

# Budget Estimates 2015–16

## Report to the Senate

### Introduction

1.1 On 12 May 2015, the Senate referred to the committee for examination and report the following documents in relation to the Treasury, and Industry and Science portfolios:

- Particulars of proposed expenditure in respect of the year ending on 30 June 2016;
- Particulars of certain proposed additional expenditure in respect of the year ending on 30 June 2016
- Particulars of proposed additional expenditure in respect of the year ending on 30 June 2015; and
- Particulars of certain proposed additional expenditure in respect of the year ending on 30 June 2015.<sup>1</sup>

1.2 The committee is required to report to the Senate on its consideration of 2015–16 Budget Estimates on Tuesday 23 June 2015.<sup>2</sup>

### Portfolio structures and outcomes

1.3 Following the Administrative Arrangements Orders issued on 23 December 2014, the Department of Industry and Science's outcome and programs structure comprises one outcome, three programs and nine sub-programs.

1.4 The Outcome is as follows:

Enabling growth and productivity for globally competitive industries through supporting science and commercialisation, growing business investment and improving business capability and streamlining regulation.<sup>3</sup>

1.5 The three Programmes and Sub-programmes are:

- Programme 1: Supporting Science and Commercialisation
  - Sub-programme 1.1: Science awareness, infrastructure and international engagement
  - Sub-programme 1.2: Business research, development and commercialisation
- Programme 2: Growing Business Investment and Improving Business Capability
  - Sub-programme 2.1: Competitive marketplace

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1 *Journals of the Senate*, No. 92, 12 May 2015, p.2561.

2 *Journals of the Senate*, No. 75, 9 February 2015, p. 2049.

3 Industry and Science Portfolio Budget Statements (PBS) 2016–16, p. 23.

- Sub-programme 2.2: Business and market development
- Sub-programme 2.3: Economic transition
- Sub-programme 2.4: Resources
- Sub-programme 2.5: Energy
- Programme 3: programme Support
  - Sub-programme 3.1: Streamlining regulation
  - Sub-programme 3.2: Building a high performance organisation

1.6 The complete structure and outcomes for each portfolio are summarised in the appendices as indicated below:

- Industry and Science (Appendices 3 and 4); and
- Treasury (Appendices 5 and 6)

### **General comments**

1.7 The committee conducted hearings over four days:

- 1, 2 and 3 June 2015—Treasury portfolio; and
- 3 and 4 June 2015—Industry and Science portfolio.

1.8 In total, the committee met for 32 hours and 38 minutes, excluding breaks.

1.9 The committee received evidence from the following ministers and parliamentary secretaries:

- Senator the Hon Mathias Cormann, the Minister for Finance, representing the Treasurer;
- Senator the Hon Michael Ronaldson, Minister for Veterans' Affairs, Minister Assisting the Prime Minister for the Centenary of ANZAC, and Special Minister of State, representing the Minister for Industry and Science and the Treasurer;
- Senator the Hon Scott Ryan, Parliamentary Secretary to the Minister for Education and Training; representing the Treasurer;
- Senator the Hon Mitch Fifield, Assistant Minister for Social Services, representing the Treasurer; and
- Senator the Hon Richard Colbeck, Parliamentary Secretary to the Minister for Agriculture, representing the Minister for Industry and Science.

1.10 The committee thanks the ministers and officers who attended the hearings for their assistance. Evidence was also provided by:

- Mr John Fraser, Secretary, Department of the Treasury;
- Ms Glenys Beauchamp PSM, Secretary, Department of Industry and Science; and
- officers from the Treasury, and Industry and Science portfolios.

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## Questions on notice

1.11 The committee draws the attention of all departments and agencies to the agreed deadline of Friday 17 July 2015 for the receipt of answers to questions taken on notice from this round, in accordance with Standing Order 26.

1.12 As the committee is required to report before responses to questions are due, this report has been prepared without reference to any of these responses. Following finalisation of indices of questions taken on notice during and after the hearings, indices will be available at:

1.13 [http://www.aph.gov.au/Parliamentary\\_Business/Senate\\_Estimates/economics\\_ctte/estimates/bud1516/index](http://www.aph.gov.au/Parliamentary_Business/Senate_Estimates/economics_ctte/estimates/bud1516/index).

1.14 Answers to questions taken on notice are tabled in the Senate. They may be accessed from the committee's website.

1.15 For the 2014–15 Additional Budget Estimates round, answers to questions on notice were due to be provided to the committee by Friday, 17 April 2015. The committee notes that:

- The Industry and Science portfolio submitted all their answers before the commencement of the 2015–16 Budget Estimates hearings, with 22 answered by the deadline set by the committee (one of which was answered during the hearing); and
- Although the Treasury portfolio answered all its questions by the due date 17 April 2015, none were answered on time. Answers were still being sent to the committee secretariat on the 29 May 2015, a few days before the commencement of the committee's estimates hearings. This practice means that committee members do not have sufficient time to consider all the information in order to perform their examination of the portfolio adequately.

## Public interest immunity claims

1.16 On 13 May 2009, the Senate passed an order relating to public interest immunity claims.<sup>4</sup> The order, moved by Senator Cormann, set out the processes to be followed if a witness declines to answer a question. The full text of this order was provided to departments and agencies prior to the hearings and was also incorporated in the Chair's opening statements on all four days of the Budget Estimates hearings.

## Record of proceedings

1.17 This report does not attempt to analyse the evidence presented over the four days of hearings. However, it does include a brief list of the issues that were traversed by the committee for the respective portfolios.

1.18 Copies of the Hansard transcripts, documents tabled at the hearings, and additional information received after the hearings (see Appendices 1 and 2 for the list of the documents) are tabled in the Senate and available on the committee's website.

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4 *Journals of the Senate*, No. 68, 13 May 2009, p. 1941.

1.19 Page numbers in footnotes following the topics listed below refer to proof Hansard transcripts. Page numbers in the official Hansard transcripts, once they are produced, may differ from the page numbers in the proofs.

### **Matters raised—Treasury portfolio**

1.20 On 1, 2 and 3 June 2015, the committee examined (in order of appearance for portfolio agencies) the estimates for:

- Treasury [Macroeconomic Group and Corporate Strategy and Services Group];
- Treasury [Fiscal Group] and Clean Energy Finance Corporation (CEFC);
- Treasury [Revenue Group] with Australian Charities and Not-for-profit Commission (ACNC) and Australian Taxation Office (ATO);
- Treasury [Markets Group];
- Reserve Bank of Australia (RBA);
- Australian Bureau of Statistics (ABS);
- Commonwealth Grants Commission (CGC);
- Inspector-General of Taxation (IGT);
- Australian Competition and Consumer Commission (ACCC);
- Australian Securities and Investments Commission (ASIC);
- Australian Prudential Regulation Authority (APRA);
- Productivity Commission.

#### ***Treasury [Macroeconomic Group and Corporate Strategy and Services Group]***

1.21 The Secretary of the Department of the Treasury (the Treasury), Mr John Fraser, opened proceedings with a summary of economic developments.

1.22 At the international level, the Secretary observed encouraging signs in large parts of the global economy being tempered by risks in particular areas. He noted that while the risk of Greece defaulting on its debt obligations highlighted the euro area's 'inherent fragility', elsewhere such as the US and Chinese economies provide impetus to global growth.<sup>5</sup>

1.23 On the domestic economy, Mr Fraser noted that the country's 'healthy corporate balance sheets which should encourage increased investment going forward', was offset by the uncertain pace and timing of a recovery in mining business investment. He cautioned the Australian economy was currently facing the twin challenges of rebalancing an economy that relies heavily on mining investment for its growth and declining terms of trade.<sup>6</sup>

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5 *Committee Hansard*, 1 June 2015, p. 6.

6 *Committee Hansard*, 1 June 2015, p. 6.

1.24 According to Mr Fraser, while mining investment is expected to fall by 25 per cent in 2015–16 and 30 per cent in 2016–17, the supportive fundamentals remained sound—lower exchange rate, lower oil prices and low interest rates, which underpin the economy's transition to broader-based growth. He reported the economy was forecasted to grow at 2.75 per cent in 2015–16 and reach its trend rate of 3.25 per cent in 2016–17.<sup>7</sup> Mr Fraser observed:

There is evidence of these fundamentals at work in household consumption, which grew at three-year highs in the December quarter of last year. Indicators since budget, such as retail trade, automotive sales, and consumer sentiment are consistent with a further improvement in the outlook for consumption. Dwelling investment is responding to low interest rates as well as strong house prices and solid population growth. The significant pipeline of approvals suggests that the upswing still has some way to run.

The depreciation of the Australian dollar over the past year will play an important role in the transition to broader based growth by making businesses in export orientated and import-competing sectors more competitive. Exports are expected to continue to make a significant contribution to GDP growth, with resource and services export volumes growing particular[ly] strong.

