April 16, 1999

The Secretary
Review of Business Taxation
Department of the Treasury
Parks Place
CANBERRA ACT 2600

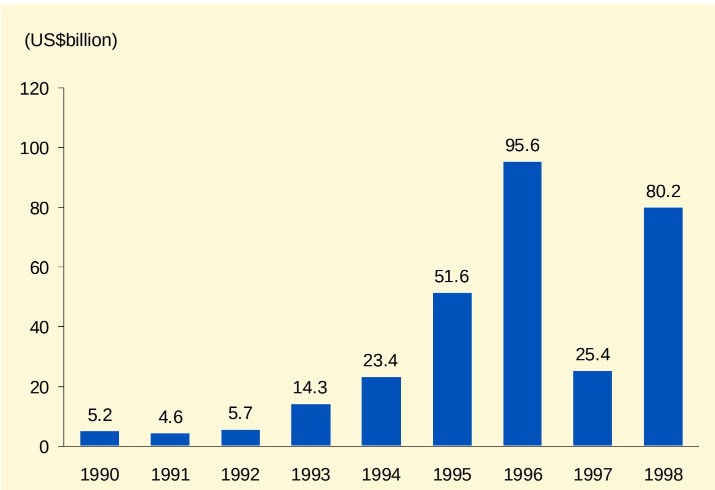
Dear Sir,

J.P. Morgan commends the Review of Business Taxation for its positive suggestions regarding the proposed reform of business taxation in Australia. We consider reform of business taxation in Australia to be critical to creating a "level playing field" for Australian corporations to enable them to effectively compete with their international peers in a global market place.

J.P. Morgan, in its position as one of the world's leading global financial advisors and intermediaries, has been in a unique position to monitor corporate activity in terms of mergers, acquisitions, divestitures and demergers in the international market place including Australia. Our observation of tax laws in Australia (specifically Capital Gains Tax laws) indicates that Australian corporations are at a significant disadvantage to their global peers in a number of other international tax jurisdictions. Key jurisdictions, including the United States and the United Kingdom, have tax laws allowing corporations to effect tax free mergers and demergers (i.e. roll-over relief). Australia's Capital Gains Tax regime, on the other hand, provides no such flexibility. Over the last ten years, J.P. Morgan has witnessed significant merger and demerger activity in the international market place that has been facilitated by progressive taxation regimes.

International tax free demergers (spin-offs)

As the following table illustrates, the level of tax free demergers (spin-offs) in the United States has grown significantly over the last decade.

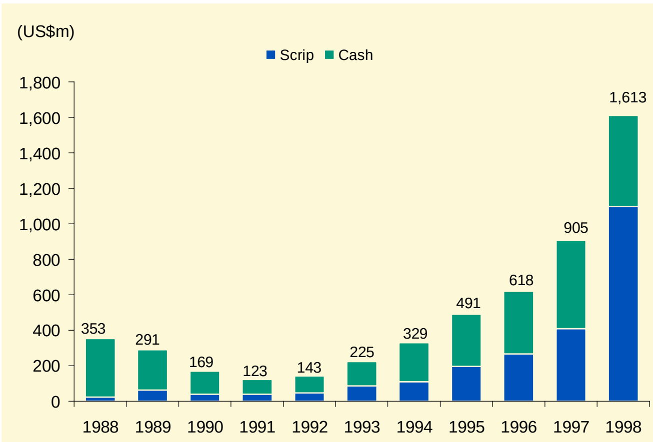


A similar trend has been witnessed in key European markets. Over the course of the 1990s, a larger number of diversified industrial concerns in the US as well as Europe, in response to increasing global competition, effectively "spun-off" in tax free exchanges, non-core businesses to shareholders to form independent and focussed businesses. Some of the better known examples include the demerger of Lucent Technologies by AT&T Corporation, and Ford Motor's divestment of Associates First Capital Corp.

Many of these "spun-off" entities have then proceeded to grow organically and through merger and acquisition activity in their own right. In contrast, Australian corporations, many of which have multiple business units, including the likes of BHP, Pacific Dunlop, Southcorp, CSR, Howard Smith to name a few, have been confronted with the same level of competition as their international counterparts but, due to tax restrictions, have had no such flexibility to restructure and reposition their business activities.

International tax free mergers

The use of scrip as a tax neutral acquisition currency has been critical in facilitating the record levels of M&A activity in key international markets, in particular the United States. As the table below illustrates, scrip represented 68% of the currency used in US acquisitions in 1998.



The significant growth in the use of scrip over the last decade reflects, in part, the tax-advantageous status of scrip in the hands of receiving shareholders, which makes it a more attractive acquisition currency vis-a-vis cash.

This international corporate activity has produced more powerful, focussed and efficient corporations able to compete more effectively in the international arena. J.P. Morgan considers it imperative that Australian corporations have the same opportunity to structure/restructure their business activities in a tax-efficient manner to allow them to effectively position their businesses and remain competitive.

Additionally, J.P. Morgan is of the view that the proposed capital gains tax relief on scrip- based mergers would remove the significant disadvantage that Australian corporations have vis-a-vis larger international competitors in terms of bidding for acquisition targets. For instance, the recent unsolicited acquisition of Pauls Limited by Parmalat, may have been avoided had National Foods been able to effect a friendly scrip-based tax-free merger with Pauls Limited.

The introduction of the proposed tax reforms discussed above would go a long way to putting corporate Australia back on a "level playing field" with its international peers and providing our companies with the opportunity to stay relevant in the global market place. On this basis, J.P. Morgan fully supports the proposals that have been put forward. Please feel free to contact me or my colleague, Garry Lester, if there are any queries.

Yours sincerely

cc: Mr. R. Allert, Chairman, Southcorp Limited