

The Senate

Economics
Legislation Committee

Additional estimates 2017–18

March 2018

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Senate Economics Legislation Committee

Members

Senator Jane Hume (<i>Chair</i>)	Victoria, LP
Senator Chris Ketter (<i>Deputy Chair</i>)	Queensland, ALP
Senator David Bushby	Tasmania, LP
Senator Jenny McAllister	New South Wales, ALP
Senator the Hon. Ian Macdonald	Queensland, LP
Senator Peter Whish-Wilson	Tasmania, AG

Senators in attendance

Senator Brian Burston	New South Wales, PHON
Senator David Bushby	Tasmania, LP
Senator the Hon Kim Carr	Victoria, ALP
Senator Richard Colbeck	Tasmania, LP
Senator Peter Georgiou	Western Australia, PHON
Senator Pauline Hanson	Queensland, PHON
Senator Kristina Keneally	New South Wales, ALP
Senator David Leyonhjelm	New South Wales, LDP
Senator Sue Lines	Western Australia, ALP
Senator Deborah O'Neill	New South Wales, ALP
Senator Rex Patrick	South Australia, NXT
Senator Lee Rhiannon	New South Wales, AG
Senator Rachel Siewert	Western Australia, AG
Senator Jordon Steele-John	Western Australia, AG
Senator Murray Watt	Queensland, ALP
Senator Peter Whish-Wilson	Tasmania, AG
Senator John Williams	New South Wales, NATS

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Chapter 1

Overview

1.1 On 8 February 2018, the Senate referred the following documents to the Senate Economics Legislation Committee (the committee) for examination and report in relation to the Industry, Innovation and Science, and Treasury portfolios:

- Particulars of proposed additional expenditure in respect of the year ending on 30 June 2018 [Appropriation Bill (No. 3) 2017–2018];
- Particulars of certain proposed additional expenditure in respect of the year ending on 30 June 2018 [Appropriation Bill (No. 4) 2017–2018]; and
- Final budget outcome 2016–17—Report by the Treasurer (the Hon. Scott Morrison MP) and the Minister for Finance (Senator the Hon. Mathias Cormann).¹

1.2 The committee is required to report to the Senate on its consideration of 2017–18 Additional Estimates on 27 March 2018.²

Portfolio allocation

1.3 Following the Administrative Arrangements Order of 20 December 2017,³ a new portfolio called the Jobs and Innovation portfolio was created. This overarching portfolio is split into two parts: 'Industry, Innovation and Science' and 'Jobs and Small Business'.

1.4 On 12 February 2018, the Senate allocated the Industry, Innovation and Science part of the Innovation and Jobs portfolio to the committee. The committee now has responsibility for examining the expenditure and outcomes this new portfolio and the Treasury portfolio.⁴

1.5 Despite the name change of the Industry, Innovation and Science portfolio, no agencies or bodies within the portfolio were re-allocated to other portfolios. In this report, the committee will refer to this portfolio as the Industry, Innovation and Science portfolio.

1.6 However, the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) which was previously part of the Treasury portfolio has been re-allocated to the new Jobs and Small Business part of the Jobs and Innovation portfolio, which is allocated to the Senate Education and Employment Legislation Committee.

1 *Journals of the Senate*, No. 83, 8 February 2018, p. 2647.

2 *Journals of the Senate*, No. 70, 15 November 2017, pp. 2227–2228.

3 Commonwealth of Australia, Amendments to the Administrative Arrangements Order, 20 December 2017, <https://www.pmc.gov.au/sites/default/files/publications/aao-amendment-20-december-2017.pdf> (accessed 5 March 2018).

4 *Journals of the Senate*, No. 84, 12 February 2018, pp. 2668–2669.

Portfolio Additional Estimates Statements (PAES) 2017–18

1.7 The Portfolio Budget Statements (PBS) and the Portfolio Additional Estimates Statements (PAES) inform senators of the proposed allocation of funding to government outcomes by agencies within the portfolio. However, unlike the PBS, the PAES summarise only the changes in funding by outcome since the 2017–18 Budget. The PAES provides information on new measures and their impact on the financial and/or non-financial planned performance of programs supporting those outcomes.

Hearings

1.8 The committee held hearings on 28 February and 1 March 2018 to hear from the Department of Industry, Innovation and Science and the Department of the Treasury in relation to all outcomes as well as from relevant portfolio agencies.

1.9 The following outcomes and agencies appeared before the committee for the Treasury portfolio:

- Department of the Treasury—Secretary, Macroeconomic and Corporate Groups;
- Department of the Treasury—Markets Group (with the Foreign Investment Review Board);
- Department of the Treasury—Revenue Group;
- Australian Taxation Office;
- Australian Charities and Not-for-profits Commission;
- Department of the Treasury—Fiscal Group;
- Department of the Treasury—Structural Reform Group;
- Australian Securities and Investments Commission;
- Productivity Commission;
- Commonwealth Grants Commission;
- Australian Competition and Consumer Commission with the Australian Energy Regulator; and
- Australian Prudential Regulation Authority.

1.10 The following outcomes and agencies appeared before the committee for the Industry, Innovation and Science portfolio:

- Australian Nuclear Science and Technology Organisation;
- Anti-Dumping Commission;
- Commonwealth Scientific and Industrial Research Organisation;
- Office of Innovation and Science Australia;
- Department of Industry, Innovation and Science—Programme 1: Supporting Science and Commercialisation;

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- Department of Industry, Innovation and Science—Programme 2: Growing Business Investment and Improving Business Capability;
 - National Offshore Petroleum Titles Administrator;
 - Northern Australia Infrastructure Facility;
 - Department of Industry, Innovation and Science—Programme 3: Cross-portfolio; and
 - Ms Glenys Beauchamp PSM, former Secretary of the Department of Industry Innovation and Science.

