for permanent residence, overseas students who obtain an Australian qualification while not physically present in Australia must meet the minimum requirements for work experience, among others, to be eligible for a permanent residence visa. This is in contrast to overseas students who successfully obtain an Australian qualification in Australia who are exempted from the work experience requirements when applying for permanent residence.
3. There is no points test for applicants who apply for a small number of places under some state-specific and regional migration mechanisms.
4. The precise details of the schemes are complicated, see *www.immi.gov.au/facts/27business.htm*.
5. With some success. Anecdotal evidence suggests that the price of a passage and illegal entry to Australia from camps on the Pakistan-Afghan border, with "people smugglers", fell considerably when the perceived chances of success dropped after a number of high-profile incidents in 2001. The Australian government redefined certain island territories to be "offshore" to make it easier for entry to Australia proper to be refused.

Annex V

Calendar of main economic events

2001

May

The Australian Industrial Relations Commission (AIRC) awarded a safety net increase of A$ 13 per week for award rates of pay up to and including A$ 490 per week, A$ 15 to those earning up to A$ 590 per week and A$ 17 per week for award rates above A$ 590 per week.

The 2001-02 Budget was delivered by the Treasurer. In cash terms, an underlying cash surplus of A$ 1.5 billion was forecast for 2001-02. In accrual terms, a fiscal deficit of A$ 0.8 billion, or 0.1 per cent of GDP, was forecast for 2001-02.

The Commonwealth Government announced a package to assist thousands of HIH policyholders facing hardship as a result of the collapse of the HIH Insurance Group in March 2001. The HIH Support Scheme is funded *via* a special appropriation of up to A$ 640 million.

July

The Government introduced the uniform capital allowance framework into the taxation system. The framework replaced more than 25 existing capital allowance taxation regimes and created a simpler system that generates deductions based on the effective life of assets.

The Government introduced the R&D Offset scheme as the Government's principal support mechanism to increase the amount of R&D performed by small businesses in Australia. The R&D Offset scheme is available to all companies with an annual turnover of less than A$ 5 million. A tax rebate operates for R&D expenditure up to A$ 1 million per year at a rate of 37.5 cents in the dollar. Also introduced was a 175 per cent R&D tax concession for increased R&D activities undertaken in Australia.

A federalised corporate regulatory framework commenced operation in July 2001, completing a major legislative project to change the Corporations Law to a Commonwealth Act (based on a referral of power from the States). This followed High Court challenges to the previous State-based Corporations Law framework.

September

On 27 September 2001 Australia and the United States signed a Protocol to the Double Tax Convention. The Protocol, when it enters into force, will provide for reductions in the withholding tax rates on certain dividends and on royalties.

The 2000-01 Final Budget Outcome was delivered by the Treasurer. The underlying cash surplus was A$ 5.6 billion, compared to the estimate at the 2001-02 Budget of A$ 2.3 billion. The fiscal surplus of A$ 5.9 billion was A$ 0.5 billion higher than estimated at the 2001-02 Budget.

The RBA cut the official cash rate by 25 basis points to 4.75 per cent.

October

The 2001-02 Mid-Year Economic and Fiscal Outlook was delivered by the Treasurer. It forecast an underlying cash surplus for 2001-02 of A$ 0.5 billion, and a fiscal deficit of A$ 3.1 billion.

A writ was issued on 8 October 2001. Under the *Charter of Budget Honesty Act* 1998, the Secretaries of the Departments of the Treasury and of Finance and Administration publicly released a Pre-Election Economic and Fiscal Outlook for a general election on 17 October 2001, which forecast an underlying cash surplus of A$ 0.5 billion for 2001-02. In accrual terms, a fiscal deficit of A$ 3.1 billion, or 0.4 per cent of GDP, was forecast for 2001-02.

On 15 October, the Prime Minister announced that an independent review of the competition provisions of the *Trade Practices Act* 1974 and their administration would commence in 2002. The review is expected to report by the end of January 2003.

The Government released an Issues Paper, *Options for Improving the Safety of Superannuation* and formed a Superannuation Working Group (SWG) to conduct consultations.

The RBA cut the official cash rate by 25 basis points to 4.5 per cent.

