



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

STANDING COMMITTEE ON ECONOMICS

ESTIMATES

(Supplementary Budget Estimates)

WEDNESDAY, 22 OCTOBER 2008

CANBERRA

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SENATE STANDING COMMITTEE ON**ECONOMICS****Wednesday, 22 October 2008**

Members: Senator Hurley (*Chair*), Senator Eggleston (*Deputy Chair*), and Senators Bushby, Cameron, Furner, Joyce, Pratt and Xenophon

Participating members: Senators Abetz, Adams, Arbib, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Cash, Colbeck, Jacinta Collins, Coonan, Cormann, Crossin, Ellison, Farrell, Feeney, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Hanson-Young, Heffernan, Humphries, Hutchins, Johnston, Kroger, Ludlam, Lundy, Macdonald, Marshall, Mason, McEwen, McGauran, McLucas, Milne, Minchin, Moore, Nash, O'Brien, Parry, Payne, Polley, Ronaldson, Ryan, Scullion, Siewert, Stephens, Sterle, Troeth, Trood, Williams and Wortley

Senators in attendance: Senators Abetz, Bilyk, Boswell, Brandis, Bob Brown, Bushby, Cameron, Coonan, Eggleston, Farrell, Fifield, Fisher, Furner, Heffernan, Hurley, Joyce, Ludlam, Milne, Nash, Parry, Payne, Polley, Pratt, Ronaldson, Williams and Xenophon

Committee met at 9.04 am

TREASURY PORTFOLIO**In Attendance**

Senator Conroy, Minister for Broadband, Communications and the Digital Economy, and Senator Sherry, Minister for Superannuation and Corporate Law

Department of the Treasury

Dr Ken Henry AC, Secretary to the Treasury

Outcome 1—Sound Macroeconomic Environment**Output Group 1.1 Macroeconomic Group**

Dr David Gruen, Executive Director, Macroeconomic Group

Mr Tony McDonald, General Manager, Macroeconomic Policy Division

Mr Jason Allford, Acting General Manager, Domestic Economy Division

Ms Rose Verspaandonk, Manager, Macroeconomic Policy Division

Mr Adam McKissack, Principal Adviser, Domestic Economy Division

Dr Paul O'Mara, Principal Adviser, Macroeconomic Group

Mr Mike Waslin, Principal Adviser, Domestic Economy Division

Outcome 2—Effective Government Spending Arrangements**Output Group 2.1 Fiscal Group**

Mr Nigel Ray, Executive Director, Fiscal Group

Ms Jan Harris, General Manager, Budget Policy Division

Mr Micah Green, Manager, Budget Policy Division

Mr Matthew Brine, Manager, Budget Policy Division

Ms Karen Incher, Manager, Budget Policy Division

Mr Michael Willcock, General Manager, Commonwealth-State Relations Division

Mr Steve French, General Manager, Industry, Environment and Defence Division

Mr Geoff Francis, Principal Adviser, Industry, Environment and Defence Division
Ms Natalie Horvat, Manager, Industry, Environment and Defence Division
Ms Meghan Quinn, Manager, Industry Environment and Defence Division
Ms Peta Furnell, Acting General Manager, Social Policy Division
Mr Peter Robinson, Principal Adviser, Social Policy Division
Mr David Pearl, Principal Adviser, Social Policy Division
Ms Deidre Gerathy, General Manager, Corporate Services Group
Mr Rob Donnelly, General Manager, Corporate Services Group
Mr Richard Hayes, Director, Regulatory Development Branch

Outcome 3—Effective Taxation and Retirement Income Arrangements

Output Group 3.1 Revenue Group

Mr David Parker, Acting Executive Director, Revenue Group
Ms Christine Barron, General Manager, Indirect Tax Division
Ms Sue Vroombout, Acting General Manager, Personal and Retirement Income Division
Mr Trevor Thomas, Principal Adviser, Personal and Retirement Income Division
Mr Mark O'Connor, Principal Adviser, Personal and Retirement Income Division
Mr Nigel Murray, Manager, Personal and Retirement Income Division
Mr Tony Coles, Manager, Personal and Retirement Income Division
Ms Maryanne Mrakovcic, General Manager, Tax Analysis Division
Mr Colin Brown, Manager, Tax Analysis Division
Mr Damien White, Manager, Tax Analysis Division
Mr Phil Gallagher, Manager, Tax Analysis Division
Mr Marty Robinson, Manager, Tax Analysis Division
Mr Rob Heferen, General Manager, Australia's Future Tax System Review
Ms Brenda Berkeley, General Manager, Tax Design Division
Mr Jonathon Rollings, Manager, Tax Design Division
Mr William Potts, Manager, International Tax and Treaties Division
Mr Martin Jacobs, Manager, International Tax and Treaties Division
Mr Matthew Flavel, Manager, Business Tax Division
Mr Tony Regan, Manager, Business Tax Division
Mr Bill Brummitt, General Manager, International Economy Division
Mr Paul Flanagan, General Manager, International Finance Division

Outcome 4—Well-Functioning Markets

Output Group 4.1 Markets Group

Mr Jim Murphy, Executive Director, Markets Group
Mr Geoff Miller, General Manager, Corporations and Financial Services Division
Mr Andrew Sellars, Senior Adviser, Corporations and Financial Services Division
Mr Bede Fraser, Manager, Corporations and Financial Services Division
Ms Marian Kljakovic, Manager, Corporations and Financial Services Division
Ms Kate Preston, Manager, Corporations and Financial Services Division
Mr Mark Sewell, Manager, Corporations and Financial Services Division
Ms Alix Gallo, Manager, Corporations and Financial Services Division
Mr Richard Sandlant, Senior Adviser, Corporations and Financial Services Division
Mr Patrick Colmer, General Manager, Foreign Investment and Trade Policy Division

Ms Veronique Ingram, Manager, Financial Systems Division
Ms Kerstin Wijeyewardene, Manager, Financial Systems Division
Mr Andre Moore, Manager, Financial Systems Division
Ms Vicki Wilkinson, Manager, Financial Systems Division
Mr Trevor King, Manager, Financial Systems Division
Mr Peter Martin, General Manager, Australian Government Actuary

Australian Bureau of Statistics

Mr Ian Ewing, Acting Australian Statistician
Mr Peter Harper, Deputy Australian Statistician, Population, Labour, Industry and Environment Statistics Group
Ms Debra Foggin, Chief Finance Officer
Mr Paul Sheedy, Acting Assistant Statistician, Office of the Statistician
Ms Gillian Nicoll, Assistant Statistician, Corporate Services Division
Mr Garth Bode, Acting Assistant Statistician, Social Statistics Division

Australian Competition and Consumer Commission

Mr Graeme Samuel, Chairman
Mr Brian Cassidy, Chief Executive Officer
Mr Adrian Brocklehurst, Chief Finance Officer
Mr Richard Chadwick, General Manager, Adjudication
Mr Michael Cosgrave, Group General Manager, Communications
Mr Joe Dimasi, Executive General Manager, Regulatory Affairs Division
Mr Scott Gregson, General Manager, Coordination
Mr Tim Grimwade, General Manager, Mergers and Assets Sales
Ms Helen Lu, General Manager, Corporate Branch
Mr Nigel Ridgway, General Manager, Compliance Strategies
Mr Mike Kiley, Acting General Manager, Enforcement Branch—Canberra
Ms Michelle Grover, Executive Officer, Australian Energy Regulator
Mr Sebastian Roberts, General Manager, Water Branch

Australian Office of Financial Management

Mr Neil Hyden, Chief Executive Officer
Mr Michael Bath, Director, Financial Risk
Mr Pat Roccosta, Chief Financial Officer

Australian Prudential Regulation Authority

Dr John Laker, Chairman
Mr Charles Littrell, Executive General Manager, Policy, Research and Statistics
Mr Wayne Byres, Executive General Manager, Diversified Institutions Division
Mr Keith Chapman, Executive General Manager, Supervisory Support Division
Mr Senthamangalam Venkatramani, General Manager, Central Region Specialised Institutions Division