1.11 The committee thanks the Ministers and officers who attended the hearings for their assistance.

Questions on notice

1.12 In accordance with Standing Order 26, the committee has drawn the attention of the departments and their agencies to the agreed deadline of Thursday, 26 April 2018 for the receipt of answers to questions taken on notice.

1.13 As the committee is required to report to the Senate before responses to questions are due, this report has been prepared without reference to any of these responses.

1.14 Responses to questions on notice and additional information provided to the committee are tabled in the Senate and uploaded to the committee's website.

Public interest immunity claims

1.15 On 13 May 2009, the Senate passed an order relating to public interest immunity claims.⁵ The order sets out the processes to be followed if a witness declines to answer a question. The full text of this order has previously been provided to departments and agencies and was incorporated in the Chair's opening statement at the commencement of each hearing.

Record of proceedings

1.16 This report does not attempt to analyse the evidence presented to the committee over the two days of hearings. However, it does include a brief explanation of the main issues that were raised during the examination of each portfolio.

1.17 Copies of the Hansard transcripts and documents tabled at the hearings are available on the committee's website.

Note on Hansard page referencing

1.18 Hansard references throughout this report relate to the Proof Estimates Hansard. Please note page numbering may differ between the proof and final Hansard.

5 *Journals of the Senate*, No. 68, 13 May 2009, pp. 1941–1942.

Chapter 2

Treasury portfolio

2.1 This chapter summarises certain key areas of interest raised during the committee's consideration of additional estimates for the 2017–18 financial year for the Treasury portfolio. This chapter of the report follows the order of proceedings and is an indicative, not exhaustive, account of issues examined.

2.2 On 28 February and 1 March 2018, the committee heard evidence from Senator the Hon. Mathias Cormann, Minister for Finance and Senator the Hon. James McGrath, Assistant Minister to the Prime Minister, along with officers from the Department of the Treasury (Treasury) and agencies of the Treasury portfolio, including:

- Australian Charities and Not-for-profits Commission;
- Productivity Commission;
- Commonwealth Grants Commission;
- Australian Securities and Investments Commission;
- Australian Competition and Consumer Commission and the Australian Energy Regulator; and
- Australian Prudential Regulation Authority.

2.3 Senators present over the course of the two days of hearings included Senator Hume (Chair), Senator Ketter (Deputy Chair), Senators Burston, Bushby, Colbeck, Georgiou, Hanson, Keneally, Leyonhjelm, Lines, Ian Macdonald, McAllister, O'Neill, Patrick, Rhiannon, Siewert, Steele-John, Watt, Whish-Wilson, and Williams.

Macroeconomic Group and Corporate Group

Departmental Secretary

2.4 The opening statement made by the Treasury Secretary, Mr John Fraser, commented on the state of both the global and Australian economics. In particular, Mr Fraser's statement addressed the global economy, the United States (US) tax reform package, China's growing economy, Australian wage growth and household debt, the housing market, Australia's energy system, and the budget outlook to 2020–21.

2.5 Mr Fraser commented in detail on the 2017–18 Mid-Year Economic and Fiscal Outlook (MYEFO), highlighting that this MYEFO was the government's fifth consecutive budget update to maintain a projected surplus in 2020–21. He specified that:

The budget bottom line improved by \$9.3 billion across the forward estimates from last year's budget to MYEFO. Over the forward estimates, the budget is now projected to return to a \$10.2 billion surplus in 2020–21, up on the \$7.4 billion surplus reported in the 2017–18 budget. The result reflects lower payments as well as higher total receipts over the forward

estimates. Compared with the outlook at budget, total payments are \$6.5 billion lower over the four years to 2020-21, while total receipts are up by \$2.8 billion. Payments are expected to fall to 24.9 per cent of GDP by 2020-21, only slightly above the 30-year historical average.¹

2.6 Mr Fraser also spoke of uncertainty in the Australian economy pointing to factors including the current state of the housing market and the national energy system. In relation to housing, Mr Fraser commented that 'after experiencing one of the largest booms in housing construction since Federation, dwelling investment appears to have peaked'.²

2.7 In relation to the national energy system, Mr Fraser summarised that:

The energy sector is in transition, with investment chilled by uncertainty. We have all seen the impact on prices and sometimes on reliability. The government has adopted the Energy Security Board's proposal for a national energy guarantee and the Energy Security Board is developing this proposal through COAG. This policy should increase certainty for investment and address the challenge of designing a market to deliver affordable, reliable and sustainable power.³

2.8 Mr Fraser also commented that the recent 'sluggish pace' of wages growth in Australia has been a constraint on household incomes and spending.⁴ However, he also highlighted a small improvement in this area, noting that:

Last Wednesday's wage price index release showed that wage growth reached 2.1 per cent through the year to the December quarter, slightly higher than the market expected, with the education and health industries being the main contributors to growth. Victoria in particular has seen stronger signs of wage growth, with growth of 2.4 per cent through the year.⁵

2.9 Mr Fraser concluded that he remained optimistic that Australia's economy would continue to strengthen over the medium term, highlighting that this could be achieved through 'sustained fiscal discipline'.⁶

Company tax rate

2.10 The committee discussed the government's policy of reducing the company tax rate in Australia with the Macroeconomic Group as well as with several areas of Treasury over the two days of hearings.

2.11 Mr Fraser explained that he believed a cut to the company tax rate would foster an environment for stronger economic growth:

1 *Proof Estimates Hansard*, 28 February 2018, p. 8.

2 *Proof Estimates Hansard*, 28 February 2018, p. 7.

3 *Proof Estimates Hansard*, 28 February 2018, pp. 7-8.

4 *Proof Estimates Hansard*, 28 February 2018, p. 7.

