



**Information**  
CBA engages Indian group for software review. 8-page liftout from page 29

**Supernation**  
Unions seek to limit choice, page 52. Plus industry round table, page 60



**WorkSpace**  
Corporate woman: board diversity and effectiveness. Page 58

**Iraq**  
US puts best face on election result. Plus 'Wild West' of funding. Page 9



# THE AUSTRALIAN FINANCIAL REVIEW

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■ Tougher audits planned ■ Consolidation on hit list ■ Boost to budget

## ATO targets \$3bn company tax haul

**Alessandra Fabro**

The Australian Taxation Office expects to raise \$3 billion from audits of big companies this year and is investigating a number of new tax structures that could amount to an abuse of group consolidation and transfer pricing rules.

In remarks that are likely to increase pressure on corporate

boards, the tax commissioner, Michael Carmody, said he was predicting this year's large company audit results would match last year's "bumper" performance.

The large corporate sector continues to underpin growth in the government's budget bottom line, with surging company profits and a record business tax take boosting Treasury forecasts to \$24 billion of

budget surpluses over the next four years. Expected company tax collections for 2004-05 were revised up 3.7 per cent to \$40.9 billion in the government's mid-year economic review, from \$37.9 billion just two years ago.

Mr Carmody told *The Australian Financial Review* that the ATO was looking closely at several new tax structures unearthed during its current

audit program. These included arrangements that seemed designed to take advantage of large one-off gains from moving into the consolidations regime, which allows corporate groups to act as a single entity for tax purposes.

And he said when it came to cross-border profit shifting, the ATO now viewed Australian-headquartered companies as poten-

tial risks, not just the foreign businesses that had been the traditional focus of the ATO's so-called transfer pricing rules.

Over the past 12 months, the ATO has been examining the records of companies reporting significant

Continued page 6

Up close and personal, page 36 ■  
Opinion, pages 62-63 ■

### Push to clear freight bottlenecks

**Laura Tingle and John Breusch**

Australia faces a \$30 billion drain on the economy by 2014 if it does not address freight infrastructure problems, according to a major study set to fuel the debate about national transport bottlenecks.

The report on the cost of an inefficient freight system will be used by the transport industry to argue that the federal government should take greater responsibility for problems in state transport domains, a move that could produce savings of \$7 billion a year.

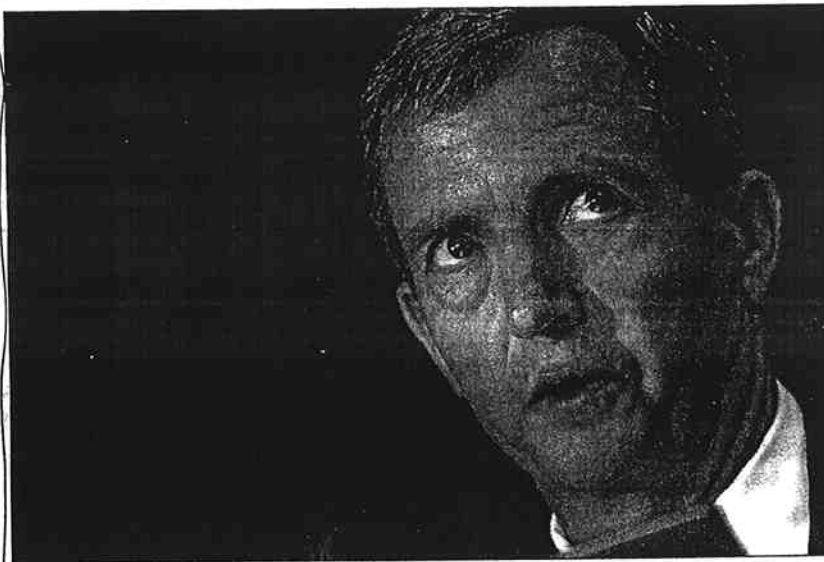
Rail and road operators want the Council of Australian Governments to put freight and passenger transport on the agenda for its next meeting, in the same way it has previously addressed energy and water issues.

The push comes after the Reserve Bank of Australia identified bottlenecks in rail and port infrastructure as major constraints on export growth in the resources sector.

The study argues that rail is the most cost-effective mode of transport for container freight movements between capital cities, while road transport is the most efficient shorter-distance option.