Australian Securities and Investment Commission

Mr Tony D'Aloisio, Chairman
Mr Jeremy Cooper, Deputy Chairman
Ms Belinda Gibson, Commissioner
Mr Justin Owen, Manager, Government Relations
Mr Stephen Woodhill, Executive General Manager, Corporate Affairs
Mr Malcolm Rodgers, Senior Executive Leader, Strategy
Mr Lindsay Mackay, Technical Adviser to the Deputy Chairman
Mr Barton Hoyle, Lawyer, Strategy

Australian Taxation Office

Mr Michael D'Ascenzo, Commissioner
Mr David Butler, Second Commissioner
Mr Mark Konza, Acting Second Commissioner
Ms Raelene Vivian, Chief Operating Officer, Operations
Mr Bill Gibson, Chief Information Officer
Mr Neil Oleson, Deputy Commissioner, Superannuation
Ms Sally Druhan, Assistant Commissioner, Financial Operations
Mr Steve Vesperman, General Manager, AVO Valuation Corporate Support

Corporations and Markets Advisory Committee

Mr John Kluver, Executive Director

Productivity Commission

Mr Gary Banks AO, Chairman
Mr Michael Kirby, Acting Head of Office
Dr Ralph Lattimore, Assistant Commissioner
Mr Terry O'Brien, First Assistant Commissioner
Dr Lisa Gropp, Acting First Assistant Commissioner

CHAIR (Senator Hurley)—I declare open this meeting of the Senate Standing Committee on Economics. The Senate has referred to the committee the particulars of proposed expenditure for 2008-09 and certain other documents for the portfolios of Innovation, Industry, Science and Research, Resources and Energy, and Tourism and Treasury. The committee may also examine the annual reports of the departments and agencies appearing before it. The committee has fixed Friday 12 December 2008 as the date for the return of answers to questions taken on notice. Senators are reminded that written questions on notice can only be submitted to those agencies nominated to appear at this round of supplementary estimates and need to be provided to the Secretariat by the time the committee concludes its hearings tomorrow night.

Today the committee will begin by examining the macroeconomic group of Treasury and then continue in the order shown on the agenda. Under standing order 26, the committee must take all evidence in public session. This includes answers to questions on notice. I remind all witnesses that, in giving evidence to the committee, they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. The Senate, by resolution in 1999, endorsed the following test of relevance of questions at an estimates

hearing: any questions going to the operations or financial positions of the departments and agencies which are seeking funds in the estimates are relevant questions for the purpose of estimates hearings. I remind officers that the Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise.

The Senate has also resolved that an officer of a department of the Commonwealth or of a state shall not be asked to give opinions on matters of policy, and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits only questions asking for opinions on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken, and the committee will determine whether it will insist on an answer having regard to the ground which is claimed. Any claim that would be contrary to the public interest to answer a question must be made by the minister, and should be accompanied by a statement setting out the basis for the claim. I welcome Senator Conroy representing the Treasurer and officers of the Treasury. There are media people here wanting to photograph the committee proceedings. Are there any objections to that? No; then please go ahead. Is there an opening statement, Minister?

Dr Henry—With your indulgence, we do not normally provide an opening statement at these hearings. However, on this occasion, given the considerable public interest that there is in the reasoning behind the government's recent decision to announce a fiscal support package, an economic security package, I thought that it might be of value to the committee if Dr Gruen were to give a short introductory statement that concerns the macroeconomic background to those decisions.

Senator ABETZ—Could I ask whether a copy of that statement could be made available immediately, as in copied, so we can follow it as it is read out to us, because I anticipate it will be of some length? How many pages?

Dr Gruen—Six pages.

Senator ABETZ—If we could have copies, that would be very much appreciated.

Dr Gruen—Yes, certainly. There are two charts that go with the presentation, so I can seek to table them.

Senator ABETZ—Are they attached?

Dr Gruen—I seek to table them, so we have copies of those as well.

Senator ABETZ—If we could receive copies, that would be very much appreciated, thank you.

Dr Gruen—As the secretary said, my remarks go to the issue of the macro forecasts, and that is what I will be talking about. Do you wish me to wait until you have copies, or shall I begin?

CHAIR—Please continue, in the interests of time.

Senator ABETZ—I would be obliged, if it would not take too long for the copies to be made, if we could follow the statement.

CHAIR—Senator Abetz, I am aware of the time, although I should inform Treasury officials that the committee has agreed to go to 12.30 with this section. I know there are a lot of questions to be asked this morning, and if we can just proceed.

Dr Gruen—Let me begin, and you will get the copies quite quickly, hopefully.

Senator ABETZ—All right.

Dr Gruen—Thank you for the opportunity to make an opening statement. Since we last appeared before the committee in June this year, there have been dramatic developments in global financial markets and, largely as a result of those developments, a significant deterioration in the outlook for the world economy. Governments and central banks around the world have acted to counter the effects of these adverse financial market developments. The scope and speed of their actions is unprecedented in our lifetimes. Here in Australia, the government has acted to support economic growth directly through its Economic Security Strategy. The Reserve Bank of Australia has also reduced official interest rates by 1¼ percentage points in the past two months. Both the government and the Reserve Bank have introduced measures to support liquidity and the smooth operation of debt markets in the banking system.

In this environment, I thought it would assist the committee if I gave a summary of the most important of these financial market developments and outlined Treasury's view of how they will affect our economy. I will also provide you with some background on the processes that we follow in forming our view. Let me begin by quickly going back to the last set of forecasts that we published. These were in the 2008-09 budget brought down in May. At that time, we forecast GDP growth to be 2¾ per cent in 2008-09, a noticeable slowing from the estimated 3½ per cent growth in 2007-08. If realised, the 2008-09 forecast would be the lowest growth rate since 2000-01. When those forecasts were published, financial market disruption had already been evident for some time, particularly in the United States and Europe, and the world economy was expected to slow.

Since May, we have presented updated forecasts to the Treasurer on two occasions: the first following the release of the March quarter national accounts in June and the second following the release of the June quarter national accounts in September. Let me focus in particular on the most recent update. As is standard practice, the forecasts were finalised following a meeting of the joint economic forecasting group, known by the inelegant acronym JIEFG. JIEFG is chaired by Treasury and has representatives from the Reserve Bank of Australia, the Department of Prime Minister and Cabinet, the Department of Finance and Deregulation, and the Australian Bureau of Statistics.

The JIEFG report presents Treasury's forecasts, but these forecasts have been informed by discussions with the other agencies. JIEFG met on Friday 19 September, a little over two weeks after the release of the June quarter national accounts on Wednesday 3 September. The JIEFG report and the associated forecasts were sent to the Treasurer in late September. The forecasts covered the 2008-09 and 2009-10 financial years. Between the budget and early September, there had been a gradual accumulation of evidence suggesting both that the

problems in global financial markets were becoming more severe and that the likelihood of a serious economic slowdown in the advanced economies, particularly the United States, was increasing. As a result, our forecasts for economic growth in Australia were also being revised down. As the Prime Minister has told the House of Representatives, the growth forecast in the September JEFG report had a '2' in front of them. As a point of comparison, in recent years we would have put Australia's potential growth rate at around 3 to 3½ per cent.

In addition to the forecasts themselves, the JEFG report presented to the Treasurer contained a considerable discussion of the risks to the economic outlook stemming from both the financial market disruption that had already occurred and the possibility that more might occur. There has been no formal update of Treasury forecasts since the September JEFG report, other than the update we are currently finalising to feed into the Mid-Year Economic and Fiscal Outlook, which will be released within the next few weeks. I will have more to say about Treasury economic forecasts shortly, but first I want to take you through some of the crucial events that occurred in financial markets and the world economy through September and October. On Friday 5 September, US payrolls data showed that the US unemployment rate jumped 0.4 percentage points to 6.1 per cent in August, a clear indication of significant further deterioration in the US real economy. On Sunday 7 September, the US Treasury and the Federal Housing Finance Agency took steps that effectively nationalised Fannie Mae and Freddie Mac, two names that no-one would ever have heard of at the beginning of this year but now everyone knows.

Sunday 14 September marked the beginning of a rollercoaster week for the United States. Lehman Brothers, the fourth-largest investment bank in the US, filed for bankruptcy. While it was not entirely evident at the time, the collapse of Lehman led to a serious intensification of the severity of the financial crisis. There had been an expectation that a deal would be put together to save Lehman. When that did not happen, there was a significant adverse impact on confidence. Financial markets scrambled to unwind counterparty risk and withdrew credit lines, moving instead to invest in the relative safety of government debt. As you can see from the first of the two charts that I have handed around—are they available yet?