Although investment by the services sector has grown strongly over the past year, the latest capex survey [or capital expenditure survey], which was conducted in advance of the budget, continues to suggest that businesses in the non-mining economy overall remain reluctant to commit to significant investment plans in 2015–16.<sup>8</sup>

1.25 In the area of employment, Mr Fraser elaborated on the labour market's resilience:

Employment growth has picked up, labour force participation has risen and the unemployment rate has remained steady. That said, with GDP forecast to grow below trend, the unemployment rate is still expected to edge a little higher, to 6½ per cent, in 2015-16 before falling to 6¼ per cent in 2016–17.

Wage growth continues to be constrained by spare capacity in the labour market. Although modest growth in wages is weighing on household income growth, it has been crucial to supporting employment during a period where the economy has been growing a little below trend. Incomes are being affected by weaker commodity prices. Although they have recovered a little recently, further growth in low cost supply is expected to continue to weigh on prices for many of our key, non-rural commodity exports. As a result, nominal GDP growth is forecast to grow by 3¼ per cent in 2015--16 before picking up to 5½ per cent in 2016–17. This

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7 *Committee Hansard*, 1 June 2015, p. 6.

8 *Committee Hansard*, 1 June 2015, p. 6.

has driven a substantial downgrade to tax receipts of \$52 billion since the 2014–15 budget—\$20 billion of this due to iron ore prices alone.<sup>9</sup>

1.26 In a follow-up to the committee's examination of Treasury's real GDP growth forecasts, the Acting Deputy Secretary of Macroeconomic Group (Domestic), Ms Wilkinson, provided the following basis for Treasury's growth forecasts:

We have made those forecasts on the basis of assumptions about the impact that fundamentals will have to drive broader based growth in the economy. This includes factors like the impact that the lower exchange rate will have on the incentive for investment and export growth in the trade exposed sectors. It takes into account the transition that is taking place within the mining sector from its investment phase to its export phase, so there is significant growth in exports over the forecast period. It takes into account the impact that low-interest rates will be expected to have on dwelling investment and the impact that low-interest rates, the lower oil prices and the general increases in household wealth would likely have on consumer demand over the forecast period.

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[Treasury's] forecasts are broadly in line with forecasts that have been generated at places like the bank through consensus forecasts and they are broadly in line with IMF forecasts for Australia.<sup>10</sup>

1.27 The topics covered during the committee's examination of the Treasury [Macroeconomic Group] included:

- policy rationale for the \$20,000 instant asset write-off threshold and feedback from stakeholders;<sup>11</sup>
- discussions about budget preparations within Treasury;<sup>12</sup>
- superannuation tax concessions and its cost to the budget;<sup>13</sup>
- benefits of Australia's free trade agreements dependent on world growth, especially growth in India, the United States and China as the latter moves from an investment based economy to one based on domestic consumption;<sup>14</sup> and
- whether Treasury has factored in any risk assumptions into its modelling around a potential housing bubble, or has any concerns about household debt and rising property prices.

1.28 Other related matters traversed included:

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9 *Committee Hansard*, 1 June 2015, pp. 6–7.

10 *Committee Hansard*, 1 June 2015, p. 29.

11 *Committee Hansard*, 1 June 2015, pp. 7–8.

12 *Committee Hansard*, 1 June 2015, pp. 11–12.

13 *Committee Hansard*, 1 June 2015, pp. 12–13.

14 *Committee Hansard*, 1 June 2015, p. 24–25.

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- thermal coal exports and its projections;<sup>15</sup>
  - effect of negative gearing on property prices in places like Melbourne and Sydney;<sup>16</sup>
  - assessment of the small business stimulus package in the budget;<sup>17</sup>
  - measures of consumer confidence, and any pickup in consumer confidence particularly, since the budget;<sup>18</sup> and
  - staffing changes at the senior executive level within Treasury.<sup>19</sup>

### ***Treasury [Fiscal Group] and the Clean Energy Finance Corporation***

#### ***Clean Energy Finance Corporation (CEFC)***

1.29 The Chief Executive Officer of the Clean Energy Finance Corporation (CEFC), Mr Oliver Yates, in response to the committee's question about the difference between the CEFC's new investment mandate the government provided to it this year and its previous mandate, outlined the following changes:

The original investment mandate required the CEFC to seek a benchmark, which was equal to the average of the five-year government bond rate for the investments that we made on a period after meeting our own operating expenses. That was the previous benchmark. If we look at the borrowings that we had under the previous benchmark, the cost of funds or our benchmark was to meet, after expenses, a return of about 3.1 per cent. The new benchmark is different. The new benchmark seeks for us to achieve a gross return based upon a similar scenario—being an average of the five-year government bond rate at the time we are making investments. But, in addition, it seeks a return of an additional four to five per cent above that rate as a target benchmark. In effect, the main scenario is a lifting of the rate by four to five per cent. However, the current rate is a gross amount. So it is before operating costs; whereas, the previous rate was after operating costs.<sup>20</sup>

1.30 Other main topics dealt with during the examination of the CEFC included:

- the higher obligations of the CEFC relative to those of the Future Fund—it is not only required to 'do good but also do well' in its investments, to decarbonise the economy, and to assist the economy to meet future investment challenges;<sup>21</sup>

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15 *Committee Hansard*, 1 June 2015, pp. 36–37.

16 *Committee Hansard*, 1 June 2015, p. 26.

17 *Committee Hansard*, 1 June 2015, p. 26.

18 *Committee Hansard*, 1 June 2015, pp. 29–30.

19 *Committee Hansard*, 1 June 2015, pp. 32–33.

20 *Committee Hansard*, 1 June 2015, p. 58.

21 *Committee Hansard*, 1 June 2015, p. 59.

- areas of opportunities identified by the CEFC for investments—building, electricity, vehicle, transport, generation and fuel sectors;<sup>22</sup>
- current battery storage technology, future improvements and affordability;<sup>23</sup>
- an update of the value of its investment at about \$4 billion;<sup>24</sup> and
- CEFC's current measure of 16,000 megawatts of green energy compared to the target of 33,000 megawatts set by government.<sup>25</sup>

1.31 In relation to the types of projects the CEFC has in its portfolio, Mr Yates advised:

In terms of our portfolio, we have nine per cent of it currently in bioenergy, 20 per cent of it is in things like energy efficiency such as refrigeration, lighting, air conditioning. Generation and distribution assets are around 10 per cent. Solar PV is running at about 27 per cent. Ocean energy is three per cent and wind is 31 per cent. We are seeing increasing activity in the other sectors of the economy in relation to our portfolio, and that is really because there has been a significant reduction in the renewable energy sector. As I mentioned last time when I was here, Bloomberg indicated a decline in investment activity of around 80 per cent within the renewable energy sector. That has not changed yet. We expect that to change now with some clarity in relation to the RET.<sup>26</sup>

#### *Fiscal Group*

1.32 The main topics covered during the examination of the Fiscal Group included:

- Future Fund earnings and its treatment in the budget;<sup>27</sup>
- change in methodologies used in the *Intergenerational Report*;<sup>28</sup>
- projected budget return to surplus;<sup>29</sup>
- the \$4.4 billion families package, comprising of the two year partnership with states and territories for preschool access and additional money for childcare assistance;<sup>30</sup>
- changes that have occurred since MYEFO;<sup>31</sup>

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22 *Committee Hansard*, 1 June 2015, p. 60.

23 *Committee Hansard*, 1 June 2015, p. 61.

24 *Committee Hansard*, 1 June 2015, p. 60.

25 *Committee Hansard*, 1 June 2015, p. 65.

26 *Committee Hansard*, 1 June 2015, p. 61.

27 *Committee Hansard*, 1 June 2015, pp. 69–70.

28 *Committee Hansard*, 1 June 2015, pp. 69–70.

29 *Committee Hansard*, 1 June 2015, pp. 72–73.

30 *Committee Hansard*, 1 June 2015, pp. 73–74.

31 *Committee Hansard*, 1 June 2015, pp. 76.



- the structural position of the budget and budget expenditure as a proportion of GDP in 2015–16 and 2016–17;<sup>32</sup>
- update on the design of the Northern Australia Infrastructure Facility and inputs from government and non-government stakeholders.<sup>33</sup>

***Treasury [Revenue Group] with the Australian Charities and Not-for-profit Commission and the Australian Taxation Office***

*Australian Charities and Not-for-profit Commission*

1.33 In the course of the Australian Charities and Not-for-profit Commission's (ACNC) examination, the committee questioned the ACNC on the following topics:

- the ACNC's investigations into complaints about charities registered with the ACNC that are Indigenous corporations under the Corporations (Aboriginal and Torres Strait Islander) Act;<sup>34</sup>
- the total number of charities currently registered with the ACNC and the number of organisations revoked of their charitable status;<sup>35</sup>
- the proportion of complaints (about 72 per cent) identified by the ACNC concerning issues of governance;<sup>36</sup>
- the trend of large charities disproportionately represented in complaints;<sup>37</sup> and
- staffing matters, in particular the number of full-time equivalent staff.<sup>38</sup>

1.34 In relation to the ACNC's complaints mechanism, Mr Murray Baird, the Assistant Commissioner, reported about half of the 1300 complaints received by the ACNC were dealt with through its advice services and compliance team, and following further investigations, resulted in 10 revocations. He explained:

We start with 1300 concerns that would typically come into our advice line, and of those 596 were referred to the compliance team as being within our jurisdiction that could not be dealt with on the initial contact.