Continued page 8

Call for level playing field, page 8 ■  
Cost of road damage, page 8 ■



Louis Gries, at yesterday's results briefing, wants to 'lead our way back to where we were as a corporation'. Photo: ROB HOMER

### New chief executive in Hardie hot seat

**Martin Pretty and Fiona Buffini**

Louis Gries has accepted one of the toughest jobs in Australian business, that of chief executive of James Hardie, as the corporate regulator warned that its investigation into the fibre-cement maker would be a key priority this year.

While former CEO Peter Macdon-

ald remains on the payroll with a \$US10,000 (\$12,719) a month consultancy contract, it is US-born Mr Gries who must now deal with the Australian Securities and Investments Commission's inquiry into how James Hardie underfunded compensation to asbestos victims by \$1.5 billion.

ASIC chairman Jeffrey Lucy told *The Australian Financial Review* he

expected an "enormous amount" of the regulator's investigative work would be done by mid-year.

"We intend to approach this with a great deal of energy," he said, promising to use lessons from ASIC's probe into the collapse of insurer HIH.

Continued page 15

Broad ASIC inquiry, page 15 ■ Tougher rules hit St George, page 51 ■

### MacAttack on cashbox wannabes

**Anthony Hughes**

Macquarie Bank has a message for Babcock & Brown chairman Jim Babcock and new Allico private equity boss Peter Yates: if the sharemarket is prepared to give \$1.6 billion on the promise of deal making, then the millionaires' factory wants a slice of the action.

For a decade, Macquarie has pretty much taken the approach that it would find assets, then ask investors to back its expertise in areas like airports, toll roads and property trusts.

Babcock and Allico have in recent months raised \$1 billion and \$600 million respectively to list private equity cashboxes that plan to buy companies cheaply, without specifying which assets they might buy and when.

Not to be outdone by the relative Johnnies-come-lately, Macquarie is expected to lodge a prospectus as early as this week for its own \$1 billion private equity cashbox. It will enable its clients to invest in some of the corporate deals instigated by Macquarie's 1700 investment bankers across the world.

The vehicle, to be called Macquarie Capital Alliance, is shaping as a test of market confidence in the bank's ability to

Continued page 16

<b>INDEX</b> Home delivery 1800 646 990	World	9	Markets	19	Enterprise	47	Property	53	WorkSpace	58	<b>www.afr.com</b> www.tradingroom.com.au
	Companies	14	Information	29	Financial Services	51	Letters	57	Editorial	62	

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# Rail reform worth \$27bn: study

John Breusch

Australia's economy would receive a \$27 billion boost if rail could increase its share of freight transport by being placed on a level playing field with the trucking industry, according to a study to be released by the Australasian Railway Association.

The ARA has used the report to call for land transport to be given greater prominence in Australia's micro-economic reform agenda.

In a report commissioned by the ARA, Port Jackson Partners concluded that if the government removed cross-subsidies for heavy trucks, rail freight would be significantly cheaper than road. It would be 50 per cent cheaper between the

## KEY POINTS

- The ARA is calling for a level playing field with the trucking industry.
- It found rail consistently beats road, especially as journeys grow longer.

east and west coasts and 30 per cent cheaper on north-south routes.

In relation to operating, capital and infrastructure costs, the study found rail consistently beat road, especially as journeys grew longer.

"At its most basic, a train can carry typical interstate freight over large distances at a lower cost than a truck," the report said. "In the case of road, these costs include variable

costs such as fuel and tyres, semi-fixed costs such as driver costs, truck maintenance costs and fixed costs such as registration, insurance and business overheads."

Very small gains could also be made by improving the co-ordination between track owners and rail transport operators.

As a result, a level regulatory playing field would enable the volume of freight carried by rail to double over the next 10 years as the sector increased its share of the market from 35 to 50 per cent, the report claimed.

Port Jackson Partners found the shift towards rail would save about \$393 million in 2014. Using that figure, Access Economics estimated

the benefit to the economy would be \$1.2 billion a year, or \$27 billion in today's dollars.

Benefits of the shift from road to rail would include "improved health, reduced accidents, congestion and noise and reduced greenhouse gas emissions," Access found.

The report said the \$1.2 billion a year in increased gross domestic product compared well with the \$2 billion a year in benefits estimated to arise from major reforms to the electricity and gas markets.