November

A Federal Election was held on Saturday 10 November 2001. The Liberal-National Coalition Government was returned to office.

December

On 14 December, the RBA released a consultation document that outlined its proposed reform of credit cards. The reforms apply to the credit card schemes of Visa, MasterCard and Bankcard that it designated in April 2001.

The RBA cut the official cash rate by 25 basis points to 4.25 per cent.

2002

January

On 31 January, the Commonwealth and New South Wales Governments announced the combined sale of the government owned Freightcorp and National Rail Corporation Pty Ltd to National Rail Consortium (jointly owned by two publicly listed Australian transport companies) for a total transaction value of A$ 1 172 billion.

March

The Government's *Financial Services Reform Act* 2001 commenced on 11 March 2002. The Act implements a harmonised and improved licensing, disclosure and conduct framework for the financial services industry.

April

In April 2002, the Minister for Education, Science and Training announced a comprehensive review of the higher education system in Australia. The purpose of the review was to ensure that Australia's higher education institutions were best placed to contribute to the nation's future.

In response to the decision of the boards of Australia's largest medical indemnity provider, United Medical Protection and its wholly owned subsidiary Australasian Medical Insurance Limited (UMP/AMIL), to seek the appointment to the companies of a provisional liquidator, the Government announced that it would provide a short-term guarantee to the company and its provisional liquidator to allow members of UMP/AMIL to continue practising until 30 June 2002.

- The aim of the initial guarantee to the provisional liquidator was to stabilise the situation until 30 June and allow doctors to continue practising while longer-term solutions were developed.

May

The Treasurer announced a review of Australia's international tax arrangements. The review focuses on treatment of foreign source income under Australia's dividend imputation system, the foreign source income rules, treatment of conduit income and tax treaty policy.

The 2002-03 Budget was delivered by the Treasurer. In cash terms, an underlying cash surplus of A$ 2.1 billion was forecast for 2002-03. In accrual terms, a fiscal surplus of A$ 0.2 billion was forecast for 2002-03.

In the 2002-03 Budget, the Government announced that it would increase patient co-payments for the Pharmaceutical Benefits Scheme (PBS) from A$ 3.60 to A$ 4.60 per script for concessional patients and from A$ 22.40 to A$ 28.60 per script for general patients. The level at which co-payment safety nets will apply will be increase to A$ 239.20 for concessional patients (up from A$ 187.20) and A$ 874.90 for general patients (up from A$ 686.40).

- This initiative would result in savings of A$ 1.1 billion over four years and help restore the balance between government and patient contributions. The Senate has not yet approved the legislation necessary to introduce the increased PBS co-payments. However, the Government intends to put the measures before the Senate again.

As part of the 2002-03 Budget, the Government announced changes to the eligibility criteria for the Disability Support Pension (DSP) to recognise and improve the work capacity of people with disabilities. Following a number of amendments to the measures announced at Budget, people who claim DSP on or after 1st July 2003 will be assessed under new DSP eligibility criteria. In particular, the DSP eligibility criteria will change so that it is available to people who have a work capacity of less than 15 hours per week, rather than the current level of 30 hours per week. Additional funding will also be provided for up to 73 000 new places in services to assist people with disabilities.

In the 2002-03 Budget, the Government announced funding of A$ 3.3 billion over three years beginning on 1 July 2003 to improve the Job Network through better targeting and tailoring of employment services provided to job seekers and employers.

On 29 April 2002, the Boards of United Medical Protection (UMP)/Australasian Medical Insurance Ltd (AMIL), Australia's largest medical indemnity cover provider, sought to put the companies into provisional liquidation. This was granted by the New South Wales Supreme Court on 3 May 2002.

– On 1st May 2002, the Minister for Health and Ageing wrote to medical practitioners stating that the Commonwealth would guarantee to 30 June 2002 the obligations of UMP/AMIL and the provisional liquidator to pay any amount properly payable for a number of specifically defined types of claims. This guarantee was formalised on similar terms in a Deed of Indemnity between the Commonwealth and UMP/AMIL (and the provisional liquidator), and has been extended to 31 December 2003.

– The Prime Minister announced that, in relation to UMP/AMIL, the Government would extend the guarantee to 31 December 2002. He also announced at that time, a package of measures to deal with difficulties being experienced in the medical indemnity market more generally.