...

[Of the remaining 586] typically, we give them compliance advice. Our starting point is to try to ensure compliance and assist with compliance. They would have been the result of an assessment to see whether they were serious and within jurisdiction. If the investigation proceeds, that can result in asking for an undertaking for behaviour in the future or giving advice

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32 *Committee Hansard*, 1 June 2015, pp. 77–79.

33 *Committee Hansard*, 1 June 2015, pp. 80–81.

34 *Committee Hansard*, 2 June 2015, p. 6.

35 *Committee Hansard*, 2 June 2015, p. 7.

36 *Committee Hansard*, 2 June 2015, p. 8.

37 *Committee Hansard*, 2 June 2015, p. 8.

38 *Committee Hansard*, 2 June 2015, p. 9.

about behaviour in the future. In the most serious cases we would move to a show cause notice for revocation.<sup>39</sup>

1.35 Other issues considered by the committee during the ACNC's appearance included:

- advice or meetings with the Assistant Treasurer or Minister for Social Services about the ACNC's future;<sup>40</sup>
- effect of the ACNC's uncertain future on the sector;<sup>41</sup>
- work undertaken to examine what material benefit to states and territories of aligning with the ACNC;<sup>42</sup>
- the role of the ACNC in assisting with anti-terrorist activities;<sup>43</sup>
- whether an unlawful act committed by an organisation registered with the ACNC would result in deregistration;<sup>44</sup> and
- the 'disqualifying purpose test' in relation to the purpose of promoting or opposing a political party or candidate for political office.<sup>45</sup>

*Australian Taxation Office (ATO)*

1.36 The Tax Commissioner, Mr Chris Jordan, opened the Australian Taxation Office's (ATO) appearance before the committee with an update of its reform program 'Reinventing the ATO' over the last two years. Some achievements highlighted by the Tax Commissioner to come out of the reform program included:

[the] positive responses to [the ATO's] new products and services and the way our people are dealing with clients and each other. Just a few examples: MyTax had a great take-up last year of around one million people and it is being expanded this year to include around five million eligible individual taxpayers. Importantly, next year—so for June 2016—it will be available to all individual taxpayers to use.<sup>46</sup>

...

[In the area of] small businesses, we have done a lot in that space and offered services through a variety of new channels. There is a newsroom where they can go to specifically with information just about them. There is an after-hours call-back service, six to nine so, when their business is closed, they can book a call. Small business assist is an interactive tool that

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39 *Committee Hansard*, 2 June 2015, p. 8.

40 *Committee Hansard*, 2 June 2015, pp. 9–10.

41 *Committee Hansard*, 2 June 2015, pp. 9–10.

42 *Committee Hansard*, 2 June 2015, p. 10.

43 *Committee Hansard*, 2 June 2015, pp. 10–11.

44 *Committee Hansard*, 2 June 2015, p. 11.

45 *Committee Hansard*, 2 June 2015, pp. 12–13.

46 *Committee Hansard*, 2 June 2015, p.14.

they can type their questions into to get an answer and, to help facilitate that, a click-to-chat facility. And we are continuing with our field visits where we guarantee not to use any information for audit purposes but to help them.

We have made significant improvements in our dispute management area with a lot of early and personal engagement; use of in-house facilitators; alternative dispute resolution techniques; and, from 1 July this year, the movement of objections from the compliance group to provide a separate, independent area within the ATO to review these matters.<sup>47</sup>

1.37 Another successful area of reform the committee was apprised of related to the ATO's tailored support in the debt area, which was trialled in February:

[The ATO] spent less than \$10,000 on a number of SMS reminder messages to a group of habitual late payers, and we found that these messages returned around \$543 million of payment on time instead of being very late and having to chase people up.<sup>48</sup>

1.38 Other matters canvassed during the committee's examination of the ATO, included:

- update on Project Wickenby and its achievements—including the number of audits and reviews of offshore schemes, revenue raised and criminal convictions recorded;<sup>49</sup>
- this year's theme of transparency, which will see the ATO publishing some information about taxpayers with turnovers of more than \$100 million, Australia adopting the BEPS Action Plan of country-by-country reporting, and the publication of research on the tax gap in Australia;<sup>50</sup>
- upcoming milestones with the OECD and the G20 fora in relation to multinational tax;<sup>51</sup>
- information exchange between the ATO and Treasury in relation to the tax affairs of individual companies examining foreign takeovers by the Foreign Investment Review Board (FIRB);<sup>52</sup>
- advanced pricing agreements (APAs) in the pharmaceutical sector, and the number of pharmaceutical companies currently under review;<sup>53</sup> and
- risk of transfer pricing in the pharmaceutical industry—by manufacturing drugs offshore and selling them in Australia.<sup>54</sup>

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47 *Committee Hansard*, 2 June 2015, p.14.

48 *Committee Hansard*, 2 June 2015, p.14.

49 *Committee Hansard*, 2 June 2015, p.15.

50 *Committee Hansard*, 2 June 2015, p.15.

51 *Committee Hansard*, 2 June 2015, p.15.

52 *Committee Hansard*, 2 June 2015, pp. 22–23.

53 *Committee Hansard*, 2 June 2015, pp. 24–25.

1.39 Of the milestones raised, the Tax Commissioner identified the new guidelines related to profit allocation from multinational companies operating within an antiquated international framework, as particularly relevant:

The main milestone in our area is specifically the new guidelines on how to allocate profits from the multinational companies that, by doing things in a very aggressive structuring sense, assert now that we do not have a taxing right. As I have mentioned before, the basic international tax architecture was developed in the early 1920s for the League of Nations. It depended on physical presence in the country to drive the taxing rights. Clearly, as we know, with the digital delivery of a lot of services, which are a growing part of our consumption, that old framework has been relied upon to assert that there is no taxing right here in Australia. That will be measures delivered to the finance ministers meeting and leaders meeting in Turkey later this year. That is something in particular that we will be very keen to monitor.<sup>55</sup>

1.40 Turning to the committee's consideration of 'effective tax rates', different accounting techniques which can yield very different outcomes and the difficulties of applying consistent treatment, the Deputy Commissioner of Public Groups, Mr Hirschhorn, explained how the ATO's methodology was formulated:

The approach that [the ATO] have set out in response to the question on notice [about methodology] was a way of gaining visibility on the ultimate tax bill in Australia and elsewhere in relation to profits earned from the Australian channel. If you look simply at the accounting records—one way of looking at the effective tax rate is to look at accounting records—that often begs the question as to how much of the profit is reported in entities outside Australia. It can also obscure the position, because accounting for tax will often differ in its timing from when tax is actually paid. Indeed, you can have an accounting tax expense even where no tax is paid. This approach is designed to build up from somebody's Australian accounting records to give a picture of both Australian and global tax on their Australian channelled profits on a consistent basis. What that then does is make transparent how much of that profit chain is taxable in Australia, how much of it is taxable somewhere else and how much of it is taxable nowhere. It also gives a sense, when the tax bill is less than 30 per cent of profit, how much of that tax might be attributable to policy decisions—for example, accelerated depreciation, loss recoupment, research and development incentives, and how much of it potentially is explained by moving profit to low-tax jurisdictions.<sup>56</sup>

*Treasury [Revenue Group]*

1.41 During the examination of the Treasury [Revenue Group], the committee examined the following matters:

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54 *Committee Hansard*, 2 June 2015, p. 25.

55 *Committee Hansard*, 2 June 2015, p.15.

56 *Committee Hansard*, 2 June 2015, p.16.

- the estimated loss to revenue due to the illicit tobacco trade in Australia;<sup>57</sup>
- an estimate of the revenue lost due to multinational profit shifting;<sup>58</sup>
- the 30 identified multinationals undertaking substantial activities in Australia;<sup>59</sup>
- comparison between the diverted profits tax used in the United Kingdom and Australia's anti-avoidance rule provisions;<sup>60</sup>
- superannuation tax concessions;<sup>61</sup>
- correlation between negatively-gearred assets and levels of income;<sup>62</sup> and
- whether Treasury uses historical data on the take-up of previous instant asset write-off to estimate the take-up for the current instant asset write-off measure.<sup>63</sup>

1.42 In relation to the earlier comments made by the Tax Commissioner on the new guidelines on how to allocate profits from multinational companies, Mr Heferen, Deputy Secretary of the Revenue Group, elaborated that these new guidelines are complemented by a range of other action items, including a 15-point action plan that the OECD provided to the G20. Mr Heferen advised:

[The] G20 last year ticked off six of those action items, I think. The remainder should be finished this year. Action item 15 is, if you like, the multilateral instrument. A lot of this stuff is implemented through tax treaties—there are tens of thousands of tax treaties, with all the different countries having treaties with one another. Rather than having the new arrangements go treaty by treaty, which would obviously take way too long for that to be implemented in a sensible time frame, action item 15 goes to proposing a multilateral instrument that countries sign up to, and that acts as an overlay to bring into the treaty framework and treaty network the new standards or the new rules that are agreed to.<sup>64</sup>

1.43 According to Mr Heferen:

[T]his year, action items 8, 9, and 10 will deal with better transfer-pricing arrangements. That will be a key thing for Australia. Transfer-pricing rules: at the Senate committee inquiring into tax avoidance, I tried to go through what we see as the three main arms of multinational tax avoidance, increased debt deductions, having an absence of a permeant establishment in Australia, and finally transfer pricing, where that is done quite aggressively. As far as we can see, on the first two, a lot of action has been

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57 *Committee Hansard*, 2 June 2015, p. 42.