"Many have seen energy as Australia's main area of micro-economic reform focus," the report said. "If energy reform can assume the mantle of necessary reform, then so should rail reform."

## Call for truckers to pay for damage

John Breusch

Australia's rail industry has called for an overhaul of transport pricing to reflect the damage that heavy vehicles inflict on roads.

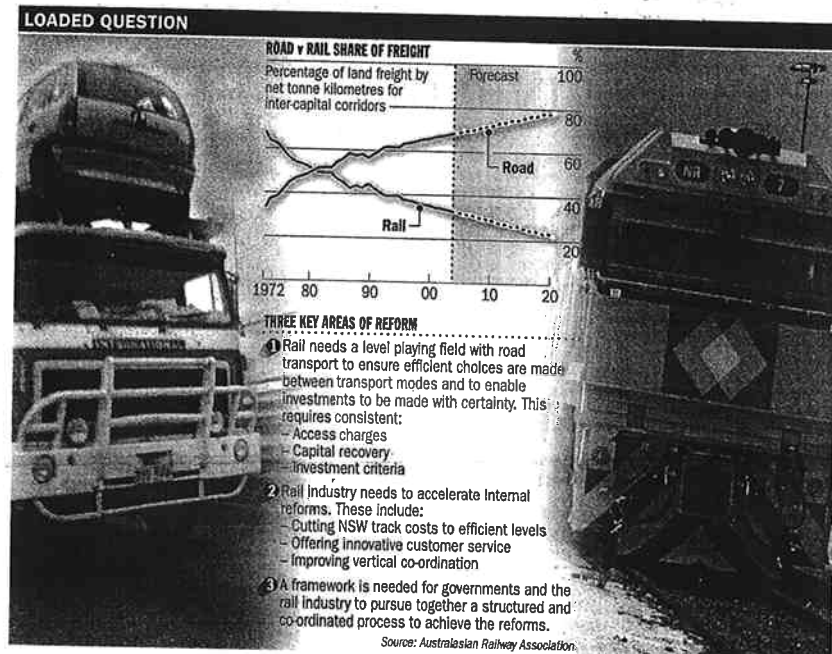
A report prepared for the Australasian Railway Association by Port Jackson Partners finds that the road pricing regime — which comprises the federal government's diesel fuel excise and state government registration charges — means trucks carrying heavier loads over long distances are effectively cross-subsidised by those doing shorter trips with lighter loads.

"Furthermore, passenger vehicles subsidise all types of trucks, again biasing charges in favour of the heaviest vehicles," the report says.

"As a result rail, which is actually cheaper, safer and less polluting, is chosen less often by transport users than it otherwise should be."

The report comes amid a review of heavy vehicle road pricing by the National Transport Commission, which advises Australia's roads and transport ministers.

The ARA is concerned that most road charges are based on distance and not weight, meaning cars and



semi-trailers are treated the same. A better system would be one that sets prices on the basis of the damage a vehicle does to a road, it says.

In addition, public investment in rail has been poor relative to roads, although the ARA takes heart from the federal government's Auslink paper, which places more emphasis on rail as a form of land transport.

The ARA's report is given added weight because it was initially commissioned by Pacific National, a rail

joint venture between Chris Corrigan's Patrick Corp and Toll Holdings, which runs one of Australia's biggest road transport operations.

Australian Trucking Association chief executive Chris Althaus acknowledged the sector's interest in developing road and rail options, although he pointed out that recent research by the Bureau of Transport and Regional Economics had indicated the subsidy for the trucking sector was in effect quite small.

"We are not anti-rail, because many of the companies that participate in the road transport sector are increasingly logistics focused," Mr Althaus said.

"But simply calling for government to adopt a fairly blunt charging approach to shifting the competitive position of one mode versus the other ... is quite a simplistic argument when you're dealing with an element as fundamental to Australia's economy as transport."

## Adler's case adjourned

Former HIH Insurance director Rodney Adler's trial on five corporate criminal charges was postponed yesterday by two days because of what Justice Dunford called procedural matters. It is now scheduled to start on Wednesday.

Andrew Main

## SA seeks navy contract

South Australian Premier Mike Rann accused the Victorian government of suffering a "panic attack" over the impending \$6 billion contract to build three air warfare destroyers for the RAN and making false claims about SA's ability to build the ships. SA had all the natural advantages over Victoria for the project, he told parliament.

