



24th May 2006

SUBMISSION

These proposed changes raise a number of concerns

- The change to levying excise at acquisition, with excise free treatment being provided via credits claimable on BAS will have a substantial negative impact on cash flow & working capital due to the time lag inherent in the BAS return.
- The cost of compliance for may increase, cancelling the intent of the changes to reduce the cost of compliance
- The assessment of non-excisable blends such as printing chemicals, paint thinners etc which are unsuitable for use in Internal Combustion Engines needs to be simple and/or defined by the regulator
- The assessment of products which could possibly be used as fuels in Internal Combustion Engines, but whose supply price is sufficiently higher than excise paid fuels to preclude their use in Internal Combustion Engines. This assessment needs to be simple and/or defined by the regulator
- The position of recovery of excise from unrecoverable bad debts needs to be clarified

Excise Levy

We currently operate under a Continuing Permission and purchase all products excise free. Excise is charged by us on burner fuels (mainly kerosene) and remitted to ATO weekly. Customers are supplied with bulk & IBC solvents under Remission Certificates or Continuing Permissions and marked when required. Currently excise is only levied on these transactions where the end use may be as burner fuels. Excise is not levied where the products are blended to make other products, such as hand cleaners, which are unsuitable for use in ICE.

The proposed changes mean that we will pay excise on all incoming hydrocarbons at 38.143 cpl. With an average consumption of 300,000 litres a month the excise will be about \$115,000.00/month. Some of this solvent is packed into small packs or so the excise may be claimed back via our BAS monthly, building an inherent lag into the system.

The rest of the purchased solvent is on-sold in larger packs or bulk and would be subject to the full excise which GSB Chemicals/KCB Sales and Hurst Chemicals would collect on behalf of ATO and remit. These customers operate on a 30 day account and many do not pay in less than 45 days. Thus GSB Chemicals/KCB Sales and Hurst Chemicals will have remitted substantial amounts of money to ATO well before there is any possibility of recovery from our customers.

We estimate the impact of the change will be an increase in our average working capital requirement of about \$ 150,000.00.

The Cost of Compliance

It is accepted that the current system of Permissions, Certificates & Marker has a significant cost of compliance, though it only affects a relatively small number of customers since it only applies to bulk & IBCs. Pushing the volume down to > 20L containers captures many more customers – perhaps as many as 50 times the current number affected.

Assessment of Non-Excisable Blends

Many proprietary blends based on hydrocarbons are produced at our level in the distribution chain as well as by other manufacturers. Most are based on hydrocarbons which could probably be used in ICE. Printing chemicals for cleaning ink off printing presses is an example as they are a blend of hydrocarbons which often have other additives like surfactants to make them clean better. Major users would be News Ltd, Fairfax, PMP and Hannanprint to name a few. Paint thinners is another example they are a blend of hydrocarbons. Other solvents such as MEK and Acetone are then added to improve performance with particular paints. These are powerful solvents which attack plastics, rubber and sealants – common components of ICE fuel delivery systems. The addition of a proportion of these and other powerful solvents would render such blends unsuitable for use in ICE.

High Priced Hydrocarbon Solvents

A significant volume of specialty hydrocarbon solvents are used whose supply prices are higher than fuel prices. Examples are D 40, D 60, Solvent 150, 200. The possibility of any volumes of these solvents being diverted to use in fuel is remote because of their cost, so the revenue is protected. Inclusion of these solvents in this review as excisable adds cost without benefit.

Bankruptcy & Liquidation

The proposed changes, if enacted in their current form, give distributors such as us a substantially higher exposure if a customer is declared bankrupt. Take the case of a customer who buys about \$100,000 – roughly 100,000L - a month. Credit exposure if they pay at 45 days will be about \$250,000 (current, plus 30 days terms, plus 15 days “slow payment”). They declare bankruptcy. We lose \$250,000, plus another \$100,000 in excise we have remitted, but not received from the customer.

Yours sincerely
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