5 *Proof Estimates Hansard*, 28 February 2018, p. 7.

6 *Proof Estimates Hansard*, 28 February 2018, p. 8.

My belief is that you also have higher real wages because it encourages productivity growth. The modelling for this directionally points that way. In terms of the precision of the modelling, my own view is that the modelling—it's a bit beyond the modelling that we do, that others do all round the world. It's what Keynes said, it's about animal spirits. The reaction to the US Trump measures—so far it does seem to be a clear positive.⁷

2.12 The committee asked the Macroeconomic Group about the proposed lowered company tax rate of 25 per cent would have an impact on the budget deficit. Mr Fraser acknowledged that the company tax cut would be a cost to the budget, however also pointed out that the cut is fully costed and funded, and would still see the budget return to surplus in 2020–21.

2.13 Mr Fraser also noted that Australia was not alone in deciding to revise its company tax rate downwards. Other countries including the US, Belgium and France also plan to lower their rates to below 30 per cent. Mr Fraser emphasised the importance of this move, pointing out that if Australia does not keep up, that it will have one of the highest corporate tax rates amongst advanced economies. He noted that 'in a competitive world for corporate capital flows, this represents a challenge'.⁸

Skilled migration

2.14 The committee also discussed the potential macroeconomic effects of attracting young skilled migrants to Australia. Mr Fraser pointed out that the migration of skilled workers to Australia was critical in part due to our ageing population:

For Australia, the quality of the immigration is critical, I think, in terms of not totally offsetting the ageing impacts—that's still a huge issue for us and other countries. Wherever you go in Australia, you see the benefits of the quality of industrious, intelligent immigrants. You see it in the cities and you see it in the rural areas.⁹

2.15 Mr Fraser highlighted the economic contributions that migrants make through the establishment of small and medium-sized businesses in Australia.

2.16 The committee also discussed a Freedom of Information (FOI) request, which led to the release of a document by Treasury on 5 January 2018 that contained modelling and advice relating to Labor's negative gearing and capital gains tax policies. This topic was raised with several areas within Treasury.

Markets Group

Foreign Investment Review Board

2.17 The committee sought information from the Markets Group in relation to an announcement made by the Treasurer on 1 February 2018, which foreshadowed the

7 *Proof Estimates Hansard*, 28 February 2018, p. 12.

8 *Proof Estimates Hansard*, 28 February 2018, p. 5.

9 *Proof Estimates Hansard*, 28 February 2018, p. 11.

introduction of new rules supporting Australians wanting to purchase Australian agricultural land. Officials from the Treasury advised the committee that:

The Treasurer more specifically noted that, subject to exceptional circumstances, foreign investors will need to demonstrate that agricultural land they intend to acquire has been part of a public sale process and marketed widely to potential Australian bidders for a minimum of 30 days and that Australian bidders have had an opportunity to participate in the sales process. Subsequent to that media release, there has also been the issuing of guidance on the Foreign Investment Review Board website which provides some further information as to those requirements.¹⁰

2.18 Departmental officers also highlighted that this measure, in conjunction with the agricultural land register, would provide 'a lot more transparency' by allowing the community to have access to data on where and how much Australian land is foreign owned.¹¹

Royal Commission

2.19 The committee discussed the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. Treasury advised that it provided the terms of reference for the Royal Commission to the Treasurer on Tuesday 28 November 2017. The Royal Commission was then announced on Thursday 30 November 2017.

2.20 Treasury officers confirmed that the Royal Commission has:

...been a matter of public importance for some time. It has been raised by numerous political parties. It's something that we have given a great deal of thought to in the advice that went to the government in terms of the scope, what it would look like, how it might mesh with existing things that were underway—a whole range of factors.¹²

Revenue Group with the Australian Taxation Office

Commissioner's opening statement

2.21 The Commissioner of Taxation, Mr Chris Jordan AO, highlighted a number of the Australian Tax Office's (ATO) activities in his opening statement, including the 2016–17 tax time, the Tax Avoidance Taskforce, and investigations following the \$165 million tax fraud in 2017.

2.22 The Commissioner advised the committee that Dr Simon Longstaff had commenced his new role as the executive director of the Ethics Centre, and explained that this appointment was part of the ATO's assurance to the committee and the community that their integrity is 'very much intact'.¹³

10 *Proof Estimates Hansard*, 28 February 2018, p. 49.

11 *Proof Estimates Hansard*, 28 February 2018, p. 49.

12 *Proof Estimates Hansard*, 28 February 2018, p. 51.

13 *Proof Estimates Hansard*, 28 February 2018, p. 63.

2.23 Mr Jordan also highlighted the results of the 2016–17 tax time, noting that it was the 'most successful [they've] ever had in terms of ease of experience, client satisfaction and speed of return processing and that important thing: issuing of refunds'.¹⁴ Mr Jordan also reported that complaints were down 'by around 30 per cent'.¹⁵

Multinational Anti-Avoidance Law

2.24 The committee sought information on the number of foreign-owned multinational companies in Australia. The ATO was able to advise the following breakdown of foreign-owned companies in Australia:

I can confirm that there were 1,073 foreign-owned companies published in the 2015-16 transparency report. That was out of 2,043 in total. Of those 1,073 companies, 667 paid tax; 406 did not. So less than 40 per cent did not pay tax, or, putting it the other way, more than 60 per cent did pay tax. That is comparable with the level of Australian public companies which did pay tax and slightly lower than the number of Australian private companies which paid tax in that year.¹⁶

Freedom of Information request

2.25 The committee discussed, with the Revenue Group, the processes used for costing policies in relation to the FOI on negative gearing. Treasury officials confirmed that they are requested to cost policies by the Treasurer, and that in relation to this particular request they were asked to cost eight separate measures:

We costed a policy to limit negative gearing to new housing from 1 July 2018. We costed a policy to halve the capital gains tax discount on all assets purchased after 1 July 2018 from 50 per cent to 25 per cent. We costed a policy to change the thin-cap rules to only allow deductions for interest at the multinational group's worldwide gearing ratio from 1 July 2018. We costed a policy to introduce a \$3,000 cap on the amount that individuals can deduct under the 'cost of managing tax affairs' label from 1 July 2018. We costed a policy to increase the top marginal tax rate by two per cent for individuals with taxable income over \$180,000 from 1 July 2018. We costed a policy to impose a minimum non-refundable withholding tax rate of 30 per cent on distributions from certain discretionary trusts to individuals from 1 July 2019. We costed a number of superannuation proposals that were lowering the annual non-concessional contributions cap, further lowering the high-income superannuation contribution threshold to \$200,000, reversing the introduction of catch-up concessional contributions, reversing changes to tax deductibility for personal superannuation contributions. And we costed a policy to limit the Enterprise Tax Plan to entities below \$2 million.¹⁷

14 *Proof Estimates Hansard*, 28 February 2018, p. 62.

15 *Proof Estimates Hansard*, 28 February 2018, p. 62.

16 *Proof Estimates Hansard*, 28 February 2018, p. 84.

17 *Proof Estimates Hansard*, 28 February 2018, p. 102.

2.26 Treasury confirmed that this process was carried out in the usual way and that this was in line with the Charter of Budget Honesty.¹⁸

Australian Charities and Not-for Profits Commission

2.27 On 11 December 2017, The Hon Dr Gary Johns commenced his new role as the Commissioner of the Australian Charities and Not-for-profits Commission (ACNC). This was his first appearance at the committee's estimates hearings.

2.28 The committee discussed the Electoral Legislation Amendment (Electoral Funding and Disclosure Reform) Bill 2017 (the bill), noting that a number of charities could be affected by the potential reform.¹⁹ In particular, the committee expressed that the definition of political expenditure, and how to identify those charities which are having an influence on political discourse were two key issues raised by the bill.

2.29 The bill is currently before the Joint Standing Committee on Electoral Matters which is due to report on 28 March 2018.

Fiscal Group

National Housing and Homelessness Agreement

2.30 The committee sought an updated from Treasury's Fiscal Group in relation to the progress of negotiations on the National Housing and Homelessness Agreement (NAHA). Officers from Treasury advised that:

We have had bilateral discussions now with most other jurisdictions, and we'll continue to roll through a series of those discussions and get into more detail as we negotiate how each jurisdiction will implement the multilateral. We're also continuing to work on the performance indicators that will support assessment and achievement under the new agreement.²⁰

2.31 The committee discussed some of the issues around states and territories having to create housing and homelessness strategies and provide the Commonwealth with that information. Treasury officials confirmed that this was the case, however, pointed out that 'there is no subjective assessment that the Commonwealth would be making about those strategies' and suggested that this issue may be 'the real sticking point with the states'.²¹

2.32 Treasury advised that the proposed timeline for the new arrangement would hopefully see the agreements with all jurisdictions in place by 30 June 2018.²²

18 *Proof Estimates Hansard*, 28 February 2018, p. 84.

19 *Proof Estimates Hansard*, 28 February 2018, p. 94.

20 *Proof Estimates Hansard*, 28 February 2018, p. 108.

21 *Proof Estimates Hansard*, 28 February 2018, p. 108.

22 *Proof Estimates Hansard*, 28 February 2018, p. 108.

Australian Securities and Investments Commission

Chairman's opening statement

2.33 On 1 February 2018, Mr James Shipton became the new Chair of the Australian Securities and Investments Commission (ASIC). In his opening statement, Mr Shipton highlighted the important role that ASIC plays in protecting the financial interests of Australians. He emphasised that ASIC must 'never forget that financial risks can and often are catastrophic to real people'.²³

2.34 Mr Shipton also noted the establishment of the Australian Financial Complaints Authority (AFCA), which will serve as a single scheme for all financial services and superannuation complaints.

Walton Construction

2.35 The committee sought an update on ASIC's case against Walton Construction. ASIC advised the committee that when Walton Construction collapsed in 2013, it owed 'about \$86 million to 1,400 unsecured creditors'.²⁴ In their assessment of the company, ASIC determined that the voluntary administrators appointed by the Walton group were not independent. ASIC took action in 2014 and, following an appeal, independent administrators were appointed. ASIC pointed out that:

One of the challenges for those [new] liquidators was, when they started to look into the company, there wasn't actually the funds there that would be sufficient for them to carry on the necessary work, to work out what had gone wrong.

We provided Assetless Administration funding to the liquidators who came in as a result of our court action. The liquidators were appointed on July 2014. In July 2016, we received a supplementary report by those new liquidators about the reasons for the failure of Walton Construction. We carefully considered the report that was provided and that included whether or not there was any criminal action that was available to us based on that report. We decided that there was not sufficient evidence that would lead to a criminal prosecution and so we decided not to pursue a criminal investigation.²⁵

2.36 The committee also asked ASIC about a number of investigations it is conducting including into Mr Clive Palmer, employer decision-making in relation to superannuation default funds, the Radio Rentals breach, and car insurance.

Productivity Commission

Inquiry into Horizontal Fiscal Equalisation

2.37 The Productivity Commission (PC) is currently undertaking an inquiry into Australia's system of horizontal fiscal equalisation (HFE). HFE is the mechanism

23 *Proof Estimates Hansard*, 28 February 2018, p. 113.

24 *Proof Estimates Hansard*, 28 February 2018, p. 116.