58 *Committee Hansard*, 2 June 2015, p. 42.

59 *Committee Hansard*, 2 June 2015, pp. 42–43.

60 *Committee Hansard*, 2 June 2015, p. 45.

61 *Committee Hansard*, 2 June 2015, pp. 47–48.

62 *Committee Hansard*, 2 June 2015, p. 53.

63 *Committee Hansard*, 2 June 2015, pp. 54.

64 *Committee Hansard*, 2 June 2015, p.15.

taken domestically. Transfer-pricing rules were updated a few years ago, but I think where the OECD will head in its proposal, there will be a much more rigorous way to ensure profits are taxed in the country where the profits are earned.<sup>65</sup>

### ***Treasury [Markets Group]***

1.44 The committee examined the Treasury [Markets Group] on the following main topics:

- information about phase 1 and phase 2 of the *Intergenerational Report* campaign, including the value of various contracts with companies to provide market research, advertising, public relations and media services;<sup>66</sup>
- foreign investment threshold changes and application fees and whether these changes increased regulation;<sup>67</sup>
- consultations on the definition of 'rural land' in the Foreign Acquisitions and Takeovers Act;<sup>68</sup>
- Treasury to have an office in Sydney focussing on three functions—tax, financial market, and foreign investment, with staff seconded from the private sector;<sup>69</sup>
- staff and the workload of staff in the Corporations and Markets Advisory Committee (CAMAC);<sup>70</sup>
- whether Treasury has undertaken work in the credit card or payments system area;<sup>71</sup>
- difference between effective interest rate and listed interest rate;<sup>72</sup> and
- North Queensland insurance and the task force established to look at the issue.<sup>73</sup>

### ***Reserve Bank of Australia***

1.45 The committee examined the Reserve Bank of Australia (RBA) on the following main topics:

- gap between the cash rate and credit card interest rates and the RBA's observations for the large gap;<sup>74</sup>

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65 *Committee Hansard*, 2 June 2015, p.15.

66 *Committee Hansard*, 2 June 2015, pp. 68–69.

67 *Committee Hansard*, 2 June 2015, p. 77.

68 *Committee Hansard*, 2 June 2015, pp. 80–81.

69 *Committee Hansard*, 2 June 2015, pp. 84–85.

70 *Committee Hansard*, 2 June 2015, p. 85.

71 *Committee Hansard*, 2 June 2015, pp. 86–87.

72 *Committee Hansard*, 2 June 2015, p. 87.

73 *Committee Hansard*, 2 June 2015, pp. 88–89.

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- lag time between a cut in the cash rate and the bank passing it onto customers;<sup>75</sup>
  - whether an investigation into the competitiveness of the market in this area is required and roles of the RBA, ASIC, APRA and ACCC;<sup>76</sup>
  - whether there is a housing 'bubble' in relation to the 'overheated' housing market in Sydney and parts of Melbourne;<sup>77</sup>
  - ASIC's investigation into the 'suspicious spike' in the Australian dollar price prior to the RBA's last interest rate decision;<sup>78</sup>
  - the RBA's issues paper looking at the regulatory framework for card payments.<sup>79</sup>

1.46 In response to the committee's questions about the two different boards within the RBA—the Reserve Bank Board and the Payments System Board, the Assistant Governor of Financial System, Dr Edey, explained:

[The establishment of a Payments System Board within the RBA] was a decision taken [in response to the Financial System Inquiry—the Wallis Report] in 1997-98. You are right that those two things are not very closely related to each other. That is why we have two boards at the Reserve Bank—to handle those two areas. We have the Reserve Bank board and the Payments System Board to handle the two areas. The Reserve Bank Act specifically states that the Reserve Bank board has a certain charter, which is related to macroeconomic stability and anything that is relevant—except for payments system matters. Then we have the Payments System Board that handles the payments system matters, with a focus on efficiency and stability of the payment system.<sup>80</sup>

### *Australian Bureau of Statistics*

1.47 The committee examined the Australian Bureau of Statistics (ABS) on the following main topics:

- the additional \$250 million investment in the ABS ICT infrastructure following over two decades of no significant capital investment in the bureau;<sup>81</sup>
- whether the extra funding will improve the work undertaken on the labour force statistics;<sup>82</sup>

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74 *Committee Hansard*, 1 June 2015, pp. 43–48.

75 *Committee Hansard*, 1 June 2015, pp. 43–48.

76 *Committee Hansard*, 1 June 2015, pp. 43–48.

77 *Committee Hansard*, 1 June 2015, p. 48

78 *Committee Hansard*, 1 June 2015, p. 49.

79 *Committee Hansard*, 1 June 2015, pp. 55–56.

80 *Committee Hansard*, 1 June 2015, p. 50.

81 *Committee Hansard*, 1 June 2015, p. 85.

82 *Committee Hansard*, 1 June 2015, p. 87.

- update on whether the Australian Institute of Health and Welfare (AIHW) will merge with the ABS;<sup>83</sup>
- progress on the upcoming 2016 census and the use of an online version;<sup>84</sup>
- revenue opportunities for ABS data;<sup>85</sup> and
- follow up actions in relation to the unauthorised release of market sensitive information.<sup>86</sup>

### ***Commonwealth Grants Commission***

1.48 During the Commonwealth Grants Commission's (CGC) appearance, the committee questioned the CGC on its GST Review process and any changes in methodologies used in its final report. The Secretary, Mr John Spasojevic outlined the following steps taken by the CGC:

The commission goes through a pretty standard process. It received its terms of reference from the Treasurer. It put out papers for consultation with the states. It met with the states twice, once at the level of treasurer and once with under-treasurers. In the end I think it undertook three rounds of consultations with the states. It developed a draft report, which it put out as per the terms of reference 12 months after the receipt of those terms of reference, and it put out its final report to the Treasurer in February.<sup>87</sup>

1.49 Mr Spasojevic drew attention to the following key changes in methodology adopted for the report:

- a new way of measuring the Indigenous population and their socio-demographic distribution across the country;<sup>88</sup>
- a new methodology to assess the transport infrastructure needs of the states;<sup>89</sup> and
- change in the way mining revenue is assessed.<sup>90</sup>

1.50 Other matters examined included:

- border permeability and the removal of the capital city category;<sup>91</sup>
- treatment of state based gambling revenue in relation to the calculation of GST relativities;<sup>92</sup> and

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83 *Committee Hansard*, 1 June 2015, p. 87.

84 *Committee Hansard*, 1 June 2015, p. 88.

85 *Committee Hansard*, 1 June 2015, p. 89.

86 *Committee Hansard*, 1 June 2015, p. 89.

87 *Committee Hansard*, 1 June 2015, p. 89.

88 *Committee Hansard*, 1 June 2015, p. 89.

89 *Committee Hansard*, 1 June 2015, p. 89.

90 *Committee Hansard*, 1 June 2015, p. 89.

91 *Committee Hansard*, 1 June 2015, pp. 90–91.



- the principle of horizontal fiscal equalisation.<sup>93</sup>

1.51 In his explanation of the necessity for change from a capital city metric to a closest major city metric to calculate the cost of goods, Mr Spasojevic referred to the cost comparison of goods sourced in one location compared to another:

I do not think we [the CGC] consider[s] [Melbourne] as the capital city [covering Tasmania]; we consider it as the major city, the biggest city, that is close by [to Tasmania]. That gives us a different metric for measuring what costs might be throughout Tasmania in relation to costs in similarly remote areas from, say, Melbourne. That gives us a better reflex of costs in Tasmania as a total, given the higher transport costs across the Tasman.<sup>94</sup>

### ***Inspector-General of Taxation***

1.52 In the course of the Inspector-General of Taxation's (IGT) examination by the committee, the following range of issues were canvassed:

- concerns about the significant variance between original assessments and settlement amounts in cases involving large businesses and high net-wealth individuals;<sup>95</sup>
- two different classes of treatment for dealing with tax disputes involving companies with turnover of over \$100 million being treated outside the compliance area, and for others below that level;<sup>96</sup>
- suggestion for a separate appeals area with an independent second commissioner tasked to review ATO decisions;<sup>97</sup>
- number of complaints received following the transfer of complaint handling functions from the Ombudsman to the IGT since 1 May;<sup>98</sup>
- the IGT's anticipated increase in size following additional funding to assist the IGT's extra work functions;<sup>99</sup> and
- any benchmarks or targets the IGT has set for itself in regards to the handling of individual complaints.<sup>100</sup>

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92 *Committee Hansard*, 1 June 2015, p. 91.

