



CBH Submission: Australian Government: Re:think Tax Discussion Paper

May, 2015

Introduction

Co-operative Bulk Handling Ltd ("CBH") welcomes the opportunity to participate in the national tax reform conversation as outlined in the Re:think Tax Discussion Paper.

As a not for profit ("NFP") wholly-owned Australian co-operative, CBH believes that a simpler, fairer tax system is critical in sustaining and encouraging economic growth for Australia.

With the view that Australia's taxation system must be one that both assures the collection of necessary revenue while providing a framework to support those organisations that make a lasting contribution to Australia and its economic well-being, CBH has developed this submission with particular reference to the following discussion paper questions:

- Q38. *In what circumstances is it appropriate for certain types of businesses to be subject to special provisions? How can special treatment be balanced with the goal of a fair and simple tax system?*
- Q47. *Are the current tax arrangements for the NFP sector appropriate? Why or why not?*
- Q48. *To what extent do the tax arrangements for the NFP sector raise particular concerns about competitive advantage compared to the tax arrangements for for-profit organisations?*

Background

CBH is a unique organisation with a history almost as long as the grain industry it serves. Established in 1933 to help foster development of the Western Australian grain industry, the co-operative's commitment to maintaining a partnership with its grain grower members has helped build an industry which is today worth around \$3.5 billion annually and is the backbone of the State's rural economy.

CBH has constantly evolved, innovated and grown with operations today extending along the value chain from grain storage, handling and transport to marketing, shipping and processing.

The cooperative's purpose is simple; to create and return value to growers by promoting and fostering the development of the grain industry.

Now Australia's biggest co-operative and a leader of the nation's grain industry, CBH is owned and controlled by 4,200 grain growers.

On the basis of this clear purpose and benefits that CBH generates for Western Australian growers and the State's grain industry driven by the purpose already stated, CBH is endorsed as a charitable body, at both a Federal and State level and is prohibited by law from directly or indirectly paying any income to its members by way of dividend, property or otherwise.

CBH currently employs around 1,000 permanent employees supported by up to 2,000 casual staff during the months of harvest. These employees are located across the co-operative's Western Australian head office,

ten regional offices, 195 receival site locations, four ports, engineering workshops, as well as representative offices in Melbourne, Hong Kong, Tokyo and Portland (USA).

Responding to the Discussion Paper

Special provisions - helping to create real value for the Western Australian grain industry

As a co-operative, rather than being motivated by profit and shareholder dividends, CBH seeks to invest in supply chain infrastructure and undertakes its business operations in order to deliver value to Western Australian grain growers; ensuring they are part of an efficient, well managed supply chain that provides them with all important, competitive access to local and international markets.

This co-operative structure is one that facilitates investment and support into key areas that without CBH's direct involvement would simply not occur. For example:

- In 2010/11 CBH took the decision to pursue enhanced above rail efficiencies by investing \$175 million in new rolling stock (locomotives and wagons) to be operated by a new above rail operator for the dedicated service of grain haulage in Western Australia. These arrangements provide a higher level of reliability, greater productivity with enhanced rail usage rates compared to road and have had a significant impact on the efficiency of the rail task. As a result of this investment, during the 2014/15 harvest, CBH reduced rail freight rates to growers by an average of 7%;
- CBH's Grower Rebate Program allows growers to enjoy a reduction in storage and handling fees on the basis of their patronage with CBH. In 2013/14, growers enjoyed a rebate on storage and handling fees of as much as \$4.55 per tonne, which promotes their competitiveness in the industry. Over the past 6 years up to \$14 per tonne has been rebated to the Western Australian growers;
- Despite a very challenging cost environment, (labour costs alone have risen around 5.5% in the last financial year), CBH has been able to maintain storage and handling fees at a consistent level in all but one of the past four years. This is unparalleled in the Australian grain industry; and
- On the back of ongoing investment in the storage and handling system, the CBH network is the most efficient, and the lowest cost, grain storage and handling system in Australia. During 2013 alone, \$155.2 million was spent on capital expenditure and maintenance activities throughout the network.

Tax arrangements supporting the NFP sector

Where the CBH business does generate a surplus, the current concession supports the NFP principle by enabling notional tax liabilities including profits to be reinvested back into the industry (rather than a dividend to shareholders/investors). Indeed, the correlation between the concession afforded to CBH and the advancement of the agricultural industry in Western Australia would suggest that the current arrangements are working well, for example:

- Over the last 5 years alone, CBH has invested over \$500 million in grain supply chain infrastructure to provide growers with the most efficient, least cost pathway to international markets. This level of investment is unparalleled throughout Australia or the rest of the world and is critical to Western Australian grain growers' long term international competitiveness;
- Since 2008 CBH has invested over \$28 million on grain related research and development; and
- CBH makes considerable and ongoing commitment to rural communities through sponsorships and partnerships providing support for critical services that may not otherwise be available. In 2013, CBH announced a further annual commitment of \$1.5 million in rural partnership and sponsorship programs.

Potential for competitive advantage compared to for-profit organisations

Competition is compelling to the extent that the community at large is disadvantaged by the lack of competition or market failure and suffers financially and economically. CBH does not consider that in the context of its NFP status, this is a valid or relevant factor for the grain industry.

Rather, the grain industry in Western Australia has benefited and advanced from CBH's purpose and NFP concession on the basis that all surpluses derived by the cooperative are re-invested back into the industry.

The ongoing application of CBH's NFP status and attendant contribution to the grain industry is safe guarded by authorities such as the Australian Taxation Office and the Australian Charities and Not-for-profits Commission; both organisations having endorsed CBH as a charitable NFP.

In a broader sense, it is important to avoid generalisations in assessing the appropriateness of NFP's and their associated tax concessions. Rather, each organisation must be assessed on individual merit and circumstance.

In particular, it is the purpose of a NFP that should be the key criteria in determining its available tax concession. Any perception of tax leakage or lack of competition arising from the application of any concession should be considered in the context of the contribution that a particular NFP makes to the wider industry and community.

For further information - contact

BRIANNA PEAKE

Government and Industry Relations Manager

30 Delhi Street,

West Perth WA 6005

P (08) 9416 6123

M 0400 492 411

E Brianna.Peake@cbh.com.au