The Minister for Immigration and Multicultural Affairs, announced the Migration Program and Humanitarian Program planning levels for the year 2002-03: 100 000-110 000 places under the Migration Program and 12 000 places in the Humanitarian Program.

The Australian Industrial Relations Commission awarded a safety net adjustment of A$ 18 per week for all award rates of pay. The decision increased the Federal Minimum Wage from A$ 413.40 per week to A$ 431.40 per week.

The RBA raised the official cash rate by 25 basis points to 4.5 per cent.

June

On 25 June, the Commonwealth Government announced the sale for A$ 5.6 billion of the long-term lease for Sydney Airport to Southern Cross Airports Corporation. After the repayment of debt owed by Sydney Airport, Commonwealth debt will be reduced by A$ 4 233 billion. Sydney Airport is the last of the major Australian airports to be sold to a private sector operator.

The RBA raised the official cash rate by 25 basis points to 4.75 per cent.

July

From 1 July 2002, the rate of compulsory employer contributions under the Superannuation Guarantee system rose from 8 per cent to 9 per cent of an employee's earnings. This is the final rate rise mandated under the Superannuation Guarantee system.

New programmes and employment assistance were introduced in July 2002 as part of *Australians Working Together* (AWT) package (announced in the May 2001 Budget). Programmes introduced in July 2002 include Transition to Work services which assist parents, carers and mature age people to enter or re-enter the workforce and Training Credits for Work for the Dole participants.

Reforms to the General Insurance Regulatory Framework announced by the Government in November 2000, took effect from 1st July 2002 with a two year phase in period for new capital requirements.

August

The Treasurer announced that the Government would not be proceeding with the Tax Value Method (TVM) and in its absence would develop a systematic tax treatment of rights and blackhole expenditures with a view to implementing these changes by July 2005.

The Treasurer announced the Commonwealth Government's response to the Productivity Commission's final report "*Review of the Prices Surveillance Act* 1983". The Government accepted the Commission's recommendation that the *Prices Surveillance Act* 1983 (PSA) be repealed and a new part inserted into the *Trade Practices Act* 1974 (TPA). The new part will preserve the existing powers of price surveillance.

The new part of the TPA is to include an objects clause consistent with the Treasurer's statement in September 1996 that prices surveillance will only be applied in those markets where competitive pressures are not sufficient to achieve efficient prices and protect consumers. In responding to the report, the Government considered that competition, rather than regulation, remains the best means of lowering prices and improving choices for consumers.

On 27 August 2002, the RBA released its standards in relation to credit card schemes. Firstly, a new transparent cost based methodology for setting wholesale "interchange" fees. Secondly, the removal of the restriction by the credit card schemes on the type of financial institutions that could offer credit card services. Finally, the removal of the restriction by credit card schemes that merchants may charge (surcharge) for accepting credit card transactions. These reforms are scheduled to commence, in a staggered process, in early 2003.

September

The 2001-02 Final Budget Outcome was a small underlying cash deficit of A$ 1.3 billion, which was in line with the forecast in the 2002-03 Budget. The fiscal deficit in 2001-02 of A$ 3.7 billion was A$ 0.7 billion larger than estimated at the 2002-03 Budget.

On 10 September 2002 the Government announced a A$ 120 million package of initiatives to assist the sugar industry to restructure and ensure its long-term sustainability. The package will be funded by a temporary 3 cents per kilogram levy on all sugar sold in Australia for domestic consumption.

The Productivity Commission released the *Independent Review of the Job Network* in September. The Department of Workplace Relations also released the *Job Network Evaluation, Stage Three: Effectiveness* in September.

The Government released the Productivity Commission's final report on the Review of the National Access Regime and its interim response to the report. This review fulfils the Commonwealth's obligation (Clause 5 of the Competition Principles Agreement between the States, Territories and the Commonwealth) to review the legislation which establishes the National Access Regime, to determine whether any restrictions on competition should be retained in the net public interest.

The Federal Government released the paper Compensation for Loss in the Financial Services Sector: Issues and Options for public consultation.

October

- On 23 October 2002, the Prime Minister announced a package of measures, at a cost of A$ 246.5 million over four years, to address rising medical indemnity premiums and ensure a viable and ongoing medical indemnity insurance market.