Senator ABETZ—We cannot see at the moment, but we believe you.

Dr Gruen—Yes, well you will shortly hopefully. The result was a significant sustained increase in financial market strains, as summarised here by the interest premium on 90-day bank bills. I should emphasise that the chart is for Australian data, which shows how quickly these financial market shocks can be transmitted across the globe. On Monday 15 September, Merrill Lynch entered into an agreement to be acquired by Bank of America. Goldman Sachs and Morgan Stanley successfully applied to the Federal Reserve to become commercial banks, widening their potential sources of funding. At the beginning of 2008 there were five US investment banks. By the middle of September, there were none.

On Tuesday 16 September, data released showed US housing starts falling a further 6.2 per cent in August. The same day, one of the world's largest insurers, American International Group, effectively collapsed. AIG entered into agreements with the Federal Reserve and New York state authorities that would allow it to sell its assets in the most orderly manner possible. On Wednesday 17 September, Primary Reserve became only the second mutual fund in US history to 'break the buck'—that is, to have its net asset value fall below US\$1 per dollar

invested—after it wrote off US\$785 million on Lehman Brothers debt. BNY Institutional Cash Reserves also saw its net asset value fall below US\$1 per dollar invested and Putnam Investments liquidated its Prime Money Market Fund. With net asset values falling below US\$1 per dollar invested for some of these usually very safe funds, investors began to redeem their money, triggering the distressed sale of securities and causing severe market dislocation.

On Thursday 18 September, the Federal Reserve significantly expanded its swap operations with other central banks and, on Friday 19 September, the US Treasury submitted legislation for Congress to approve the US\$700 billion Troubled Asset Relief Program. On Thursday 25 September, Washington Mutual collapsed in the biggest US bank failure in history. On Monday 29 September, the focus shifted to Europe, with the collapse of three institutions: Fortis, a Belgian financial group; Bradford and Bingley, the UK's largest lender to landlords; and Glitnir Bank, Iceland's third-largest lender. The German government extended emergency support to Hypo Real Estate, Germany's second-largest commercial property lender. On Tuesday, the governments of Belgium, France and Luxembourg combined with existing shareholders to inject €6.4 billion of new capital into financial services group Dexia.

On Friday 3 October, the Emergency Stabilization Act of 2008—a modified version of the Troubled Asset Relief Program—was eventually passed by Congress. The package provided US\$700 billion for the Treasury to purchase assets, with US\$250 billion available immediately. Data released the same day showed US non-farm payroll employment falling by 159,000 in September, although the unemployment rate remained at 6.1 per cent. What was more troubling, however, were the recent outcomes for a broader measure of underemployment in the US. This broader measure includes both the unemployed and those who want to work longer hours but are unable to find such work. It is shown in the second chart that I have circulated to you. This broader measure of US underemployment is not one we would normally look at. It came to our attention because Paul Krugman posted it on his New York Times blog. As the chart shows, US underemployment in September 2008 was already higher than at any time during, or after, the 2001 recession, and was continuing to rise rapidly. And this was happening before the mid-September intensification of the financial crisis had had time to have any material impact on the US real economy. It seemed that the US economy was weakening at a disturbing pace, and that the recent intensification of the financial crisis was only going to make matters worse.

Also on Friday 3 October, we participated in a phone hook-up with other G20 countries. During that call, an official from the International Monetary Fund advised that, even at that late stage, the IMF was further reducing its forecasts for world economic growth in 2009 to be published on Wednesday of the following week. The IMF forecasts had already been reduced a couple of times from their initial estimates. In total, from July to October, the IMF reduced its forecast for advanced economy growth in 2009 from 1.4 per cent to 0.5 per cent, that is from July to October, with much of this downward revision occurring in the weeks before the forecasts were finalised. On Monday 13 October, European nations agreed to a package of measures to support the financial system, including the guarantee of interbank loans and the purchase of equity in banks.

Later that week, the United States announced a plan to stand by all key financial institutions by purchasing equity from financial institutions and guaranteeing all senior

unsecured debt issued by eligible financial institutions, as well as guaranteeing non-interest bearing transaction deposit accounts. Measures similar in nature to these had also been announced by a number of other countries. Throughout these events, financial markets were extremely volatile, with swings in share market indices and exchange rates of five per cent or more on a number of days. In Australia, from mid-September to mid-October, the ASX200 fell from above 5,000 points to around 4,000 points, and the Australian dollar fell from above US80c to below US70c.

Let me, at this point, return to the issue of forecasts. In principle, it is possible to put together a set of economic forecasts in half an hour and I imagine there are people who do just that. All you need do is jot down a couple of growth numbers and come up with a plausible story to justify them. But forecasts like these add little to our understanding of the world. A coherent and useful set of forecasts requires a more careful specification of the assumptions you are using—for interest rates, for exchange rates, for share prices, for commodity prices, et cetera—and a clear analysis of the mechanisms by which you think these factors might affect the economy. The narrative around the forecasts comes out of this analysis. You also need to be clear about what you do not know, and about the nature of the major risks to the outlook. In Treasury's case, preparing a set of economic forecasts in this way from a standing start would take us about a week—longer if we consulted extensively with our colleagues in other economic departments and agencies.

In the current situation—that is, if we were to have updated our forecasts in late September or early October—we would not have been working from a standing start. We already had a prepared set of forecasts in mid-September. We could have locked ourselves in a room with our September forecasts and the new information that had accumulated since they were finalised and spent two or three days coming up with a coherent set of new forecasts. Had we done so, however, it is clear that international events were moving so rapidly that, when we emerged from that hypothetical room after a couple of days, we would have wanted to rip the forecasts up and start again. We did not think that this was a particularly useful exercise. You can, I suspect, appreciate the difficulties of putting together a coherent set of forecasts in a period of such extraordinary volatility. What we did think would be useful was to carefully track developments in financial markets and the world economy and to analyse their implications for Australia. We were constantly updating the Treasurer and his staff, and through them the government, on events as they unfolded and their likely implications for the Australian economy.

In such circumstances, the central forecast of what might happen to the economy is probably less valuable than a careful assessment of the balance of risks. And, for the most part, the accumulating evidence was suggesting that the balance of risks around our September forecasts for Australian economic growth were shifting decisively to the downside. In situations like this, macroeconomic policy must be ready to respond quickly and substantively to developments as they occur. On this point, let me quote from the minutes of the October monetary policy meeting of the Reserve Bank Board that were published by the Reserve Bank yesterday:

The paper prepared for the Board recommended a large reduction in the cash rate, of at least 50 basis points, with the amount to be subject to review in light of any events occurring between the preparation

of the paper and the time of the meeting. In the event, the recommendation put to the Board at the meeting was for a reduction of 100 basis points, to 6.0 per cent.

This is an example of the speed with which the risks around the outlook were changing. As the governor said in his statement following the meeting:

‘... the Board judged that a material change to the balance of risks surrounding the outlook had occurred, requiring a significantly less restrictive stance of monetary policy.’

The same ‘material change to the balance of risks surrounding the outlook’ was also central to the decision about whether or not to introduce a short-term fiscal stimulus package. When confronted with such a decision, the right question to ask is: what is the policy of least regret? And when deciding on the policy of least regret, it is important to remember the extremely unusual circumstances that have confronted the Australian economy over recent weeks. It is rare to get such a strong signal over such a short time period—I am referring to the three weeks following the collapse of Lehman Brothers—that the outlook for the world economy has deteriorated so significantly. The shock is unusual in terms of both its size and the speed of its transmission through the world economy. Furthermore, even before the recent intensification of the global financial crisis became evident, the Australian economy was growing at a below-trend pace and was expected to slow further.

In these circumstances, the government decided that the ‘least regret’ policy was to introduce a significant short-term fiscal stimulus package to support economic activity at the end of 2008 and into early 2009. The stimulus is specifically targeted at household consumption and dwelling investment—areas of spending that recent data confirm as being particularly weak. It is rare for macroeconomic policy to be called upon to move so quickly. When that happens, it is because big and potentially destructive forces are at play in the economy.

I am sure that committee members will have many questions for us and we are happy to take them now.