25 *Proof Estimates Hansard*, 28 February 2018, p. 117.

through which the Australian Government distributes GST revenue to the states and territories. A draft report was released on 9 October 2017. The committee noted that the PC had originally intended to table its final report for this inquiry on 31 January 2018. The final report is now due to be handed to the Australian Government by 15 May 2018.

2.38 In discussing some of the potential outcomes of the final report, officers of the PC commented that there is a difference between fiscal equality and equitable outcomes for individuals:

HFE is only a very small component part of the way the Commonwealth government works with states and territories to deliver fiscal equity and equitable outcomes when you look at issues like aged pension, which are done on the needs of the individual, as distinct from HFE, which is done on the fiscal needs of an individual state or territory.²⁶

Commonwealth Grants Commission

Inquiry into Horizontal Fiscal Equalisation

2.39 The committee also discussed the PC's inquiry into HFE with the Commonwealth Grants Commission (CGC), which is the body responsible for the distribution of GST between the states and territories.

2.40 When asked about the PC's suggested model for equalisation to the second strongest state, described in the draft report, the CGC expressed, as they did in their supplementary submission to the inquiry:

...that would result in all other states, other than the strongest state, having less GST share than they would under current arrangements. Current arrangements work on the basis that states are equalised so that they all have the same fiscal capacity to provide the average standard of services. If, under the alternative proposal floated by the PC in its draft report, seven jurisdictions were to have less GST, then they would, indeed, have less money to provide the average standard of services.²⁷

2.41 For example, CGC officers explained that Queensland currently receives \$14.963 billion of GST revenue. If the PC's proposed model were to be introduced, Queensland would receive only \$14.235 billion in GST revenue, leaving the state to raise the difference of \$729 million through other avenues.²⁸

2.42 Officers from the CGC pointed out though that it is a 'matter for governments as to what form of equalisation the commission should be charged to implement'.²⁹ The committee also noted that the final report would provide more information on how the approach to GST might change in the future.

26 *Proof Estimates Hansard*, 28 February 2018, p. 130.

27 *Proof Estimates Hansard*, 1 March 2018, p. 4.

28 *Proof Estimates Hansard*, 1 March 2018, p. 4.

29 *Proof Estimates Hansard*, 1 March 2018, p. 4.

Australian Competition and Consumer Commission and the Australian Energy Regulator

2.43 The committee discussed a wide range of topics with representatives from the Australian Competition and Consumer Commission (ACCC) and the Australian Energy Regulator (AER) including, the Australian energy market, the National Broadband Network (NBN), Takata airbags, petrol prices, and electricity and gas prices.

2.44 The committee particularly focused on the Takata airbag issue. ACCC informed the committee that there had been 23 deaths, one of which was in Australia, and 230 serious injuries that were caused by the incorrect deployment of Takata airbag inflators.³⁰

2.45 ACCC officers confirmed that five manufacturers were voluntarily recalling the airbags and that there are currently approximately 25 000 remaining in Australia. Officers also noted that they have been working with the car manufacturers concerned and commented that:

we were satisfied with the performance of those voluntarily recalling manufacturers in relation to the alpha airbags. They were conducting extensive communication campaigns. For instance, I know that Honda had got to the point where it was using private investigators. It was doorknocking to locate various consumers who might have vehicles with the alpha inflator.³¹

2.46 ACCC officers also explained that a mandatory recall was not necessary in this situation given the proactive response of the car manufacturers. Mr Rod Sims, the Chairman of the ACCC explained that a mandatory recall 'requires that you feel that a mandatory recall could add something to what was happening, and that part of the test couldn't be satisfied'.³²

Australian Prudential Regulation Authority

2.47 In his opening statement to the committee, Mr Wayne Byres, the Chair of Australian Prudential Regulation Authority (APRA) highlighted the agency's recent work in several areas including APRA's crisis resolution powers, increasing visibility of APRA's work program, and additional scrutiny from the Royal Commission and the International Monetary Fund as part of the Financial Sector Assessment Program.³³

2.48 The committee asked APRA about the work it is doing in relation to lending practices. Mr Byres commented that APRA is looking at lending practices across the board, and particularly the controls that banks have to make sure they get accurate

30 *Proof Estimates Hansard*, 1 March 2018, p. 13.

31 *Proof Estimates Hansard*, 1 March 2018, p. 13.

32 *Proof Estimates Hansard*, 1 March 2018, p. 13.

33 *Proof Estimates Hansard*, 1 March 2018, pp. 25–26.

information from borrowers in order to make a reasonable assessment of a borrower's ability to repay.³⁴

2.49 The committee also discussed the Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Bill 2017 with APRA. The committee raised the issue of the safety of depositors' savings in the event that a financial institution fails. Mr Byres confirmed that depositors' savings are protected by the Financial Claims Scheme and further stated that: 'We do not have the power to bail in—as is the sort of the common-language term—depositors' money'.³⁵

Other topics raised

2.50 The committee discussed a wide range of topics during the two days of hearings with the Treasury portfolio. The above reporting of discussions is not complete. Other topics discussed by the committee included:

- Comparison of the US and Australian models for corporate tax cuts
- Enterprise tax plan
- Tasmania's economic position
- RBA's economic forecasting
- Wages growth and investment
- Impacts of negative gearing policy
- Household balance sheets (debt)
- Wages growth and rising employment rates
- ABC article written by Emma Alberici
- Advertising and marketing—media platforms used to promote government tax policies
- Foreign direct investment
- Mandatory comprehensive credit reporting—security and provisions for financial hardship
- Whistleblower Protections legislation—Parliamentary Joint Committee on Corporations and Financial Services report recommendations and progress of government response
- ATO's 'crackdown' on fraudulent tax claims
- Multi-national Anti-Avoidance Law
- Transfer pricing
- Callaghan review

34 *Proof Estimates Hansard*, 1 March 2018, p. 30.