In addition to this funding, the Prime Minister also announced that the Commonwealth would meet the cost of unfunded Incurred-But-Not-Reported (IBNR) liabilities (up to 30 June 2002) of existing medical indemnity providers that have not set aside sufficient funds for these liabilities. This cost is to be recovered through a levy on doctors who were members of these organisations as at 30 June 2000, subject to certain exemptions.

Legislation to give effect to a number of these initiatives was passed by Parliament on 10 December 2002.

The Government publicly released the report by the Superannuation Working Group (see October 2001) and the Government's response to the report. In response to the report, the Government announced it would:

– introduce a requirement for all trustees of APRA-regulated superannuation funds to obtain a superannuation trustee licence to operate as a superannuation fund trustee, and for all superannuation funds to be registered with APRA prior to accepting contributions;
– introduce a requirement for trustees to prepare and submit to APRA a risk management plan for each fund, which would outline how relevant risks would be managed and monitored, including a fraud control plan;
– enhance disclosure of important fund information to fund members, APRA, and publicly through ASIC's electronic facilities; and
– introduce appropriate enforcement powers to underpin the new framework.

The Prime Minister announced further measures in relation to medical indemnity cover. These included: premium subsidies being made available from 1st January 2003 to certain groups of medical practitioners; a High Cost Claims Scheme under which the Commonwealth will fund 50 per cent of the cost of claims payments greater than A$ 2 million (up to the insured amount) made by medical indemnity insurers; enhanced risk management approaches; extension of the guarantee to UMP/AMIL until 31 December 2003 subject to court approval; prudential and product regulation; and monitoring of medical indemnity insurance premiums by the Australian Competition and Consumer Commission.

November

The 2002-03 Mid-Year Economic and Fiscal Outlook forecast an underlying cash surplus for 2002-03 of A$ 2.1 billion, and a fiscal deficit of A$ 0.5 billion. The budget outlook remained largely unchanged from the 2002-03 Budget.

On 24 November 2002, the Minister for Health and Ageing announced that the Government will provide funding of A$ 291.1 million over 4 years and funding in the order of A$ 9.4 million per annum in subsequent years for an immunisation programme against the Meningococcal C disease. In the first four years, the programme will progressively immunise all Australians between the ages of 12 months and 19 years.

On 7 November the Commonwealth Government released a discussion paper: AusLink Towards the National Land Transport Plan. This paper outlines a proposal for a new approach to planning, developing and managing Australia's land transport infrastructure to improve its efficiency. Following consultations, the Commonwealth plans to release a formal statement of Government Policy in 2003.

On 15 November all State and Territories agreed to implement all those recommendations from the Review of the Law of Negligence which go to establishing liability on a nationally consistent basis. The national implementation of the Review has been actuarially assessed as having the potential to reduce public liability insurance premiums by around 13.5 per cent initially, with further reductions to follow over time.

December

On 9 December 2002, the Government announced a A$ 368 million package of initiatives to provide relief to drought-affected farmers and communities hardest hit by the drought. The package is in addition to the A$ 360 million that the Commonwealth expects to provide to farmers in drought assistance.

The Ministers for Family and Community Services and Employment and Workplace Relations jointly released a consultation paper, *Building a simpler system to help jobless families and individuals*. The launch of the paper marked the start of a consultation process on the reform of the support system for working-age Australians.

On 13 December 2002, the Government announced its decision to further reduce the tariff rate for passenger motor vehicles from 10 per cent (to apply from 2005), to 5 per cent in 2010. The Government also agreed to a continuation of the Automotive Competitiveness and Investment Scheme (ACIS), which will provide industry with around A$ 4.2 billion over the period 2006-2015, to assist industry in their transition to the lower tariff environment. Industry specific assistance will cease on 31 December 2015. The decision followed Government consideration of the Productivity Commission's Review of Automotive Assistance.

The Independent Review of Energy Market Directions (Parer Review), commissioned by the Council of Australian Governments, reported to the Ministerial Council on Energy with a list of recommendations on the future direction of energy market reform.

The Council of Australian Governments signed the Corporations Agreement 2002, which underpins the current legislative scheme for the regulation of companies, takeovers, fund-raising and the financial services industry.