Chris Milne

## Consortium wins SA deal

The South Australian government awarded a \$40 million contract to the Plenary Justice consortium headed by construction company Hansen Yuncken and Deutsche Bank to build six new police stations and courthouses in regional centres. The deal is the state's first public-private partnership.

Chris Milne

## Vic eyes power price gap

The Victorian government plans to spend \$110 million over the next three years to bridge the price gap between city and regional electricity supplies. The government's Network Tariff Rebate offers domestic customers and small businesses outside metropolitan area cash rebates to lower rural power bills. Victorian Premier Steve Bracks said: "The rebate means residential consumers using up to the average level of electricity [4000 kilowatt hours a year] will pay no more than consumers in the inner metropolitan area."

Ian Howarth

## Chrysler to head race

A Chrysler V8 will head the Holdens and Fords in the Clipsal 500 event in Adelaide next month, returning to the Australian race track for the first time since a Chrysler Valiant Charger took third place at Bathurst in 1972. The Chrysler 300C will act as official safety car for the V8 Supercar Championships this year.

Chris Milne

## Legionnaire's outbreak

An outbreak of deadly legionnaire's disease on the south coast of NSW has escalated, with authorities confirming five cases and saying another seven are under investigation. The South Eastern Sydney and Illawarra Health Service says a 61-year-old man has joined four other Wollongong men struck down by the disease.

AAP

# Operators push to clear freight bottlenecks

From page 1

It says for rail to capture more of the share of this market, a range of changes need to be made by the industry itself and in government infrastructure charging decisions.

The transport sector says that while the Howard government's \$12 billion Auslink package last year went some way to addressing rail infrastructure problems, it fell short in addressing urban transport issues, largely under control of the states.

It believes the Council of Australian Governments will now have to become involved in solving the outstanding "hub" issues — for example, land road and rail links into Sydney's Port Botany and the establishment of rail/road hubs on the city's outskirts.

The rail and road lobby now has to overcome the problem of

perceived resistance within Treasury and the Department of Finance to further post-Auslink commitments of public funding for infrastructure.

But the ports issue — in which Treasurer Peter Costello has expressed his frustration with federal government inability to directly influence private-sector port operators' investment decisions — shows a new awareness in Canberra of the limitations of private-sector infrastructure arrangements.

Equally, the shift in ownership of the rail sector to the private sector in recent years, and the involvement of major transport companies Toll and Patrick in railways through Pacific National, has changed the competitive politics of the road and rail sectors.

The study, by Port Jackson Partners and Access Economics, was commissioned by Pacific National and the Australasian

Railway Association, will be officially released tomorrow.

It renews the argument that long-term road transport receives major subsidies, and calls for a new pricing structure based on mass distance charges instead of either fuel-based or registration charges.

## "Rail freight is often subject to a curfew on city lines."

But importantly, it also argues that the incremental capital costs of rail infrastructure are lower than they are for roads, with small capital improvements producing large improvements in freight volumes.

The ARA's report comes as the National Transport Commission, which advises Australia's roads and

transport ministers, conducts a review of road pricing for heavy vehicles.

Port Jackson Partners' modelling assumes that about \$1 billion will be spent on the crucial north/south corridors — in line with the \$600 million already earmarked by the Australian Rail Transport Corporation and about \$450 million earmarked by Auslink — to overcome maintenance deficits and provide some increase in the rail sector's share of freight business.

But it argues there will have to be significant changes to regulatory arrangements, charging policies, and inconsistent funding decisions between road and rail that now increase operator costs and mask true economics to users and returns to investors.

Auslink provided some comfort to the rail industry by taking a more strategic approach to land transport.

For each transport corridor, such as Sydney to Brisbane or Adelaide to Perth, Auslink looks at whether road or rail provides the best solution, rather than looking at the two modes in isolation. Such an approach is perceived to tilt the balance — which has for decades favoured road — back towards rail.

However, a major concern for the rail industry has been the bottlenecks that exist when interstate rail freight reaches urban areas.

For instance, rail freight is often subject to a curfew on city lines during peak commuter times.

There are also identified problems on interstate routes, with trains unable to carry crates as large as trucks because of height restrictions.

The report came as senior Transport Department officials were quizzed in Senate estimates hearings about Auslink's progress.