35 *Proof Estimates Hansard*, 1 March 2018, p. 35.

- Real estate and tax evasion
- Outages on the ATO website
- Taxable status of trade unions
- Board of Taxation inquiry
- Sanitary pads and tampons and their tax status
- National Energy Guarantee
- Phoenixing activity and associated prosecutions
- Storm Financial determination and penalty
- ASIC's Statement of expectations
- Review of ASIC's RG97
- Crowd-funding regime
- Interim report on Financial Sector Competition
- NBN report by the Productivity Commission (report no. 83)
- ACCC report on communications systems (NBN)
- Fuel pricing
- Electricity prices
- South Australian gas supply
- Rules around APRA's disclosure
- Comparison of industry and retail super funds
- Development of an APRA Member Outcomes package

Chapter 3

Industry, Innovation and Science portfolio

3.1 This chapter summarises certain key areas of interest raised during the committee's consideration of additional estimates for the 2017–18 financial year for the Industry, Innovation and Science portfolio. This chapter of the report follows the order of proceedings and is an indicative, not exhaustive, account of issues examined.

3.2 On 1 March 2018, the committee heard evidence from Senator the Hon. Michaelia Cash, Minister for Jobs and Innovation, and Senator the Hon. Matthew Canavan, Minister for Resources and Northern Australia, along with officers from the Department of Industry, Innovation and Science (the Department) and agencies including:

- Australian Nuclear Science and Technology Organisation;
- Anti-Dumping Commission;
- Commonwealth Scientific and Industrial Research Organisation;
- Office of Innovation and Science Australia; and
- Northern Australia Infrastructure Facility.

3.3 Senators present over the course of the day's hearing included Senator Hume (Chair), Senator Ketter (Deputy Chair), Senators Bushby, Carr, Colbeck, Georgiou, Hanson, Leyonhjelm, Lines, Ian Macdonald, McAllister, O'Neill, Patrick, Rhiannon, Steele-John, Watt, and Williams.

Australian Nuclear Science and Technology Organisation

3.4 Dr Adi Paterson, the Chief Executive Officer (CEO) of the Australian Nuclear Science and Technology Organisation (ANSTO) made a brief opening statement to the committee highlighting that Australia has become a member of the Generation IV International Forum which will allow Australia to contribute to the development of future energy technologies. Dr Paterson noted that this would be an opportunity for Australia to share its expertise in nuclear research and technology and 'would further our non-proliferation and nuclear safety objectives as a nation'.¹

Nuclear waste storage

3.5 The committee discussed the storage of low-level and intermediate-level nuclear waste in Australia with ANSTO. Dr Paterson explained to the committee that there is nuclear waste in a number of different locations around Australia, including at Lucas Heights, but also at universities and hospitals, and with the Commonwealth Scientific and Industrial Research Organisation (CSIRO), and the Department of Defence. He emphasised that importance of developing a holistic approach to managing the nuclear waste, commenting that:

1 *Proof Estimates Hansard*, 1 March 2018, p. 44.

from a national perspective and from ANSTO being a governmental agency, we take the view that we must help and support all actors in understanding their waste holdings and work with them to get a comprehensive but singular approach to all Commonwealth and national wastes in the form of a national waste repository for low-level waste and a store for intermediate-level waste.²

Synchrotron

3.6 The committee also discussed ANSTO's synchrotron. Dr Paterson noted its use in the area of medical science, in particular for heart valve replacements:

Heart valve replacement continues to develop. Often with those who benefit from heart surgery, if they have a very long period of survivability, those heart valves start to wear out a little bit, so the next generation of heart valves will be made with different, more resilient, materials, and they'll also be lighter. That puts less stress on the heart as the heart operates. Dr Katie Sizeland, who is one of our young beamline scientists, has been working in this field and utilising the facilities at the synchrotron to qualify these next-generation materials. The benefit for society out of this is that the patients will have reduced recovery times, the surgery becomes less invasive and, because the surgery is less invasive and the recovery times are shorter, the overall burden on the health system is reduced.³

Anti-Dumping Commission

3.7 The committee commenced its session with the Anti-Dumping Commission (the commission) by congratulating the Commissioner Mr Dale Seymour on his re-appointment for a further three years.⁴

3.8 Mr Seymour noted that in July 2018, the commission will have been in operation for 5 years and noted that the 'antidumping system in Australia is wholly demand driven'. Mr Seymour emphasised that the commission's continuing demand for investigations into dumping is:

...a reflection of the pressure that Australian domestic manufacturers face and their belief that they may have been materially injured through dumping that motivates them to make application to me for investigations, and then for final decision by the minister.⁵

Steel industry

3.9 The committee noted the Economics References Committee's recent report into the Australian Steel Industry, noting that two of its recommendations would require action from the commission. Mr Seymour pointed to the government response

2 *Proof Estimates Hansard*, 1 March 2018, p. 45.

3 *Proof Estimates Hansard*, 1 March 2018, p. 47.

4 *Proof Estimates Hansard*, 1 March 2018, p. 54.

5 *Proof Estimates Hansard*, 1 March 2018, pp. 54–55.

to the report and also noted that one of the main issues remains an oversupply of steel from China.⁶

3.10 The committee also discussed the tariff arrangements that the US government was examining. Mr Seymour commented that:

Certainly, the view domestically from Australian steelmakers and aluminium manufacturers is that any material change to tariff or quota arrangements into the US for those products will pose a risk for other markets, of which we will certainly be one.⁷

Commonwealth Scientific and Industrial Research Organisation

Restructure

3.11 The committee heard from the CSIRO about its upcoming restructure. Dr Larry Marshall, the CEO of CSIRO, advised the committee that:

We're creating four new positions. One is called 'People', which will be responsible for taking care of our people. There'll be a position called 'Growth', which will be responsible for the growth of our impact, the growth of our science and the growth of our capabilities. There'll be a chief scientist role, to ensure that the voice of every CSIRO scientist is present at the executive team during every meeting. And we'll bring the CEO of Data61 onto the executive team to reflect the importance of data and digital technology and the fact that it is transforming, literally, every part of our economy and every part of CSIRO.⁸

3.12 Dr Marshall also clarified that the new Chief Scientist would be the voice of science on the executive team, and would not be attached to any particular area within CSIRO.