CHAIR—Thank you. I have already indications from senators who want to ask questions. If there are other senators later down the track, I would ask if they could indicate if they have got questions. I call Senator Coonan.

Senator COONAN—Yes thank you, Madam Chair. Good morning, Minister, good morning Dr Henry and Treasury officials. Dr Henry, we have a number of questions for you. I want to kick off with the events of 12 December when the government announced a bank package that contained an unlimited deposit guarantee and that was subsequently the subject of legislation that was rushed through parliament.

Dr Gruen—Senator, that was 12 October.

Senator COONAN—Yes, 12 October. When announcing the policy, Mr Rudd was at great pains to assure Australians at his press conference: ‘The measures I have announced today are based on the advice of Australia’s economic regulators.’ Mr Henry, were you and Treasury closely involved with the government in developing this package?

Dr Henry—Yes, indeed, we were, Senator.

Senator COONAN—Were the Reserve Bank and the Australian Prudential Regulatory Authority also closely involved in the development of the package?

Dr Henry—Yes, indeed, they were, Senator.

Senator COONAN—Did ASIC have any involvement?

Dr Henry—No, no direct involvement.

Senator COONAN—On 13 October, Mr Rudd said, in referring to the package: ‘This measure has been recommended to the government by the Australian regulators—the Reserve Bank, the Prudential Regulatory Authority and the Treasury.’ Is that an accurate summation?

Dr Henry—Yes it is, Senator.

Senator COONAN—Can you tell the committee when the government first sought advice in relation to developing the package?

Dr Henry—My memory would be a bit hazy here; it was perhaps February of this year.

Senator COONAN—What advice was sought?

Dr Henry—Throughout the course of this calendar year, we in the Treasury in particular—and I, personally and in particular, have had numerous conversations with senior people in the government; that is, the Prime Minister, the Treasurer and other senior ministers, about possible policy responses to an evolving global financial crisis. All year, I think starting in February—I stand to be corrected there; it may have been January, but I think starting in February—all year we have been talking about various contingencies that the government may confront and what policy measures the government may have to consider.

Senator COONAN—When you say, ‘we have been talking about various contingencies and policies the government may consider’, who is ‘we’?

Dr Henry—Certainly in respect of my answer to the last question, and in respect of conversations back in February, I recall personally being involved in those conversations, so I guess the ‘we’ in respect of the conversations back in February is me.

Senator COONAN—So that is you but with whom? You were not talking to yourself.

Dr Henry—I am sorry, I thought I made that clear: in discussions with senior people in the government—the Prime Minister, the Treasurer and other senior ministers.

Senator COONAN—No, you had not actually mentioned that.

Dr Henry—No, I think I had actually, Senator.

Senator COONAN—Also discussions with the Reserve Bank and APRA, is that right?

Dr Henry—Certainly. In fact, discussions with the Reserve Bank and APRA on possible contingencies in the emerging global financial crisis and possible government responses to that go back a long way before February.

Senator COONAN—In respect of this specific package that contained three measures that included the unlimited guarantee for bank deposits, when was Treasury asked to develop the package that was announced on 12 October?

Dr Henry—We were not, Senator.

Senator COONAN—You were not? How did it come about that Treasury was involved in advising the government about the formulation of the package that was announced on 12 October?

Dr Henry—We—and now the ‘we’ means the Treasury, the Reserve Bank and APRA—came to the view that it was the time to act and to act decisively. That was our collective view and we informed the government of that.

Senator COONAN—When was that?

Dr Henry—Certainly over that weekend, in fact earlier—

Senator COONAN—Earlier when?

Dr Henry—Certainly on the Friday. We had had an earlier conversation with senior ministers in the government the preceding weekend about some of the things that may need to be contemplated.

Senator COONAN—When did you first have a conversation with the government about the contents of the package the way it was ultimately announced on 12 October?

Dr Henry—I am not sure that I understand the question. Maybe this will be helpful. The package has a number of components in it. There is no component of the package that was not discussed with the government many months ago as a possible response to evolving contingencies. If you are talking about the specific package that was announced on Sunday, 12 October, it is my recollection that that specific package was discussed with the government on Saturday, the 11th, and Sunday the 12th. It may also have been on Friday, the 10th. I think it may have been discussed on Friday, the 10th as well. But the package that was announced on Sunday, the 12th, brings together a number of possible initiatives, contingencies, that had been discussed over some considerable period of time with the government during the course of this year.

Senator COONAN—When was the issue of extending the proposal for a \$20,000 capped guarantee extended to an unlimited guarantee of bank deposits first raised?

Dr Henry—Sorry Senator, raised with the government?

Senator COONAN—There was a proposal that—

Dr Henry—I think it would have been—

Senator COONAN—Do you want me just to rephrase it just so it is clear?

Dr Henry—No, when you say ‘first raised’, do you mean raised with us, or when was the first occasion in which we raised it with the government?

Senator COONAN—Who raised what with whom, and in what order?

Senator Conroy—You are entitled to ask about the timing of issues; you are not entitled to ask about—

Senator COONAN—Yes, That is what I am asking.

Senator Conroy—individual advice to government

Senator COONAN—I am just asking who raised what.

Senator ABETZ—Mr Rudd has put a lot of this out into the public arena, but we will get to that later.

Dr Henry—As you I am sure you are aware, Senator, in the week preceding the government's decision, I believe—I need to check my recollection on this—there was quite some public debate that was, I might say, unhelpful, about this matter.

Senator COONAN—I am sorry, what was that?

Dr Henry—What I said, Senator, is that in the week leading up to the government's decision, and in the week preceding that week, there was some public debate about the appropriateness of the \$20,000 figure that was to be included in the government's legislation introducing the financial claims scheme.

Senator COONAN—When did you first have a conversation with any senior member of the government about the possibility of extending the proposal for a \$20,000 capped guarantee to one that is unlimited in amount?

Dr Henry—It is hard to say. I suspect it would have been the day the Leader of the Opposition first suggested that the \$20,000 capped figure may not be adequate.

Senator COONAN—That was, as I understand it, on Friday, 10 October. Is that your recollection?

Dr Henry—No, that is not my recollection, Senator. I think it was a good deal earlier than that—a good deal earlier than that.

Senator ABETZ—A week earlier or a fortnight earlier?

Dr Henry—Certainly a week earlier; maybe earlier than that. But certainly in that week preceding the government's decision we were getting questions in the department about the meaning of this, the implications of this and what conclusions people should be drawing from the Leader of the Opposition's comments.

Senator COONAN—Who was making those comments to the department?

Dr Henry—All sorts of people.

Senator COONAN—Was there any request for advice about the Leader of the Opposition's proposition that there should be a guarantee of at least \$100,000 capped sought by the Treasurer?

Dr Henry—Without being able to recall specific details of particular conversations, I am certain that we did have several conversations about that matter.

Senator COONAN—Those conversations were subsequent to the Leader of the Opposition raising that particular proposition publicly?

Dr Henry—That is correct.

Senator COONAN—Was the package that was ultimately announced on 12 October the subject of written advice by Treasury?

Dr Henry—Yes it was.

Senator COONAN—When was that advice prepared?

Dr Henry—That would be Friday, the 10th.

Senator COONAN—What happened to it? Where did it go?

Dr Henry—It went into a cabinet committee.

Senator COONAN—Did the advice contain the results of consultations you had had on the package with other regulators?

Dr Henry—Yes, I think it did. That is my recollection, yes.

Senator COONAN—In the normal course, Treasury would, when putting together an advice of this kind, consult with other relevant stakeholders, would they not?

Dr Henry—Indeed, Senator, and on this occasion we most certainly did.

Senator COONAN—Was the consultation that you carried out with the Reserve Bank with Mr Stevens or somebody else in the Reserve Bank?

Dr Henry—I spoke with Mr Stevens on numerous occasions. We have been talking about these issues on at least a daily basis for several weeks now. So certainly my consultations were with him, but other people in the Treasury Department had conversations with several other people in the Reserve Bank and in APRA.

Senator COONAN—Treasury, as I understood it, undertook consultations on the contents of the package with the Reserve Bank?

Dr Henry—That is what I have just said.

Senator COONAN—In the contents of the package was a proposal for an unlimited guarantee of bank deposits?