93 *Committee Hansard*, 1 June 2015, p. 99.

94 *Committee Hansard*, 1 June 2015, p. 91.

95 *Committee Hansard*, 2 June 2015, p. 63.

96 *Committee Hansard*, 2 June 2015, p. 63.

97 *Committee Hansard*, 2 June 2015, p. 64.

98 *Committee Hansard*, 2 June 2015, p. 65.

99 *Committee Hansard*, 2 June 2015, p. 66.

100 *Committee Hansard*, 2 June 2015, p. 67.

1.53 The IGT noted the current review mechanism following a decision made by the ATO was dependent on the class of taxpayers. The Inspector-General of Taxation, Mr Ali Noroozi, observed:

At the moment, if you are one of the larger taxpayers, there is something that the new commission instituted called the independent review. The taxpayer could request a review of the original ATO position. After that, if the taxpayer is still not happy with that, they could object to that, which is a formal process under the law. All of that, for the big end of town, is done not in the compliance area but in the technical legal area of the ATO. So it is all done within the ATO. What I was saying was that you need greater separation, because the legal area are also responsible for setting the precedents that the tax office follows, and often these same people may be involved to some extent in the audit activity. Particularly for the big end of town, some of these technical people may be dedicated to deal with particular compliance teams. So what I was saying was that that is why you need a greater degree of separation.<sup>101</sup>

1.54 According to Mr Noroozi, by establishing a separate appeals area:

[this will] fulfil two functions. One is ensuring that the taxpayer gets as independent a review as possible so they get fair and equal treatment, and the other...is providing a further degree of assurance that settlements are as they should be.<sup>102</sup>

### ***Australian Competition and Consumer Commission***

1.55 During the Australian Competition and Consumer Commission's (ACCC) appearance, the committee examined the following matters:

- ACCC's investigations and its memorandums of understanding (MOUs) with other agencies, including the Australian Securities and Investments Commission;<sup>103</sup>
- the number of in-depth investigations the ACCC undertakes each year;<sup>104</sup>
- whether the ACCC has a role in investigating high credit card interest rates;<sup>105</sup>
- infringement notice issued for misleading labelling of corn syrup from Turkey as Victorian honey;<sup>106</sup>
- definition and labelling of 'free-range eggs', and its effect on the industry;<sup>107</sup> and
- the 'substantial lessening' of competition test.<sup>108</sup>

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101 *Committee Hansard*, 2 June 2015, p. 64.

102 *Committee Hansard*, 2 June 2015, p. 64.

103 *Committee Hansard*, 2 June 2015, pp. 93–94.

104 *Committee Hansard*, 2 June 2015, p. 95.

105 *Committee Hansard*, 2 June 2015, p. 95.

106 *Committee Hansard*, 2 June 2015, pp. 96–97.

107 *Committee Hansard*, 2 June 2015, pp. 97–99.

1.56 On the matter of high credit card interest rates, Mr Rod Sims, the ACCC Chairman, clarified that unless there was a breach of the law or anti-competitive behaviour, it was outside the ACCC's remit:

[I]s there a breach of the law? We have no evidence of that, keeping in mind that pricing well above cost is not against the law. Essentially, consumer law says do not mislead consumers or do not sell them unsafe goods, but there is no law against pricing way above cost unless the good is somehow prescribed as a monopoly asset.<sup>109</sup>

### ***Australian Securities and Investments Commission***

1.57 The Australian Securities and Investments Commission (ASIC), in its opening statement, emphasised ASIC's work in the area of culture as it is a major risk to investor trust and confidence and big driver in the financial industry.

1.58 ASIC's Chairman, Mr Medcraft, outlined some activities ASIC will focus its resources on in relation to improving the culture within the financial industry:

ASIC [is] planning to incorporate culture very strongly into our role as a conduct regulator and enforcement agency. The areas we are planning to target are those where poor practices may increase potential for poor conduct; therefore increase the risk to trust, and investor and consumer trust and confidence. We intend, first, to incorporate culture into our risk based surveillance reviews; second, to use surveillance findings to better understand how culture is driving conduct among those that regulate; and, third, to communicate to industry and firms where we have problems with their culture and conduct. Let me add fourthly, we will intend to enforce where we see the wrong culture that is driving bad outcomes.

[ASIC recently] announced what we call the three-Cs framework on conduct risk for firms to help guide them to think about conduct and culture. The three Cs are, firstly, communication: making sure most importantly that communication comes from the top, that the people at the top know what the expectations are about the right way to do things, and that that communication is consistent and reviewed constantly. Secondly, challenge: to make sure that you are constantly challenging what you are doing to make sure that you are doing the right thing in your business. Thirdly, as we all know, do not ever be complacent—do not ever be complacent; always be making sure that it is dynamic. We can talk more about those if the members are interested.<sup>110</sup>

1.59 Mr Medcraft also drew the committee's attention to the paper he delivered at the Davos forum in Queensland where he commented on the opportunities for capital markets or market based financing to fund the real economy, and the challenges for infrastructure, especially the small and medium sized enterprise (SME) sector, and

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108 *Committee Hansard*, 2 June 2015, pp. 100–101 and 103.

109 *Committee Hansard*, 2 June 2015, p. 95.

110 *Committee Hansard*, 3 June 2015, p. 6.

their problems with accessing finance through the banking system and the capital markets.<sup>111</sup>

1.60 Other related matters covered during the committee's examination included:

- whether the Commonwealth Criminal Code is able to take actions against rogue operators in the financial planning industry;<sup>112</sup>
- recommendation to extend the current criminal penalty to Chapter 7 of the Corporations Act 2001 to capture financial products and services;<sup>113</sup>
- government's response to the financial system inquiry;<sup>114</sup>
- concerns surrounding the use of the Henderson Poverty Index to calculate the cost of living expenses by lending institutions;<sup>115</sup>
- opportunities for self-managed superannuation funds to purchase investment properties and the associated risks within the sector;<sup>116</sup>
- update on ASIC's work in the area of payday lending practices;<sup>117</sup>
- ASIC's work to strengthen whistleblower protection in the private sector;<sup>118</sup> and
- update on ASIC's investigations of NAB's financial planning system and advisers, and the effect of the Future of Financial Advice (FOFA) reforms on remuneration structures more widely.<sup>119</sup>

#### ***Australian Prudential Regulation Authority***

1.61 During Australian Prudential Regulation Authority's (APRA) examination, the following range of issues were covered:

- APRA's efforts to reinforce sound standards in lending for housing and its role in the removal of some less than prudent lending practices;<sup>120</sup>
- APRA's macroprudential role in ensuring the loan books of Australian authorised deposit-taking institutions (ADIs) are built on a solid foundation from sound lending standards;<sup>121</sup>

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111 *Committee Hansard*, 3 June 2015, p. 7.

112 *Committee Hansard*, 3 June 2015, p. 7.

113 *Committee Hansard*, 3 June 2015, pp. 7– 8 and 10.

114 *Committee Hansard*, 3 June 2015, p. 11.

115 *Committee Hansard*, 3 June 2015, p. 12.

116 *Committee Hansard*, 3 June 2015, p. 13.

117 *Committee Hansard*, 3 June 2015, p. 18.

118 *Committee Hansard*, 3 June 2015, p. 24.

119 *Committee Hansard*, 3 June 2015, pp. 30–31.

120 *Committee Hansard*, 3 June 2015, p. 49.

121 *Committee Hansard*, 3 June 2015, p. 49.

- the transfer of responsibility for the prudential supervision of private health insurance from the Private Health Insurance Administration Council (PHIAC) to APRA;<sup>122</sup>
- update on APRA's work with ASIC on bank bundling—where superannuation funds operated by banks allegedly induce employers to offer inducements in order to get people into the default status of a superannuation fund;<sup>123</sup>
- level of independence of boards of super funds and appointment of independent directors;<sup>124</sup>
- whether APRA has looked at a tailored approach to provide a more nuanced approach to address the housing bubble issue;<sup>125</sup> and
- actions taken by APRA following the US District Court's finding that the Arab Bank's parent company had breached the Anti-terrorism Act.<sup>126</sup>

### ***Productivity Commission***

1.62 During the Productivity Commission (PC) examination, the matters raised included:

- the PC's inquiry into public housing which did not find there was value in encouraging public housing tenants to move into private housing as a means of improving their employment prospects;<sup>127</sup>
- the PC's current inquiry into workplace relations and the number of staff allocated to work on this inquiry;<sup>128</sup>
  - number of submissions received and breakdown of submissions into employers and individuals;<sup>129</sup>
  - range of issues covered in submissions received, including on bargaining and agreements, employment protection such as unfair dismissal, and wages and conditions;<sup>130</sup>
  - timing of the draft report and whether there would be any public hearings;<sup>131</sup> and

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122 *Committee Hansard*, 3 June 2015, p. 49.

123 *Committee Hansard*, 3 June 2015, p. 55.

124 *Committee Hansard*, 3 June 2015, p. 58.

125 *Committee Hansard*, 3 June 2015, p. 59.

126 *Committee Hansard*, 3 June 2015, pp. 60–61.