Funding for the Great Barrier Reef

3.13 The committee asked the CSIRO about the \$60 million of funding that will be dedicated to work on the Great Barrier Reef. Officers from CSIRO explained that the funding would be split between a number of areas including:

...\$10.4 million to look at COTS management, and that would be working through GBRMPA. There was \$36.6 million to look at the management of sediment and nutrient run-off, ultimately to improve water quality for the reef. There was \$4.9 million for extra field officers to monitor and assist with some of the programs. And then there was \$6 million in funding for the RRAP—the Reef Restoration and Adaptation Program. That is a program that is being done with AIMS, the CSIRO and five other partners—James Cook University, Queensland University of Technology, the University of Queensland, the Great Barrier Reef Foundation and also GBRMPA. That is a scoping design phase study looking at potential

6 *Proof Estimates Hansard*, 1 March 2018, p. 55.

7 *Proof Estimates Hansard*, 1 March 2018, p. 56.

8 *Proof Estimates Hansard*, 1 March 2018, p. 61.

interventions to address impacts on the reef from changes in temperature. That will run for 18 months and it is currently in scope.⁹

3.14 CSIRO summarised that the work to be done on the reef would look to making it more resilient.¹⁰

Ms Glenys Beauchamp PSM

3.15 Ms Glenys Beauchamp was the Secretary of the Department of Industry, Innovation and Science until 18 September 2017, when she became the Secretary of the Department of Health.

3.16 On 15 February 2018, the Senate agreed to a notice of motion requesting that Ms Beauchamp appear to answer questions at the committee's additional estimates hearing on 1 March 2018.

3.17 In answering the committee's questions, Ms Beauchamp confirmed that neither Minister Canavan, nor any staff from his office, had raised the appointment of former Deputy Prime Minister Barnaby Joyce's former media adviser to a departmental role with her.¹¹

Department of Industry, Innovation and Science—Programme 1

Women in STEM

3.18 The committee discussed the department's work around promoting women in STEM (Science, Technology, Engineering and Mathematics). Departmental Officers noted that through the National Innovation and Science Agenda (NISA), the government had been actively engaged with supporting all Australians in science, but also specifically women in science. Minister Cash highlighted that increasing the number of women in STEM was a focus of her portfolio.

3.19 The committee asked departmental officials about the planned establishment of a Science Women's Advisory Panel, noting its delay.

3.20 Departmental officers informed the committee that former Minister Sinodinos had announced the advisory round table in February 2017, and plans were underway to holding the first meeting table before he went on leave. Subsequently, the establishment of the panel was postponed.¹²

9 *Proof Estimates Hansard*, 1 March 2018, p. 61.

10 *Proof Estimates Hansard*, 1 March 2018, p. 61.

11 *Proof Estimates Hansard*, 1 March 2018, p. 105.

12 *Proof Estimates Hansard*, 1 March 2018, p. 92.

3.21 The forum will provide high level advice on how existing and future industry, innovation and science policies and programs could be amended or designed to optimise the participation of women.¹³

3.22 The Science Women's Advisory Roundtable has since been announced and had its first meeting on 13 March 2018.¹⁴

Department of Industry, Innovation and Science—Programme 2

Advanced Manufacturing Fund

3.23 The Advanced Manufacturing Fund (AMF) is a government initiative to boost innovation, skills and employment in advanced manufacturing. The \$100 million of funding for the AMF is divided across its five measures:

- Stimulating advanced manufacturing research projects (SAMRP);
- Innovation Labs initiative;
- Automotive Engineering Graduate Program;
- Removing tariffs on prototype imports for motor vehicle design and service; and
- Advanced Manufacturing Growth Fund.¹⁵

3.24 The committee sought information on each of the AMF's five programs. In particular, the committee was interested in the SAMRP noting that it has been given \$24 million over two years. The department explained that the \$24 million is a composite of two elements. The \$20 million was a supplement to the Cooperative Research Centre (CRC) Program, for CRC projects in advanced manufacturing, as a separate petition.¹⁶ The remaining \$4 million is to support small scale and pilot research projects.¹⁷

13 Ministers and Assistance Ministers for the Department of Industry, Innovation and Science, 'Senator the Hon Michaelia Cash: Minister for Jobs and Innovation', <http://www.minister.industry.gov.au/ministers/cash/media-releases/advisory-group-help-advance-women-industry-innovation-and-science> (accessed 22 March 2018).

14 Ministers and Assistance Ministers for the Department of Industry, Innovation and Science, 'Senator the Hon Michaelia Cash: Minister for Jobs and Innovation', <http://www.minister.industry.gov.au/ministers/cash/media-releases/advisory-group-help-advance-women-industry-innovation-and-science> (accessed 22 March 2018).

15 Department of Industry, Innovation and Science, 'Increased investment in advanced manufacturing', <https://industry.gov.au/industry/IndustrySectors/Advanced-Manufacturing/Pages/Increased-investment-in-advanced-manufacturing.aspx> (accessed 22 March 2018).

16 *Proof Estimates Hansard*, 1 March 2018, p. 105.