Dr Henry—That is correct.

Senator COONAN—And that was Treasury's recommendation to the government, is that correct?

Dr Henry—That is correct.

Senator COONAN—The results of the consultation were recorded in the advice?

Dr Henry—Yes, I think I have answered that question.

Senator COONAN—Is it correct to say that each of specific elements of the package was supported by the Reserve Bank?

Dr Henry—Yes.

Senator Conroy—I am allowing a fair degree of latitude about the questioning, but your questions have now crossed well into content of advice to government. If it is released by the Prime Minister, if it is released by a minister and is in the public domain, that is one thing. I do not believe that the questions to the extent of the information that you are now asking about, which goes to advice to government, are questions that are normally allowed at Senate estimates. Timing, when—yes, but actual 'Was this part of a package recommended by Treasury?' goes to the heart of advice to government. You well know, Minister. You have ruled out many times answering those questions yourself. I am simply asking that you constrain your questions to matters of process, not matters of content and policy advice.

Specific questions, say, 'Was that recommended by Treasury to government?' is clearly a question about advice. If the Prime Minister chooses to reveal information, there is a forum to ask the Prime Minister about that.

Senator COONAN—What I would say in response to that, Senator Conroy, and I have listened carefully to what you say, is that we are entitled to press the Treasurer—

Senator Conroy—Yes.

Senator COONAN—for details as to how he came to the views he did and the Prime Minister has, yesterday, in parliament—

Senator Conroy—Yes.

Senator COONAN—talked about exactly this point. This is in the public domain. He has raised it as a germane issue and it is perfectly permissible, in my submission, that—

Senator Conroy—It—

Senator COONAN—can I just finish what I want to say about this. We are going to have to get this straight, because I intend to continue with a line of questioning—and so do some of my colleagues—that will be seeking to establish precisely what the results of the consultations were between the Reserve Bank and Dr Henry and what was conveyed to the cabinet. This is a critical issue that makes estimates a farce if we are otherwise unable to talk about how a policy was developed, how it was framed, what informed it and what the results of it were.

Senator Conroy—If I could just respond. It is permissible for you to ask any question you like. Whether or not it is within the remit of Senate estimates is entirely a different matter. You—having been a minister for many, many years—are well aware of the rules of estimates. You are well aware that asking public servants about what is advice to government was ruled out consistently under your government. It was ruled out many times by you when I asked similar questions.

CHAIR—Senator Conroy and Senator Coonan, I think we might proceed on the basis that Senator Coonan, and anyone else, asks questions and can push the boundaries if they like. The rules of this committee are that the minister may then intervene if he believes the question is outside of—

Senator ABETZ—I think that is a good idea.

Senator COONAN—Yes.

CHAIR—So if we can just continue and then we will bear in mind this conversation.

Senator Conroy—If I could just add one final point. If the Prime Minister chooses to reveal information, then there is a forum for pursuing that information with the Prime Minister. It does not mean that Treasury officials are suddenly released from the longstanding rules of Senate estimates, which is that they are not in a position to report on advice to government. That is a longstanding situation on which you have ruled against me more times than I can count. I am happy for us to treat each question on its merits.

CHAIR—Thank you, Senator Conroy.

Senator ABETZ—Just add briefly, on that: there is a letter from the clerk's office that says there are no restrictions on committees asking about advice to ministers, the preparation of which is a major function of the Australian Public Service. But more importantly, what we have here is the Prime Minister deliberately throwing into the public domain—

CHAIR—Senator Abetz, is this in the nature of a question or a point of order?

Senator ABETZ—No, just a point of order. Sorry, Chair. I should have made that clear at the beginning.

CHAIR—Can you refer the point of order to me, please, Senator Abetz?

Senator ABETZ—Yes. And the point of order is this. I will read it out again for your benefit. I dare say the chair might find this of interest. The Clerk has advised:

There are no restrictions on committees asking about advice to ministers, the preparation of which is a major function of the Australian Public Service.

But what we have here—

CHAIR—Would you care to table that advice, Senator?

Senator ABETZ—Of course. I think Senator Eggleston might have a copy for you, Chair. The situation here of course is not seeking advice out of the blue. This is where the Prime Minister and Treasurer have deliberately thrown into the public domain, word for word, advice that they have received. It would be very unwise, I would suggest to the government, to not allow us to further explore that issue, because what it means is that the Prime Minister can cherry-pick a bit of advice and then we cannot seek to find out from those people who are quoted whether that advice was truly represented to the Australian people.

CHAIR—Senator Coonan, would you like to ask your question again?

Senator COONAN—Yes. I will ask another question. Did Mr Stevens raise with you, Dr Henry, his strong concerns about market distortion if an uncapped guarantee was put in place?

CHAIR—I have to agree with Senator Conroy on that—that it is asking very specifically about the nature of the policy advice given to the government.

Senator BRANDIS—That was a conversation between Dr Henry and Mr Stevens and not advice to government.

CHAIR—Excuse me, Dr Henry. Would you care to respond?

Dr Henry—Sure. I know there has been considerable public interest in this matter following a rather unfortunate and fallacious story that appeared on the front page of yesterday's *Australian* newspaper. Whilst I would not normally entertain questions such as this one—and in my 24 years of appearances before these committees I never have—I think, on this occasion, there probably is a public interest in my confirming that, in respect of the advice that was tendered to the government and that supported the decision that it took on Sunday, 12 October, Mr Stevens and I were of one mind.

Senator COONAN—So did the Reserve Bank provide a recommendation to the government, prior to the decision being taken by the cabinet committee and announced on 12 October, that the government should provide an unlimited bank deposit guarantee?

Dr Henry—I have answered that question. I tendered the advice to the government and the governor and I were of one mind in respect of that advice.

Senator COONAN—I will let Senator Abetz ask a question.

Senator ABETZ—Can I ask, are you aware of whether the governor had personal discussions with the Treasurer or the Prime Minister in relation to whether there should or should not be a cap?

Senator CAMERON—Point of order. I think we are really trampling into an area here which is about how government has developed policy and the clear advice it was given, and we are being asked for evidence from Dr Henry which is not even direct evidence from him. I think that question is way out of order.

Senator BRANDIS—May I speak to the point of order, please, Madam Chair?

CHAIR—Yes.

Senator BRANDIS—In the first place, the question was not directed to advice to government; it was directed to a sequence of events and to process. The question was whether or not a conversation occurred to the knowledge of this witness. There have been questions all morning in relation to whether or not conversations occurred which have been freely answered and not objected to.

Secondly, Madam Chair, Dr Henry has said that he has chosen to take what he described as the unusual course of going into more detail than he customarily would in relation to this matter, given its public sensitivity. Having waived any claim to protection, having opened this issue—

Senator CAMERON—That is rubbish!

Senator BRANDIS—Let me finish. Having opened this issue and indicated a willingness, in the public interest, to disclose these matters, we cannot now cherry-pick, Madam Chair, and say, ‘Dr Henry is prepared to tell us about aspects of this but we will entertain objection from Labor senators to try and force him to conceal other aspects of it.’

Senator ABETZ—Chair, to make it easy, I withdraw the question. I think it was in order but I am not going to allow the time to be taken up by further points of order. Can I ask you, Dr Henry, in relation to the common position that you took to the government, was that arrived at after some degree of modification and compromise on the issues between you and the governor?

Dr Henry—Good heavens, no.

Senator ABETZ—So the two of you were of like mind—

Dr Henry—I have already said that.

Senator ABETZ—and said ‘jinx’ each time you opened your mouth: ‘Exactly what I was going to recommend to the government.’ That, to me, does not sound to have the ring of truth about it.

Dr Henry—Excuse me, Senator. What are you suggesting?

Senator ABETZ—What I am suggesting to you is that in a discussion between you and the governor—

Dr Henry—I am trying to be helpful here.

Senator ABETZ—Yes. And you have asked me what I am trying to suggest and so I am putting it to you.

Senator Conroy—I suggest you will have to rephrase the question, Senator Abetz.