127 *Committee Hansard*, 3 June 2015, p. 63.

128 *Committee Hansard*, 3 June 2015, pp. 63–64.

129 *Committee Hansard*, 3 June 2015, p. 64.

130 *Committee Hansard*, 3 June 2015, p. 64.

131 *Committee Hansard*, 3 June 2015, p. 64.

- how comprehensive the report will be in terms of its coverage throughout Australia;<sup>132</sup> and
- whether issues covering 'safety net', health and safety, and minimum wage will be featured in the inquiry.<sup>133</sup>

### **Matters raised – Industry and Science portfolio**

1.63 On 3 and 4 June 2015, the committee examined the estimates for the:

- Australian Nuclear Science and Technology Organisation (ANSTO);
- Commonwealth Scientific and Industrial Research Organisation (CSIRO);
- Australian Institute of Marine Science (AIMS);
- National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA);
- Geoscience Australia (Geoscience);
- Office of the Chief Scientist;
- Department of Industry and Science [Cross-portfolio and Programme 3: Programme Support];
- Department of Industry and Science [Programme 1: Supporting Science and Commercialisation]; and
- Department of Industry and Science [Programme 2: Growing Business Investment and Improving Business Capability] Questions related to the Australian Renewable Energy Agency (ARENA) and the Anti-Dumping Commission were asked in the session for Programme 2.

1.64 Matters examined included the following:

#### ***Australian Nuclear Science and Technology Organisation***

1.65 During the Australian Nuclear Science and Technology Organisation's (ANSTO) appearance before the committee, ANSTO provided an overview of the impact that the construction of the new nuclear medicine facility and associated synroc waste plant would have on the supply of nuclear medicines. The Chief Executive Officer, Dr Adi Paterson, provided the following comment:

The big change that will take place for us is that at the moment we are a supplier into the Australia New Zealand domain and to some countries in the region and we are a small supplier into the US market at present, and when the new nuclear medicine facility is completed we will be able to move to supplying of the order of 11½ million doses a year of diagnostic nuclear medicines into the US, Asian region markets, Australia and New Zealand. This will be a very significant change. It will move us into being one of the major global suppliers and will have great advantages both for

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132 *Committee Hansard*, 3 June 2015, p. 64.

133 *Committee Hansard*, 3 June 2015, pp. 64–65.

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Australian manufacturing capabilities, because we are effectively in that sense a manufacturer, and because the 11½ million doses will generate around \$100 million a year in revenue which will return to Australia.<sup>134</sup>

1.66 Dr Paterson also described how the economics of synroc waste technology compared to the current waste treatment paradigm of encapsulating liquid wastes within a cemented product, advising the committee that:

Not only would Synroc considerably reduce the volume, it also more safely and more sustainably contains the nuclear waste.

The reduced volume and the better safety case together add up to a considerable advantage. It is oversimplifying but nevertheless true that the economics of nuclear waste is highly correlated with the volume that is produced and, if you can reduce the volume, that is a positive outcome.<sup>135</sup>

1.67 Other matters of interest discussed included:

- the significance of the new nuclear medicine facility in terms of the international nuclear medical industry, diagnostic medicine, and therapeutic application;<sup>136</sup>
- strengthening of ANTSO's engineering capabilities through the construction of the Open Pool Australian Lightwater (OPAL) reactor and the movement from mainly procurement to engineering of their own nuclear technologies;<sup>137</sup>
- funding for the Australian synchrotron, including departmental contributions to fund its operation and negotiations with the Victorian Government and New Zealand Synchrotron Group for remaining operating costs;<sup>138</sup>
- ANSTO's involvement with regard to the work of the South Australian Nuclear Fuel Cycle Royal Commission;<sup>139</sup>
- the state of, and constraints on, the global market with regard to molybdenum-99 and ANSTO's progress in its project to expand production;<sup>140</sup>
- the \$22.3 million outlined in the budget for radioactive waste storage;<sup>141</sup> and
- storage of repatriated waste material from France and the UK and the potential cost implications of negotiating the timing of repatriations.<sup>142</sup>

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134 *Committee Hansard*, 3 June 2015, pp. 70-71.

135 *Committee Hansard*, 3 June 2015, p. 76.

136 *Committee Hansard*, 3 June 2015, p. 71.

137 *Committee Hansard*, 3 June 2015, pp. 71-72.

138 *Committee Hansard*, 3 June 2015, pp. 72-73.

139 *Committee Hansard*, 3 June 2015, p. 73.

140 *Committee Hansard*, 3 June 2015, p. 74.

141 *Committee Hansard*, 3 June 2015, p. 79.

142 *Committee Hansard*, 3 June 2015, pp. 79-80.

**Commonwealth Scientific and Industrial Research Organisation**

1.68 During its examination of the Commonwealth Scientific and Industrial Research Organisation (CSIRO), the committee canvassed the following matters:

- the potential merger with NICTA, the present state of negotiations and likely outcomes;<sup>143</sup>
- foreseen impact in terms of job losses across CSIRO and NICTA should the merger go ahead and how CSIRO has been working to minimise that impact;<sup>144</sup>
- the status of negotiations regarding the quadrennial agreement due to expire in June of 2015;<sup>145</sup>
- initial operations carried out by the *RV Investigator* including voyages to the Antarctic ice edge and between Sydney and Brisbane to monitor the East Australian Current (EAC);<sup>146</sup>
- the number of requests that have been made to make use of the *RV Investigator* and the 3-year schedule released following a call for proposals from the steering committee;<sup>147</sup>
- recent changes allowing the CSIRO board to appoint the Marine National Facility steering committee as well as the benefits of this change in engaging the scientific community;<sup>148</sup>
- CSIRO's involvement in the development of the transit tool used to determine transport logistic for the cattle industry as well as their intention, if any, to widen its use away from just the beef industry;<sup>149</sup> and
- an update on phases 2 and 3 of CSIRO's Surat Basin seep study.<sup>150</sup>

1.69 In relation questioning about progress made in finding an alternate source of funding in order to increase the number of operating days of the *RV Investigator* per year, Dr Marshall advised:

A number of us have engaged a number of corporates, private companies, that are interested in availing themselves of the use of the vessel. One of the great opportunities with the new ship is that we are able to carry 40 scientists instead of 13—I believe they are the correct numbers—which means we would in principle be able to accommodate a commercial voyage

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143 *Committee Hansard*, 3 June 2015, p. 81.

144 *Committee Hansard*, 3 June 2015, p. 81.

145 *Committee Hansard*, 3 June 2015, p. 83.

146 *Committee Hansard*, 3 June 2015, pp. 88-89.

147 *Committee Hansard*, 3 June 2015, p. 90.

148 *Committee Hansard*, 3 June 2015, pp. 89-90.

149 *Committee Hansard*, 3 June 2015, pp. 91-92.

150 *Committee Hansard*, 3 June 2015, pp. 92-97.



and then ask the commercial partner to let us put some more scientists in those extra berths, essentially to go along for the ride. We could then do science and let the commercial partner do their work as well. We have had some fairly positive reception to that notion. We have not granted anything yet but there are some things that are quite close.<sup>151</sup>

1.70 Dr Marshall also provided the committee with an update with regard to the restructuring of CSIRO and how staff morale is faring in relation to this, commenting that:

I would say that when I started that process there was a lot of uncertainty, a lot of concern about the future. The organisation had gone through a massive change in the restructure. From that experience, I would say the morale is definitely looking forward now, not backwards. Culturally I think as scientists we want to look forward. We want to look to the future. We believe we can make the future better. So that is a really profound and important shift in the morale.<sup>152</sup>

### ***Australian Institute of Marine Science***

1.71 During the Australian Institute of Marine Science's (AIMS) appearance, the committee asked about the work undertaken by the Institute on offshore oil and gas projects and the effect of the oil price crash.<sup>153</sup>

1.72 AIMS' Chief Executive Officer, Mr Gunn, provided the following comment:

I think that right across that sector there is pressure on expenditure. As usual, we are working pretty hard to make sure our work is relevant. At the moment we are still in negotiation on a number of projects. I am hoping it will not have too much impact on the research we do.<sup>154</sup>

1.73 In response to questions regarding how AIMS will factor projected budget cuts, Mr Gunn noted:

The practice of all science agencies—all agencies—when they are faced with a cut is to look for savings within efficiencies. Efficiencies are driven hard by those types of cuts. We go through our usual process of looking at ways we could make sure that our science is maintained while becoming more efficient in the back-end of the business.<sup>155</sup>

### ***National Offshore Petroleum Safety and Environment Management Authority***

1.74 During the National Offshore Petroleum Safety and Environment Management Authority's (NOPSEMA) examination, NOPSEMA provided the

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151 *Committee Hansard*, 3 June 2015, p. 83.

152 *Committee Hansard*, 3 June 2015, pp. 84-85.

153 *Committee Hansard*, 3 June 2015, pp. 97-98.

154 *Committee Hansard*, 3 June 2015, p. 97.