17 Department of Industry, Innovation and Science, 'Increased investment in advanced manufacturing', <https://industry.gov.au/industry/IndustrySectors/Advanced-Manufacturing/Pages/Increased-investment-in-advanced-manufacturing.aspx> (accessed 22 March 2018).

3.25 The committee was also interested in the Innovation Labs initiative, which will be funded \$10 million over two years. The committee noted that new facilities were planned for Victoria and South Australia. The department noted that there is currently a consultation process underway which is looking at:

a need for accompanying services for business when they go on approach and use physical labs, such that they are able to have their business plan and have their forward-looking plan accompanied by how they can take and use that infrastructure back into their business.¹⁸

National Offshore Petroleum Titles Administrator

3.26 The committee discussed the case of Woodside Petroleum, an Australian oil and gas company, with the National Offshore Petroleum Titles Administrator (NOPTA). The company had committed to an eight-hole drilling program in 2016, however, after drilling three holes and not finding the resources they had hoped for, they stopped exploration. The committee inquired about whether there were any penalties to be imposed for this action. Departmental officials commented that:

There is no penalty as such, unless of course the titleholder is non-compliant with the work program. There are options available to titleholders in the event that they don't wish to continue the program or they've completed their work program for a particular year and, for whatever reason they may choose, they may elect to seek to surrender the title, in which case there is an option for them to enter into what is known as 'good standing arrangements'. That is where there is a commitment for payment—this is a contract between the Commonwealth and the titleholder—and the good standing arrangements can be discharged in a number of ways.¹⁹

3.27 The committee also raised the issue of the east coast market gas crisis, noting that the North-West shelf had the potential gas reserves to alleviate a significant amount of pressure from the east coast market. Minister Canavan agreed that the North-West Shelf was indeed a significant source of natural gas, however, also pointed out that there is not currently the infrastructure to transport the gas from the west to the east coast of Australia. The Minister assured the committee that the government is currently taking action to alleviate the gas crisis.²⁰

Northern Australia Infrastructure Facility

3.28 The committee asked the Northern Australia Infrastructure Facility (NAIF) about its project approval processes. In particular, the committee wanted to understand how NAIF approval interacts with other legislation.

3.29 The CEO of the NAIF, Ms Laurie Walker confirmed that as per the NAIF's investment mandate, that the NAIF can approve a project for funding but cannot

18 *Proof Estimates Hansard*, 1 March 2018, p. 106.

19 *Proof Estimates Hansard*, 1 March 2018, p. 111.

20 *Proof Estimates Hansard*, 1 March 2018, p. 112.

actually provide the funds until the project has met all of the other necessary regulatory approvals.²¹

3.30 The committee also discussed a review of the NAIF that was undertaken by Mr Tony Shepherd, an Australian businessman who has worked both in the public service and in private companies, and has experience in infrastructure development. The committee noted that Mr Shepherd also conducted the government's Commission of Audit in 2014. Departmental officials confirmed that Mr Shepherd was selected through a direct tender process, meaning that no other candidates were considered to conduct the review.

3.31 The review focused on the NAIF's investment mandate and the broader governance of NAIF and its relationship with states and territories.

3.32 Minister Canavan noted that the completed review was with the government, but that no decisions had so far been made in response to the report.

Other topics raised

3.33 The committee discussed a wide range of topics during the hearing with the Industry, Innovation and Science portfolio. The above reporting of discussions is not complete. Other topics discussed by the committee included:

- Possible privatisation of the National Measurement Institute
- ANSTO's production of the Phosphorous 32 isotope used in pancreatic cancer treatment
- Nuclear Energy technology
- Deep Space Communication Complex
- Enterprise Agreement 2017–2020
- Bleaching of the Great Barrier Reef
- STEM in Schools
- Research & Development intensity threshold
- Australia 2030: Prosperity through Innovation report
- Innovation Australia Board
- Women in STEM
- Establishment of the Women's advisory panel
- Cladding—Australian Building Codes Board
- National Innovation and Science Agenda—video games report
- Radioactive waste management at Kimba
- NOPTA's 'use it or lose it review' for sites on the North-West Shelf

21 *Proof Estimates Hansard*, 1 March 2018, p. 118.

- Possible nuclear waste site in NSW
- Australia's coal exports
- Onslow Marine Support Base
- Rookwood Weir
- NAIF—Conflicts-of-interest
- NAIF—Issue around Active vs Inactive inquiry and the Aurizon project

Senator Jane Hume
Chair

Appendix 1

Tabled documents

Treasury portfolio

1. Opening Statement tabled by Mr John Fraser, Secretary of the Department of the Treasury, 28 February 2018.
2. Opening Statement, tabled by Mr Chris Jordan, Commissioner of Taxation, Australian Taxation Office, 28 February 2018.
3. Opening Statement, tabled by Ms Karen Payne, Chief Executive Officer of the Board of Taxation Secretariat, 28 February 2018.
4. Opening Statement, tabled by Mr James Shipton, Chairman of the Australian Securities and Investments Commission, 28 February 2018.
5. Opening Statement, tabled by Mr Wayne Byres, Chairman of the Australian Prudential Regulation Authority, 28 February 2018.

Industry, Innovation and Science portfolio

6. Opening Statement, tabled by Dr Heather Smith PSM, Secretary, Department of Industry, Innovation and Science, 1 March 2018.
7. Media article: *Cash to name women's panel*, Denham Sandler, InnovationAus.com, 19 February 2018, tabled by Senator Deborah O'Neill, 1 March 2018.
8. Opening Statement, tabled by Ms Laurie Walker, CEO, Northern Australia Infrastructure Facility, 1 March 2018.
9. Social Media posts by Mr Aaron Wakeley, Director, Corporate Affairs and Communication at Northern Australia Infrastructure Facility, tabled by Senator Murray Watt, 1 March 2018.