Senator ABETZ—It would seem strange if you and the governor had a discussion about what you were going to be putting to the government and you were of a like mind over each issue. You would raise something and the governor would say, ‘Jinx! Yeah, that’s exactly what I was going to say.’ The governor raises something and you say, ‘Jinx! That’s exactly what I was going to say.’ I would have thought there would be some discussion, bringing in the parameters, considering them. The governor might have said, ‘Well, Dr Henry, that’s a good idea, but haven’t you thought of this,’ and you might have suggested to the governor—

Senator Conroy—I would not include you in a discussion about the state of the financial crisis, Senator Abetz, so—

Senator ABETZ—some other proposition. Or was this just all agreed immediately?

Senator JOYCE—Do you want me to go next?

Senator ABETZ—No, no we want the answer.

Senator Conroy—He is saying the discussion—

CHAIR—Senator Abetz, can we allow an answer?

Senator ABETZ—Yes, good.

Dr Henry—I am sorry, was there a question in that?

Senator ABETZ—Dr Henry, allow me to ask it again. You said that a common position was put to the government that had been arrived at between you and the governor. Is that correct?

Dr Henry—That is correct.

Senator ABETZ—Right. I am asking how that common position was arrived at. Did you discuss issues and compromise with each other to arrive at that common position or did you just say to each other, ‘Yep, exactly what I thought, exactly what I thought, exactly what I thought, exactly what I thought. Jinx, jinx, jinx! These three areas are exactly what I was going to suggest. And my figure was \$10.4 billion; it was not \$10.3 billion or \$10.5 billion.’

Senator Conroy—Fortunately on matters of this complexity, Senator Abetz, you are not invited to the table.

Dr Henry—Senator, are you discussing now the economic security strategy or are you discussing the guarantee on deposits and wholesale term funding?

Senator ABETZ—I am talking about the whole package—whether there was compromise—and then I want to drill down to the bank package.

Dr Henry—I am rather confused, I must admit. I thought we were talking about the government's announcement of Sunday, 12 October .

Senator ABETZ—That is right.

Dr Henry—All right.

Senator ABETZ—That is right. Allow me to put that question to you in relation to the bank package.

Dr Henry—Oh, all right. No, well I have already answered the question in respect of the bank package.

Senator ABETZ—No, you said a common position was put.

Dr Henry—I have also said, Senator, there was no compromising.

Senator ABETZ—No compromise at all. That is how I started off. So everything that you suggested was what the governor suggested and everything the governor suggested is what you would have suggested and there was no need to compromise. I would like an answer to that question.

Dr Henry—Well—

Senator Conroy—What question?

Senator ABETZ—No, excuse me. I do want an answer to that question.

Dr Henry—Our conversations on these matters did not go precisely in the way that you would have imagined. Our conversations were quite sophisticated, I think.

Senator ABETZ—That is what I would have thought.

Dr Henry—We took, as I am sure you would also think, the full range of issues into consideration, including the urgency that should be attached to a government response to evolving circumstances.

Senator JOYCE—Just on that point, on your discussions that you have had with Mr Stevens, did you in that process come up with an amount of what you anticipated the contingent liability would be for the Australian people by the underwriting of this package? How was that amount collated? How did you come up with that amount, or did you not come up with that amount, or did you propose to deal with that amount later on? If you did come up with an amount, what is it?

Dr Henry—I am happy to answer that question, but it goes to matters that are quite different from the matters we have been discussing. If you wish us to go to those matters, I am perfectly happy to go to them. I should indicate that questions of contingent liabilities on the Commonwealth's balance sheet are not questions on which the government would seek the advice of the Reserve Bank, for an obvious reason. It is our balance sheet; it is not the balance sheet of the Reserve Bank. I do not recall having a discussion with the governor or indeed with anybody else outside of the Australian Public Service about that matter, and it would be quite extraordinary to have such a discussion.

Senator JOYCE—So no discussion was entered into—no amount was raised—on what the contingent liability of this package would be?

Dr Henry—No. All I have said is that I do not recall discussing those matters with the governor.

Senator ABETZ—Dr Henry, you did say earlier, I understand, that you thought it was within the public interest that you advise us that ‘Mr Stevens and I were of one mind’ in relation to the bank guarantee.

Dr Henry—Yes.

Senator ABETZ—If you are willing to tell us that, are you also willing to tell us how you came to be of this one mind and the process by which you came to be of one mind?

Dr Henry—I think I have already indicated, but I am happy to go over the ground again, that—

Senator ABETZ—Are you happy to tell us?

Dr Henry—I am sorry?

Senator ABETZ—Are you happy to tell us how you came to be of one mind with the governor on this issue?

CHAIR—I think Dr Henry was attempting to answer that question.

Dr Henry—Yes, I think I was. I think the implication is, yes, given that I was already answering the question.

Senator ABETZ—All right. Then there would be no objection to our questions about how you came to be of the one mind, I would imagine?

CHAIR—I think you should let Dr Henry complete his answer.

Senator Conroy—How about you let him answer the question and not do it yourself?

Senator ABETZ—I thought he had.

Dr Henry—If I have answered the question, I rest.

Senator ABETZ—That is why I followed up with another question.

CHAIR—Senator Abetz, can we just let Dr Henry complete one answer?

Senator ABETZ—He just said he thought he had answered it.

Dr Henry—What I indicated earlier, and I am happy to restate, is that over a period of many months, the governor and I had been in more or less continuous discussion about the evolving global financial crisis and about the possible implications of global developments for Australia, including, notably, systemic stability considerations in the Australian financial system. We had, over a period of several months, discussed possible responses to the evolving global financial crisis—responses that may, depending upon circumstances, have to be recommended to government. In discussing those contingencies and possible policy responses over a long period of time, we were able quite readily to come to an agreed position in respect of the policy initiatives that the government should announce on Sunday, 12 October.

Senator COONAN—Just coming to the events of Sunday, did the Reserve Bank governor express any reservations about the impact on the market from establishing an unlimited government deposit guarantee at that time?

Dr Henry—I have already answered that question.

Senator ABETZ—Can you remind us?

Dr Henry—I do not recall these issues being raised before the government's announcement on Sunday, 12 October. It is not as if it were not understood that, in the implementation of the arrangements, there would be matter of detail to be settled. But were reservations expressed? No.

Senator COONAN—Just so I am perfectly clear, neither the Treasury nor the Reserve Bank expressed any reservations about the potential distortion to the market of dropping an unlimited guarantee as part of this package?

Dr Henry—We noted that there would be matters of detail to be sorted out in the implementation of the package. We did not express reservations.

Senator COONAN—A matter of detail means that the package was not completed. Is that right? There were still things to be done?

Dr Henry—As the parliament would be aware, in the Treasurer's second reading speech introducing the legislation on Wednesday, 15 October, there is specific reference to the need for some of those matters of detail to be worked out in consultation with financial institutions and in consultation with others. I am surprised that people would imagine that things could possibly be otherwise, and that, following the announcement of a package of this size, it could be implemented without matters of detail subsequent to the announcement having to be sorted out. That was made very clear in the Treasurer's second reading speech.

Senator COONAN—One of the problems with that approach is that this legislation was rushed through parliament with a three-year time limit put on the unlimited guarantee, not to be reviewed for three years. Are you telling the Senate committee that neither you nor the Reserve Bank had any reservations that you expected to address in relation to the uncapped guarantee for another three years?

Dr Henry—Well, Senator, that is not—

Senator COONAN—Otherwise you would have needed to amend the legislation.

Dr Henry—That is not true, and it is not how the legislation is written. I would invite you to read very carefully the Treasurer's second reading speech.

Senator COONAN—I have read the Treasurer's second reading speech. Are you suggesting that any amendment that is now being proposed—and we will come to that later—will not require a legislative amendment?

Dr Henry—It should be clear to all parliamentarians who have considered the legislation that the legislation provides for regulations to be made to address such matters.

Senator ABETZ—Did the second reading speech tell us that there would be an uncapped guarantee for three years? I think if you read the second reading speech, you would find the statement in the second reading speech: 'No caveats about further regulations to limit the guarantee.'

Dr Henry—I do not think that is true, actually.

Senator ABETZ—All right, thank you for that.

Senator JOYCE—How did you come up with who was in and who was out, regarding the coverage of the guarantee, Dr Henry?

