



Submission No 5

Inquiry into Australia's trade and investment relationship with the economies of the Gulf States

Organisation: Bayside Personnel International

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The Secretary,
Joint Standing Committee on Foreign Affairs, Defence and Trade

House of Representatives
Parliament House
Canberra ACT 2600

*We'll find the answer...
Whatever it takes.*

**RE: INQUIRY INTO EXPANDING AUSTRALIA'S TRADE AND INVESTMENT
RELATIONSHIP WITH THE ECONOMIES OF THE GULF STATES**

Bayside Personnel Australia Pty Ltd seeks the indulgence of the committee to commission a review of the current interpretation of Section 23AF of the Income Tax Act being implemented by the Australian Trade Commission (Austrade).

Background

The company began recruiting to the Middle East in 1991 when it won a contract to supply personnel to the largest oil company in the world - the Saudi Arabian Oil Company (Saudi Aramco). Since that time it has successfully recruited for many oil and gas companies, utility companies and healthcare facilities in the region, including Kuwait Oil Company (KOC), Abu Dhabi National Oil Company (ADNOC), Qatar Petroleum, Saudi Consolidated Electricity Company (SCECO), Yanbu and Jubail Water and Electricity Authority (MARAFIQ), King Faisal Specialist Hospital and Research Center (Riyadh and Jeddah), Prince Sultan Cardiac Center and Shaikh Khalifa Medical Center - Abu Dhabi.

At the commencement of Bayside's involvement it was recognised that in order to be competitive, it would need to secure tax relief for the employees as it was competing for placements with overseas recruitment organisations whose countries offered such tax relief to their candidates. This was first facilitated through the Department of Industry, Technology and Commerce and was later transferred to Austrade.

Since 1991, Bayside has mobilised over 1500 staff to their clients in the Middle East resulting in excess of AUD\$20M sales. Moreover, it has been estimated that repatriated salaries resulting from these placements exceed AUD\$70M. No doubt added to this would be the enhanced sales of Australian goods and services through continuing business relationships with the region (noting that a large number of staff supplied are senior engineering and healthcare professionals who have an influence on product and service specification).

Austrade amended their interpretation of the Act approximately 15 months ago (resulting in Bayside's inability to extend the period of tax relief for its Saudi Aramco contract). Since then Bayside has seen a marked drop off in interest in positions for the oil company from Australian candidates, who cite lower remuneration as the key reason for this decline. We estimate that mobilisation rates will reduce by 75% as a result of this change in interpretation of clause 23 AF of the Taxation Act, rendering the viability of our International placement business questionable.

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In late 2002 Bayside formed an association with another Australian recruitment company - MHMatrix, who specialise in recruitment to healthcare facilities in the Middle East. Having operated for over 15 years and holding contracts with the National Guard and Armed Forces Hospitals throughout Saudi Arabia MHMatrix have mobilised similar numbers of Australian nationals to the region as Bayside with similar foreign exchange outcomes. MHMatrix are also experiencing a decline in interest levels for the hospitals where their 23 AF tax relief has expired; their application for extension having been rejected by Austrade. They estimate they too will be operating to under a third of their usual sales as a result of this change.

Impact

1. The loss to Australia will not only be with respect to loss of tangible sales but also in respect to 'spin off' activities. Saudi Aramco have participated in several oil and gas exhibitions since their association with Bayside and have spent vast sums on promotion and advertising in Australia. Bayside are aware of a number senior Saudi Aramco executives who having attended business trips to Australia, have later returned with their families for holidays. MHMatrix have recently been in negotiation with senior Saudi government officials assessing the viability of bringing Saudi doctors and trainee Biomedical Engineers to Australia for professional training. Without the contractual relationship through provision of staff to these organisations such opportunities would not be available.
2. The most significant of these 'spin off' activities lies in the areas of supplying major goods and services to the companies employing Australian executives.
3. In these times of conflict in the Middle East we need all the 'ambassadors' we can get to enhance the general relationships between Australia and the region.

Recommendation

It would seem shortsighted to factor in the 'loss' of tax revenue from these expatriate workers when analysing this issue for, in fact, once the tax is applied virtually no workers will accept the positions. From our point of view there are no winners in the current interpretation but Australia faces a significant loss of potential export earnings.

Such impediments as the elimination of tax relief are greatly reducing the ability for recruitment organisations to compete in this world market, so rendering Australia the poorer.

Yours faithfully,
BAYSIDE PERSONNEL INTERNATIONAL



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