BUSINESS

Costello may be locked into a food-free GST

After travelling as far afield as Kalgoorlie and Cairns over the past five months, at a cost of about $1 million, the Senate's GST inquiry confirms that Australia really does need tax reform, of a much fairer kind.

The Government can take heart from the inquiry's affirmation that our tax system is in need of a big overhaul. It should get top marks for proposing a bold tax reform package before the election, even though its plan fails on fairness.

The select committee's 23 days' of public hearings, together with 28 days' of hearings by the employment, environment and community affairs committees, has strengthened the widespread doubts apparent before the election over the adequacy of compensation measures in general.

PAUL CLEARY
MONDAY COMMENT

This makes it almost inconceivable that Senator Brian Harradine and the Democrats could back down on securing a better deal for low-income earners, most likely by excluding food.

The Government will be forced into a deal, and can blame only itself.

To begin with, the Government proposed a compensation package that at first glance looked mean and on closer inspection proved to be totally inadequate.

The Government's pivotal claim that everyone was a winner was based on a spurious economic model that assumes a uniform spending and saving pattern. It says that the GST produces a "common price impact" of 1.9 per cent for everyone. But even before getting into the issue of different spending patterns, the 1.9 per cent is the result of a fair degree of fudging.

The real price impact is 3.1 per cent, after including the first year's effect and the impact on housing and tobacco, which were all excluded from the official measure.

Costello has revealed that it was his decision to go with the uniform spending pattern because he wanted to keep things simple.

His simplistic measure of the inflationary impact of his new tax also has the effect of saving a lot of money. Remember that the tax package in its current form offers just $1.5 billion in compensation for people on social security.

He defends this approach also by saying that twice-yearly pension increases are also based on the population average CPI, not on different spending patterns. This argument, however, belittles the scale of the Treasurer's grand tax plan. The package represents a huge and highly regressive shift in the nature of Australia's tax system.

The indirect tax burden is increased by $6 billion and the cost of food and other essentials are lifted by about 6 per cent because they are taxed for the first time. The bottom 20 per cent spends about double the proportion of their income on essentials, compared with the top 20 per cent, so they will be hit hard by the new system.

The modelling by Ann Harding and Neil Warren showed that some groups are worse off when a different saving and spending pattern was adopted, and housing and tobacco are included (scenario 3).

Their preferred scenario, 3b, which excludes tobacco and housing, shows negligible gains of less than 1 per cent, which is an average. The

AAPT to snub 'hostile' bid

By LACHLAN JOHNSTON

The AAPT board is today expected to reject Cable & Wireless Optus's $1.5 billion takeover bid as inadequate, after chief executive Mr Larry Williams yesterday described the offer as "hostile".

Institutional shareholders and analysts have declared the $5 per share bid too low, considering AAPT's growth potential.

Mr Williams refused to comment on the board meeting but said he had first heard from Optus chief executive Mr Chris Anderson after the bid had been announced to the market.

"I told him that I didn't see it as a friendly bid," Mr Williams said. "I would call it hostile."

But Mr Anderson was optimistic yesterday. "I have had preliminary discussions about whether the two companies should get together," he said. These are believed to have taken place with Mr Williams and AAPT chairman Mr Lee Casey just before Christmas.

Optus bought 10.6 per cent of AAPT at $4.85 a share on Friday after major shareholder Singapore Telecom sold down 44.8 million shares, or 15 per cent.

The other 4.4 per cent was placed with institutional investors, also at $4.85, and Singapore Telecom retains 2.7 per cent.

Singapore Telecom's stake was offered around by local brokers just three weeks ago at $4.22 but was not traded because no broker could place the whole stake.

Mr Anderson yesterday said he had not bid three weeks ago because he had not received approval from his board.

"I am happy with 10.6 per cent of the company at this stage," he said.

"It is a strategic stake that will block anyone else taking over the company."

Mr Anderson said he had had discussions with AAPT's major shareholders and believed they "understand our valuations".

But the largest shareholder, AAP Information Systems, gave no sign yesterday of approving the bid. AAPIS, which is jointly 43.5 per cent-owned by News Corporation and Fairfax, holds about 17 per cent of AAPT.

Mr Anderson spoke to Mr Casey, who is also AAPIS chairman, on Friday, but Fairfax's AAPIS board representative, Mr John Greaves, said yesterday he was still waiting to hear from Mr Anderson.

Institutional shareholders yesterday claimed the $5 bid represented no premium on the stock's recent trading price.

AAPT closed at $5 on both Thursday and Friday, after trading as high as $5.05. "I have never heard of a takeover being priced at a discount before," said one.

Optus says the bid represents a 13.9 per cent premium over AAPT's average 1999 price.

A research report by ABN Amro analyst Ian Martin says: "A good offer – but C&W Optus will pay more for good synergy."

Mr Martin said the Australian Competition and Consumer Commission was unlikely to oppose the takeover on grounds of market share but might require Optus to sell some assets.

HSBC Securities analyst Mr Adam Spowers recently put a takeover valuation of $6 on AAPT: "This target is largely based on AAPT progressing as an infrastructure-based carrier, an objective that will be achieved easily if it gains access to the C&W Optus network and other assets."

Telco market share

SERVICE PROVIDER	1997 (%)	1998 (%)
Telstra	60.9	54.4
Optus	18.4	18.2
AAPT	4.3	4.5
Primus	2.5	3.6
United Telecom	2.8	2.7
One.Tel	1.6	1.9
RSL Com	0.3	1.8
Vodac	0.8	1.6
Others	8.4	11.1

NOTE: Excluding local calls
SOURCE: PAUL BUDDE COMMUNICATION

'ASIC decided that if the Singaporeans were sellers of their stake, and if Optus wanted to buy, it should enter the market and compete along with other potential purchasers. The result was Friday afternoon's scramble'

MALCOLM MAIDEN: PAGE 40

SMH GRAPHIC 19.4.99

Customers, technology the allure for Optus

ELIZABETH KNIGHT
ABACUS

There are a multitude of reasons for Optus to get its hands on AAPT and they can all be broadly lumped into two categories – new customers and new technology.

In a nutshell, Optus buys a nice new customer base from which it can extract a much higher profit margin.