Dr Henry—I cannot say too much about that, other than obviously we arrived at that advice following discussions with people in both the Reserve Bank and APRA. I guess it might be helpful if I indicate that, in unusual circumstances such as these—and these are highly unusual circumstances; these are not things that governments anywhere in the world do as a matter of course—and which are indeed unprecedented, the focus of the policy response will be on preserving system stability. And this is of course something for which the Governor of the Reserve Bank has clear responsibility—systemic considerations, or matters going to the systemic stability of the Australian financial system. It was our collective judgement that the announcement on 12 October, in the precise terms of that announcement, was what was required at that time in order to provide systemic stability in the Australian financial system.

Senator JOYCE—Did you anticipate the market differentiation that would come into play and the effects that would cause in the marketplace by some being covered by a guarantee and some not?

Dr Henry—Yes. Obviously—it may not be obvious, but certainly we were aware that any guarantee other than a guarantee that covers all liabilities of every entity in Australia was going to have to draw a line somewhere, and that there would be some implications, obviously, for those who had arrangements that fell outside of the coverage.

Senator JOYCE—What is the policy now to stop that exploitation of that gap?

Dr Henry—I think senators would be aware generally that, since the time of the announcement on 12 October, we—that is, the Treasury and also the regulators—have been in consultation with industry about the impact of the announcement on their activities, and that consultation is continuing.

Senator JOYCE—My final question is: do you have an amount of what our contingent liability is in this nation now by reason of that guarantee?

Dr Henry—You asked this question earlier, and I am sorry I did not answer it. Our view is that the contingent liability is remote and unquantifiable. We are still thinking about the best way of having this contingent liability represented in the budget papers. My thinking as of today is that the contingent liability should be dealt with in the statement of risks in the budget papers. It is obviously not a balance sheet matter. In the statement of risks, we should indicate that the contingent liability is, as I have said, both remote and unquantifiable.

Senator JOYCE—Is it remote from the figure of trillion dollars?

Dr Henry—Well, that would not be a sensible estimate of the contingent liability.

Senator COONAN—Can I just bring you back to your actions and those of the Reserve Bank Governor on the Friday and the weekend of the cabinet meeting. You told us a little earlier, if I heard you correctly, that neither you nor the Reserve Bank Governor expressed any reservations to the government about the potential problems of the government's providing an unlimited guarantee; is that right? Is that a fair summation?

Dr Henry—Yes, I think that is what I have said.

Senator COONAN—This week we saw very serious dislocations in the financial markets—in fact, complete havoc in certain sectors, with the flight of capital from investments—

Senator Conroy—As opposed to the whole system collapsing.

Senator COONAN—that are not covered to institutions that are covered by the government guarantee. Were those events completely unexpected so far as you were concerned, and also the governor? In other words, you did not anticipate them?

Dr Henry—I certainly did not anticipate complete havoc, and I do not consider that that is what we have seen over the past week.

Senator COONAN—Well, severe dislocation—let us try a more neutral phrase.

Dr Henry—Whether or not that is the appropriate phrase—

Senator COONAN—What would you call it?

Dr Henry—My description of it is probably not that important.

Senator COONAN—What is important is what you thought about it, when you are not even expressing a reservation to the government.

Dr Henry—As I have indicated earlier, we were certainly aware that, in asking the government to make the announcement that the government made on Sunday, 12 October, there would be matters that would have to be dealt with subsequently. I have already gone into, at some length actually, the way in which we thought that would be best handled. Certainly we did not consider that the best way to handle those issues would be to sit on our hands or to engage in public discussion about these matters before having the government act and act when it did.

Senator CAMERON—Dr Henry—

Senator COONAN—Can I just finish—

CHAIR—Senator Cameron.

Senator CAMERON—Dr Henry, you indicated that you believe the decisions were taken because of the urgency. What would have been the consequences of not responding urgently to the international circumstances that we found ourselves in?

Senator ABETZ—I thought your name was Doug, not Dorothy.

Senator COONAN—That calls for a conclusion.

Senator ABETZ—That is just pathetic. You don't have to—

Dr Henry—Obviously, Senator, in tendering the advice to government that we did tender, we formed the view that circumstances had reached a point in Australia—particularly because of decisions that had been taken the week earlier by the United Kingdom government and steps that we understood might have been under consideration more broadly in Europe and also in the United States—where a failure to act in a timely way in Australia could have had severe implications for the ability of Australian financial institutions to access wholesale term

funding in international markets. We were also aware of growing concerns in the community generally about the safety of deposits. As I indicated earlier, those concerns, or expressions of those concerns, strengthened through that week.

Senator CAMERON—You indicated in your opening statement that there were dramatic developments. If we had not taken the steps that were taken as a country, these other arguments that are being put up about these ancillary issues, as I would describe them, were not the most important thing for government, the Reserve Bank and Treasury to be focusing on, were they?

Dr Henry—That is right, Senator. That was certainly the view that we came to.

Senator COONAN—Dr Henry, what I was putting to you a little earlier was that, with respect, I do not think you can have it both ways. Either you were aware at the time this package was discussed with the Prime Minister and senior ministers in cabinet that there were some reservations as to what the effect of this guarantee would be, or you were not and you were not aware that they were likely to occur.

Dr Henry—I am sorry, Senator; I am having trouble with the word ‘reservations’. I think that is the issue here.

Senator COONAN—All right.

Dr Henry—If your question is—

Senator COONAN—Well, ‘concerns’ perhaps might be a better word?

Dr Henry—Well, even ‘concerns’. If your question is, ‘Were we aware that there would be matters of detail that would have to be sorted out in the implementation of the package?’ the answer to that question is yes. But if your question is, ‘Were we expressing reservations—that is, were we suggesting to the government, “You could do this but be aware that if you do this it is going to have the following consequences, so this is a bit of a marginal decision”?’ then my answer to that questions is an emphatic no.

Senator COONAN—So you did convey concerns, did you not?

Dr Henry—Concerns? No. I would call it advice to the effect that, in the implementation of the measures, there would be matters of detail that would need to be sorted out. In my advice to government, I would have indicated that these matters of detail should not prevent the government from acting in the way that it acted and on the day that it acted.

Senator COONAN—Minister, was the Treasurer aware of the problems in markets that the unlimited guarantee was causing when he introduced the legislation into the House on Wednesday?

Senator Conroy—I do not think I can comment on what was in the mind of the Treasurer.

Senator COONAN—You can say what his state of knowledge is.

Senator Conroy—No, I do not think you can ask the officials to try to second-guess the—

Senator COONAN—Well, had he been told prior to introducing—

Senator Conroy—Now you are going directly to the issue of advice to government.

Senator COONAN—No, no.

Senator ABETZ—No; was he aware of the market response to the package when he introduced the legislation on 15 October?

Senator Conroy—Dr Henry is trying to be very, very helpful. We are not ruling out any questions; we are trying to give you as much information as we can.

Senator COONAN—Very wise.

Dr Henry—I have already referred to the second reading speech. I am looking for a copy of it, and when I find a copy of it, I will read out the relevant paragraph, just so that all senators are aware of it, because it appears that senators might not be aware of this paragraph in the Treasurer's second reading speech.

Senator ABETZ—This was a question to the minister—

Senator COONAN—It was a question to the minister.

Senator ABETZ—as to what the Treasurer was aware of at the time he introduced the legislation on 15 October.

Senator Conroy—I am happy to table his second reading speech. We are just in the process of—

Senator ABETZ—No, that is not the question.

Senator JOYCE—We have a copy of that.

Senator Conroy—That is good; perhaps you might want to table it for the whole committee.

Senator ABETZ—More than happy to.

Senator Conroy—I am happy to take that on notice and seek the advice of the Treasurer, but asking either the officials or me to second-guess what was in the Treasurer's head when he was tabling legislation is beyond the capacity to answer in this particular forum.

Senator ABETZ—No, that was not the question. Was he aware of the market reaction to the unlimited guarantee by the time he introduced the legislation on 15 October? He was either aware or not aware.

CHAIR—I think the minister has indicated he will take that on notice.

Senator Conroy—I am happy to take it on notice and get you as much information as the Treasurer is able and willing to pass on on that.

Senator COONAN—Mr Rudd told the parliament yesterday that at the time of the cabinet meeting considering the bank package, he explicitly put to Dr Henry the following question: 'Is the position being recommended here that of the regulators?' and, according to Mr Rudd, Dr Henry answered, 'It was, and that includes the Reserve Bank.' Is that right? Did that conversation take place?