155 *Committee Hansard*, 3 June 2015, p. 98.

committee with an update on the progress of conferring state powers in the areas of health and safety and environmental management to NOPSEMA.<sup>156</sup>

1.75 With regard to the process of conferring state powers, NOPSEMA's Chief Executive Officer, Mr Stuart Smith, explained:

Typically, if a state or territory chooses to confer its powers that would be a matter that would need to be considered by the cabinet and signed off by the cabinet. There are a number of ways in which conferral can occur: for instance, the relevant jurisdiction could adopt the Commonwealth legislation; they could adopt mirroring legislation; or they could look at NOPSEMA being their agent and us administering their laws on the basis that their laws have substantive equivalence with the Commonwealth regime. In terms of conferral, when it takes place NOPSEMA becomes the agent for that particular state.<sup>157</sup>

1.76 Mr Smith went on to comment on the advantages of the conferral of states regulatory powers in these areas:

I believe conferral is in the best interests of the country, because I believe the regulatory regime we have is the one most likely to lead to safe and environmentally responsible outcomes. I believe that is the key benefit from conferral. You will have one regulator—so you are removing a level of duplication—and you are getting some savings but you are also getting certainty from that. Also, you are getting a regulatory regime that is the best in the country. Some of the states and territories are already applying a very similar regime and we are working with them. Having just one regulator administering everything means that you are more likely to get a safe outcome and an environmentally responsible one.<sup>158</sup>

1.77 Other areas of examination by the committee included:

- NOPSEMA's response to address the recent upturn in hydrocarbon releases as noted in the offshore petroleum report;<sup>159</sup>
- comments made at the recent Australian Petroleum Production and Exploration Association (APPEA) conference concerning the possible effect of reduced oil prices on companies' health and safety standards;<sup>160</sup>
- NOPSEMA's involvement in the Western Australia parliamentary inquiry into Floating LNG safety and whether the current regulatory framework was appropriate for the introduction of floating liquefied natural gas (LNG) technology in Australia;<sup>161</sup>

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156 *Committee Hansard*, 3 June 2015, pp. 99-100.

157 *Committee Hansard*, 3 June 2015, p. 100.

158 *Committee Hansard*, 3 June 2015, p. 101.

159 *Committee Hansard*, 3 June 2015, pp. 101-102.

160 *Committee Hansard*, 3 June 2015, p. 102.

161 *Committee Hansard*, 3 June 2015, p. 103.

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- differences in assessing the safety of a floating LNG as compared to a land-based facility;<sup>162</sup> and
  - the staffing profile of NOPSEMA in terms of the number of staff, their functions and classifications.<sup>163</sup>

### ***Geoscience Australia***

1.78 The committee covered the following topics during its examination of Geoscience Australia (Geoscience):

- the number of voluntary redundancies within the agency as a result of funding cuts;<sup>164</sup>
- anticipated number of graduate positions to be offered in the 2016 intake;<sup>165</sup>
- the present status of enterprise bargaining negotiations at Geoscience and the effect of protected industrial action undertaken by staff;<sup>166</sup> and
- Geoscience's insight into report of gas being found in dams and bores.<sup>167</sup>

### ***Office of the Chief Scientist***

1.79 The Chief Scientist, Professor Ian Chubb, provided the committee with an overview of the important work currently underway out of the office:

Right now we are about to start a consultation process on the development of a whole-of-government science policy, science strategy. That will take a few weeks and months until the end of the year when I leave. Hopefully it will be completed by then. That is focusing on four main pillars: innovation, education, research and international engagement. We are approaching that with a consultation paper that will go out later this month. Then we will have a series of roundtables dotted around the country to get some input into that. Basically, the position is: is the government response to my recommendations from last September appropriate? In other words: are the adequate, are we missing things, are there things we should be doing or are they all okay? That will, I hope, lead to a significant shift in the way we approach support for science in the country and will give us some long-term capacity that will enable us to build appropriate capability. Embedded within that but already released are our science and research priorities. They went out a couple of weeks ago, launched by the Prime Minister and Ministers Pyne and MacFarlane and me. We are now doing the back-office work on that to map what we presently do in those areas and which proportion of our present \$9.2-odd billion—if you count it all, or \$7.2

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162 *Committee Hansard*, 3 June 2015, pp. 103-104.

163 *Committee Hansard*, 3 June 2015, p. 105.

164 *Committee Hansard*, 3 June 2015, p. 106.

165 *Committee Hansard*, 3 June 2015, pp. 106-107.

166 *Committee Hansard*, 3 June 2015, pp. 107-108.

167 *Committee Hansard*, 3 June 2015, pp. 108-109.

billion if you take out the tax R&D rebate—do we spend on those priority areas? I was really pleased to see that the ministers—state, territory and federal—agreed to a national STEM policy for schools, announced last Friday. That is consistent with what I have been arguing in the STEM strategy paper.<sup>168</sup>

1.80 In response to a question from the committee regarding the most comprehensive way of preparing students for a career in science, technology, engineering and mathematics (STEM), Professor Chubb commented that:

I think that the foundation for it all is that all STEM subjects—and not much engineering is taught in schools, of course, so we are talking primarily about science, technology and mathematics with respect to schools—be taught as they are practised. When it is practised, it is awesome, fantastic. You discover things. You learn things. You learn things about nature. You learn things about the constructed world, not just the natural world. Taught the right way, showing young people how awesome it is, either they will either learn it and go on to be members of the community with the capacity to make informed judgements when they have to make a judgement or they will become scientists. Both are important.<sup>169</sup>

1.81 Other matters of note examined included:

- the low percentage of women taking up studies in the field of engineering and the intention to attempt to address this issue in Australia by trialling specific, well-designed programs;<sup>170</sup>
- disparity in median university entry scores between students enrolling in education and those enrolling in science;<sup>171</sup>
- progress in relation to examining the extent of Australia's engagement in science and research at an international level;<sup>172</sup>
- funding for the Australia-China Science and Research Fund and the Australia-India Strategic Research Fund;<sup>173</sup> and
- the perceived effectiveness of discounting the HECS costs of students studying in STEM areas and whether this is an appropriate way of increasing student engagement in such areas.<sup>174</sup>

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168 *Committee Hansard*, 4 June 2015, p. 37.

169 *Committee Hansard*, 4 June 2015, pp. 38-39.

170 *Committee Hansard*, 4 June 2015, p. 39.

171 *Committee Hansard*, 4 June 2015, p. 40.

172 *Committee Hansard*, 4 June 2015, p. 41.

173 *Committee Hansard*, 4 June 2015, pp. 41-42.

174 *Committee Hansard*, 4 June 2015, pp. 43-44.

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***Department of Industry and Science [Cross-portfolio /Programme 3: Programme Support]***

1.82 During the Department of Industry's [Cross-portfolio/ Programme 3] appearance before the committee, the department was questioned about the use of non-conforming and non-complying building products and, in particular, the incorrect use of aluminium cladding products. The department assured the committee that:

...we are aware of the sensitivities of the matter and the need for the Commonwealth to work with the states and territories in relation to potential strategies to address some of the outstanding issues. At the forthcoming building ministers forum issues relating to non-conforming and non-complying building products will be a key issue.<sup>175</sup>

1.83 The department further commented that:

[T]here is a range of players who are involved in actually resolving these issues—not just the states and territories, but the builders themselves, industry groups and so forth. One of the actions that have occurred is that the Australian Industry Group has developed a construction product alliance that involves a lot of key stakeholders, which is attempting, from an industry lens, to look at action that could be taken. Certainly, the department has entered into and continues discussions with the ACCC and with other parties in relation to what action could be taken.

...

Through our previous parliamentary secretary, late last year there was an opportunity for stakeholders to meet with the Commonwealth to talk about issues from their perspective, through a non-conf[or]ming building products round table. Obviously, representations to government continue from industry stakeholders. Also, at the forthcoming BMF [Building Ministers' Forum] there will be a further discussion about these important matters and what further action may need to be taken, either at the jurisdictional level or at the national level.<sup>176</sup>

1.84 Other matters examined included:

- the status of department's enterprise bargaining and the voting down of the recently proposed agreement;<sup>177</sup>
- the Department of Industry's engagement with the Australian Public Service Commission (APSC) in relation to approval processes for the proposed enterprise agreement;<sup>178</sup>
- staffing numbers in the department since the machinery-of-government change;<sup>179</sup>

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175 *Committee Hansard*, 4 June 2015, p. 21.

176 *Committee Hansard*, 4 June 2015, p. 21.

177 *Committee Hansard*, 4 June 2015, pp. 27-29.

178 *Committee Hansard*, 4 June 2015, pp. 30-31.

- savings of \$29.69 million in compliance costs as a result of the closing of programs;<sup>180</sup> and
- the proposed re-shaping of the Innovation Australia board.<sup>181</sup>

***Department of Industry and Science [Programme 1: Supporting Science and Commercialisation]***

1.85 During the Department of Industry's [Programme 1] appearance, the Minister representing the Minister for Industry informed the committee about what has occurred as a result of the recent review of co-operative research centres (CRCs).