On 12 December the *Terrorism Insurance Bill* 2002 was introduced into Parliament. The Bill establishes the framework to implement the Commonwealth Government's terrorism insurance replacement scheme. Under the scheme, terrorism risk cover will be deemed into eligible insurance contracts, notably commercial property and associated business interruption and public liability policies. Insurers will be able to reinsure the terrorism risk through the Australian Reinsurance Pool Corporation – a statutory authority established by the *Terrorism Insurance Bill* 2002.

The Commonwealth Parliament passed the Medical Indemnity Act and associated legislation to give effect to the IBNR scheme, the High Cost Claims Scheme, and the premium subsidy. The Medical Indemnity Agreement (Financial Assistance – Binding Commonwealth Obligations) Bill 2002 came into effect.

The Government introduced legislation, the Medical Indemnity (Prudential Supervision and Product Standards) Bill 2002, into the House of Representatives, dealing with the prudential regulation of providers of medical indemnity cover and mandatory minimum product standards.

2003

January

On 1st January 2003, the first element of the RBA's reform of credit cards commenced. Merchants are permitted to levy a surcharge on credit card transactions. International experience suggests surcharging will not be widespread.

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THE LAND

Area (thousand sq. km.)	7 682
Agricultural area , 1986-87, per cent of total	61
Urban population, 1991, per cent of total	85
Population of major cities, 30 June 2001 (1000) :	
Sydney	4 155
Melbourne	3 484
Brisbane	1 653
Perth	1 397
Adelaide	1 111

THE PEOPLE

Population, 31 December 2001 (millions)	19 603
Number of inhabitants per sq. km, 2001	2.5
Natural increase, 2001 (1000)	117
Net migration, 2001 (1000)	110
Civilian employment, 2002 (1000) :	9 311
of which :	
Agriculture	405
Industry *	1 981
Other activities	6 926

PARLIAMENT AND GOVERNMENT

Composition of Parliament :

Party	Senate	House of Representatives
Australian democrats	7	. .
Australian Labor Party	28	64
Independent	3	3
Greens	2	1
Liberal Party of Australia	31	67
National Party of Australia	3	13
Country Liberal Party	1	1
Pauline Hanson's One Nation	1	. .
Total	76	149

Present governement: Liberal/National Party coalition

Next general elections for House of Representatives is expected by the end of 2004

THE PRODUCTION

Gross domestic product, 2001 (A$ million)	691 033
Gross fixed capital formation, 2001 percentage of GDP	21.6

GENERAL GOVERNMENT SECTOR, PER CENT OF GDP, 2001

Current disbursements	35.4
Current transfers	14.1
Current revenue	36.2
of which: Direct taxes	16.5

THE FOREIGN TRADE

Main exports, 2002, per cent of total exports :	
Food, beverages and tobacco	19.5
Raw materials	18.7
Fuels	20.6
Machinery and transport equipment	11.9
Other manufactured products	29.2
Main imports, 2002, per cent of total imports:	
Food, beverages and tobacco	4.5
Raw materials	1.7
Fuels	7.3
Machinery and transport equipment	45.9
Other manufactured products	40.6

THE CURRENCY

Monetary unit: Australian dollar

Currency units per US$, average of daily figures:	
2002	1.841
January 2003	1.717

* Including mining, electricty, gas and water, and construction.

This Survey is published on the responsibility of the Economic and Development Review Committee *of the* OECD, *which is charged with the examination of the economic situation of member countries.*

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The economic situation and policies of Australia *were reviewed by the* Committee *on* 5 *February* 2003. *The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole* Committee *on* 25 *February* 2003.

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The Secretariat's draft report was prepared for the Com*mittee by* Helmut Ziegelschmidt, Vassiliki Koutsogeorgopoulou, Richard Herd *and* Paul O'Brien *under the supervision of* Nicholas Vanston.

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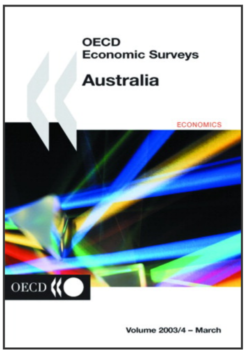
The previous Survey of Australia *was issued in* August 2001.



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