As a result of the reviews, the 2015-16 budget is investing about \$731 million over five years. I think it is interesting to note that since 1991 the nation has invested more than \$4 billion in funding the CRC Program. There was a review by Mr David Miles. I think that in the 25 years since it started there have been about 209 CRCs. There are of course reviews, I think, approximately every four or five years in relation to it. There were 18 recommendations, which were all accepted by the government.<sup>182</sup>

1.86 In relation to questions regarding how the department was getting the most value for money with respect to spending in the science and research area, the department's Deputy Secretary, Mr Martin Hoffman, noted that:

[T]he government has now put in place a set of national science and research priorities. This is a way of getting, as it were, the best value or the best return from the investment that is made by lining them up on some national priorities and challenges and then seeing that flow through from the science sector into the economy itself with the identification of the growth sectors. It is really drawing it all the way through from science into industry and vice versa.<sup>183</sup>

1.87 Other matters covered during the committee's examination included:

- discontinuation of the public good test for CRCs;<sup>184</sup>
- the amount of uncommitted funds available over the forward estimates for future funding rounds of the CRC program;<sup>185</sup>
- the number of CRCs due to finalise during the coming few years;<sup>186</sup>

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179 *Committee Hansard*, 4 June 2015, p. 32.

180 *Committee Hansard*, 4 June 2015, pp. 32-34.

181 *Committee Hansard*, 4 June 2015, p. 35.

182 *Committee Hansard*, 4 June 2015, p. 45.

183 *Committee Hansard*, 4 June 2015, p. 45.

184 *Committee Hansard*, 4 June 2015, p. 46.

185 *Committee Hansard*, 4 June 2015, p. 48.

186 *Committee Hansard*, 4 June 2015, p. 49.

- availability of advice and guidance to companies on changes to the Research and Development (R&D) Tax Incentive;<sup>187</sup>
- interaction between departments and different sectors in order to coordinate science promotion programs;<sup>188</sup> and
- visitation rates at Questacon.<sup>189</sup>

1.88 Director of Questacon, Professor Graham Durant, provided the committee with an update on the work taking place through the Inspiring Australia program:

The program is doing very well. It is now in its fourth year, having been re-funded in the last budget for a further four years. It is doing some very good work in the ongoing operations of Prime Minister's prizes for science and National Science Week. The recent Unlocking Australia's Potential grant round awarded 63 grants, a sum of \$5 million, and achieved a significant amount of activity right across the country. Many of those projects are still underway, having achieved a measure of sustainability after the life of the grant. In all states but one, we have set up an ongoing funding agreement, jointly funded with the states and territories, to place an officer on the ground and to generate some funds that will allow for activities in each of those states and territories as part of the national framework.<sup>190</sup>

***Department of Industry [Programme 2: Growing Business Investment and Improving Business Capability]***

*Australian Renewable Energy Agency*

1.89 At the request of the committee, the Chief Executive Officer of the Australian Renewable Energy Agency (ARENA), Mr Ivor Frischknecht, gave a summary of some of the 'cutting-edge' technology the agency was presently looking at:

There are many; it is hard to choose. One thing that is very exciting is that Australia really has a leadership position in working on PV R&D. A majority of the panels that we see on rooftops either have now or will in the very near future be based on UNSW and ANU intellectual property. That is a gigantic gift that we have given to the world and, of course, benefited from ourselves directly in the form of cheaper panels. It has also resulted in lots of foreign students coming here, which of course is an export; substantial intellectual property licence fees; and also contract R&D. A lot of the Chinese solar manufacturers do contract R&D here.

That is the past. The future is equally exciting in that we can see the cost declines in PV continuing quite dramatically, and that is going to lead to large-scale projects being competitive with wind soon, and both of them

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187 *Committee Hansard*, 4 June 2015, p. 55.

188 *Committee Hansard*, 4 June 2015, p. 56.

189 *Committee Hansard*, 4 June 2015, p. 57.

190 *Committee Hansard*, 4 June 2015, p. 56.

being very competitive with any fossil fuel new build in the near future, if they are not already.<sup>191</sup>

1.90 Other topics examined by the committee during ARENA's appearance included:

- whether the legislation proposing a 33,000 gigawatt hours target would affect the viability of any of ARENA's projects;<sup>192</sup>
- current prospects for concentrated solar thermal in terms of its commercial viability in being connected to the National Electricity Market (NEM);<sup>193</sup>
- the total amount of private sector investment created;<sup>194</sup> and
- cost differentials between solar and diesel generation.<sup>195</sup>

#### *Anti-Dumping Commission*

1.91 During its examination of the Anti-Dumping Commission, the committee covered the following topics:

- the timing of publication of information in regards to the Commission's investigation of allegations of dumping of certain PVC flat electric cables exported from China;<sup>196</sup>
- the current staffing profile of the Commission and the engagement of staff on short-term contracts in order to effectively manage an increase in workload;<sup>197</sup> and
- the proportion of applications to the anti-dumping commission that relate to steel or aluminium dumping.<sup>198</sup>

#### *Department of Industry [Programme 2: Growing Business Investment and Improving Business Capability]*

1.92 The main topics covered during the committee's examination of the Department of Industry's [Programme 2] included:

- the public voluntary nomination process for sites for low- and intermediate-level waste storage facilities;<sup>199</sup>

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191 *Committee Hansard*, 4 June 2015, p. 18.

192 *Committee Hansard*, 4 June 2015, p. 17.

193 *Committee Hansard*, 4 June 2015, p. 17.

194 *Committee Hansard*, 4 June 2015, p. 18.

195 *Committee Hansard*, 4 June 2015, p. 18.

196 *Committee Hansard*, 4 June 2015, pp. 69-70.

197 *Committee Hansard*, 4 June 2015, pp. 71-72.

198 *Committee Hansard*, 4 June 2015, p. 72.

199 *Committee Hansard*, 4 June 2015, p. 4.



- the exploration development incentive (EDI) introduced in the last budget and the department's role in supporting Treasury to implement this initiative;<sup>200</sup>
- funding of \$22.6 million allocated to the project of site selection for the National Radioactive Waste Management Facility;<sup>201</sup>
- effects of funding reductions on the National Low Emissions Coal Initiative (NLECI) program;<sup>202</sup>
- market issues regarding east coast gas and progress made since the previous estimates;<sup>203</sup>
- particular market reforms planned for the gas sector and the potential impact of these reforms on the national gas rules;<sup>204</sup>
- the number of projects that the Tasmanian Major Projects Approval Agency (TMPAA) is presently involved with as well as the industries these projects are related to;<sup>205</sup>
- the new Health Industries Forum to be held twice-yearly with industry stakeholders to consult on cross-portfolio issues of interest;<sup>206</sup>
- the status of the legislated departmental review of the Disability (Access to Premises–Buildings) Standards 2010, including the establishment of a steering committee and opportunities for stakeholder contribution;<sup>207</sup>
- the department's involvement in the Motor Vehicle Standards Act review;<sup>208</sup> and
- consultation processes currently underway with regard to country-of-origin food labelling.<sup>209</sup>

1.93 In response to questions in relation to the time taken to implement the election commitment of the Manufacturing Transition Program, General Manager of the Operations Branch, Ms Lisa Peterson explained that:

Round 1 of the program opened in September 2014 and closed on 21 October. There was an industry led advisory committee that met on 16 February this year to assess the applications and to determine funding recommendations to be put forward to the minister. While the total quantum

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200 *Committee Hansard*, 4 June 2015, p. 7.

201 *Committee Hansard*, 4 June 2015, p. 8.

202 *Committee Hansard*, 4 June 2015, pp. 9-10.

203 *Committee Hansard*, 4 June 2015, p. 11.

204 *Committee Hansard*, 4 June 2015, p. 12.

205 *Committee Hansard*, 4 June 2015, p. 13.

206 *Committee Hansard*, 4 June 2015, pp. 59-60.

207 *Committee Hansard*, 4 June 2015, pp. 62-63.

208 *Committee Hansard*, 4 June 2015, pp. 65-67.

209 *Committee Hansard*, 4 June 2015, pp. 67-68.

of funds available was sufficient, the recommended projects could not be put forward for approval to the minister until necessary changes have been made to the funding profile to accommodate the proposed milestone payments. Within the requirements of the financial framework, funding decisions must of course consider whether or not there are sufficient uncommitted funds across the year. We put in a movement of funds request that was made and approved by the Minister for Finance on 2 April as part of whole-of-government processes. The grants were approved shortly afterwards.<sup>210</sup>

1.94 In relation to the number of applications received and the assessment process for the Next Generation Manufacturing Investment Program, Ms Chris Butler, Head of the Business Services Division, advised the committee:

Interest has been very strong for this program, with a total of 265 applications received seeking \$554 million in grants. Of those, 241 of those applications are considered to be eligible and we are going through an assessment process at the moment. Given the large volume of the applications that we have received, we are looking for a decision before the end of the financial year. It has been a very well-subscribed program, and it has resulted in us having to undertake a considerably large assessment within AusIndustry.<sup>211</sup>

**Senator Sean Edwards**

**Chair**

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210 *Committee Hansard*, 4 June 2015, p. 61.

211 *Committee Hansard*, 4 June 2015, p. 63.