Dr Henry—Yes.

Senator COONAN—What was the reason why you added the Reserve Bank or picked out the Reserve Bank as one of the regulators that you needed to specifically mention? Was it

because the Reserve Bank had in fact expressed concerns in the conversations leading up to the finalisation of the package?

Dr Henry—I do not know if I did say, ‘including the Reserve Bank’; that would certainly have been the implication of my response to the Prime Minister. I did mean the Reserve Bank and APRA, but I am not sure, in what you are quoting from, whether the Prime Minister—

Senator COONAN—Question Time yesterday, the Prime Minister yesterday.

Dr Henry—No, I understand. But is it a case of the Prime Minister quoting me in saying, ‘and that includes the Reserve Bank’, or is it rather the Prime Minister’s interpretation of my statement to him that it is supported—

Senator COONAN—You were there, Dr Henry; perhaps you could tell us what the conversation was. What was said?

Dr Henry—I think I have. Indeed, I have.

Senator COONAN—Would you just mind telling the committee again, please?

Dr Henry—I indicated to the Prime Minister that not only was this my advice; it was the advice of the regulators.

Senator ABETZ—Did you say specifically ‘the Reserve Bank’ or did you just say ‘the regulators’?

Dr Henry—I probably actually said the Reserve Bank and APRA.

Senator ABETZ—Because the unfortunate thing is that the *Hansard* has the words that you allegedly spoke in inverted commas, so they are in fact directly attributed to you. For example, the Prime Minister says:

I explicitly put this question to the Secretary of the Treasury: ‘Is the position being recommended here that of the regulators?’ He answered—

which I assume must be you, Dr Henry:

‘It was, and that includes the Reserve Bank.’

Passing strange that you did not say ‘it is’, but the Prime Minister said that you said, ‘It was, and that includes the Reserve Bank.’

Senator Conroy—We are not all as much of a grammar pedant as you, Senator Abetz.

CHAIR—I do not actually think that is a question.

Senator ABETZ—Dr Henry was expressing concern—

CHAIR—Senator Coonan.

Senator COONAN—Did Mr Rudd speak with Mr Stevens at any time over the weekend of the cabinet meeting?

Senator Conroy—I am not sure that that is a question that Dr Henry—

Senator COONAN—He may or may not know, but he can answer.

Senator Conroy—I am not sure that he is entitled to reveal who the Prime Minister has had a conversation with. I think that is a question that you are more than welcome to have

asked of the Prime Minister in question time at 2 o'clock, but it is not a question that I think Dr Henry—

Senator COONAN—Well, I can ask you, Minister.

Senator Conroy—I am happy to take it on notice.

Senator COONAN—Is it fair to say that there is actually nothing in writing from the Reserve Bank recommending to the government that there be an unlimited guarantee in the bank package?

Senator Conroy—I would have to take that on notice. I am not sure that Dr Henry would necessarily have seen all letters between the Reserve Bank and the government. He may have.

Dr Henry—I would have to take that on notice, Senator. I am not sure.

Senator COONAN—You have not seen anything, have you?

Dr Henry—I am not sure about that. I may well have.

Senator COONAN—So there might be something in writing from the Reserve Bank expressly recommending the bank package with the unlimited guarantee; is that right?

Dr Henry—There may be; I am not saying that there is. I would need to take that question on notice and check our records. If by written material you include, these days, printouts of emails, then I am sorry, but I cannot retain in my head the details of all email correspondence between the Reserve Bank and the Treasury on this matter over that week or so.

Senator ABETZ—You did not bring them with you?

Dr Henry—No, I did not.

Senator COONAN—Can I put it this way: is there any written material at all in which the Governor of the Reserve Bank expresses concerns about the package?

Senator Conroy—I am not sure that Dr Henry is in a position that he can—

Senator COONAN—I am talking about anything with him. He knows if he has got emails, Senator Conroy. We do check our emails. I am just interested to know, in this melee of communication between you and the Reserve Bank, Dr Henry, if there is any written evidence from the governor in which he indicates unreserved support and recommendation for this package?

Dr Henry—I have already taken that question on notice, I think. I am happy to come back to the committee—

Senator COONAN—You have seen a front page article in the *Australian* yesterday, which I think you mentioned a little earlier, which stated, and I quote:

The Government ignored the RBA's strongly voiced concerns about the impact of an unlimited guarantee scheme in its rush to announce a guarantee of all deposits in Australian deposit-taking institutions on October 12.

Dr Henry—I have seen that article and I have already indicated that that article is just plain wrong—and it is not helpful.

Senator COONAN—I am sure it is not helpful, but it may be right.

Dr Henry—Members of the committee may think that it is a matter of some mirth, but can I just say to the committee—

Senator COONAN—I do not think it is funny, Dr Henry; I am trying to—

CHAIR—Senator Coonan, Dr Henry is trying to finish his response.

Dr Henry—I will stick to the issue, Senator.

Senator RONALDSON—Just answer the question.

CHAIR—Senator Ronaldson, he is trying to!

Dr Henry—I will answer the question in the way I choose to answer the question.

CHAIR—Senator Ronaldson!

Senator CAMERON—Stop trying to bully people!

CHAIR—Senator Cameron, can I have quiet all round while we allow Dr Henry to finish his answer, please. Have you finished, Dr Henry?

Dr Henry—No. I was just going to make the point that the *Australian* newspaper has not handled these issues particularly well. That is simply all I was going to say.

Senator COONAN—I make no comment about that. I hear what you say, but nevertheless I am very interested to know whether there is any veracity at all in the claim that the Governor of the Reserve Bank had strongly voiced his concerns about the unlimited guarantee prior to the decision and whether he had done so to you in writing or verbally?

Dr Henry—Senator, I have answered that question on numerous occasions this morning and my answer consistently has been no.

Senator COONAN—Neither in writing nor orally?

Dr Henry—That is correct, Senator.

Senator COONAN—Right.

Dr Henry—That is to say, and I will say it again, the story on the front page of yesterday's *Australian* newspaper was wrong—that is W-R-O-N-G! That is for the benefit of Hansard.

Senator CAMERON—That is unusual for the *Australian*?

Senator COONAN—You are aware, however, are you not, that after the announcement Mr Stevens has somehow or other morphed into now expressing significant concerns about the effect on the markets of the unlimited guarantee that has now passed into legislation?

Dr Henry—I do not want to go too much into the detail of consultations that have followed the government's announcement. The reason I do not is that I really do believe that it is quite unhelpful for these issues to be discussed publicly in the way that they are being discussed, and I am not myself going to contribute to the public debate on these issues. Of course, it is entirely up to others how they decide to behave in respect of public debate on these issues, and I would not seek to give anybody any guidance on that matter.

Senator COONAN—Are you aware that just days after the decision that has been announced by Mr Rudd that Mr Stevens has clearly indicated that he favours a cap and the lower the better?

Dr Henry—There is some misunderstanding in the public debate about the meaning of ‘cap’, and I am happy to address that issue. Beyond addressing that issue, I do not propose in this committee or anywhere else to add to the public debate on these issues. These are extraordinarily market sensitive issues, as you know, Senator, and they are not issues that should, in my view, be dealt with in the way that they have been dealt with. I think it is quite unfortunate.

However, in respect of this issue of the cap, there has been no advice that I am aware of from the Reserve Bank to me, to the Treasury generally or to the government, to the effect that there should be a cap on the guarantee of deposits in the sense that deposits above an arbitrary cap should not benefit from the guarantee. I can understand how people would misunderstand this, and this is one of the reasons that I made the comment I did about how unhelpful, and entirely inappropriate, actually—the public debate has been. The tenor of the discussions that have occurred between the Reserve Bank and the Treasury has been to this effect: is there a level of a deposit above which the deposit should be regarded as effectively wholesale funding and therefore, whilst benefiting from the guarantee—which, as you know, applies to wholesale funding as well—should pay effectively, in colloquial language, an insurance premium? That has been subject of the debate—or discussion, I should say. I would hardly characterise it as debate but of discussion. This is an issue that we do have under active consideration and we are discussing the matter actively with the Reserve Bank.

I accept that I might have a particular and unusual view here but, in my view, it would have been better had we not had any media reporting on this issue. But, anyway, be that as it may—

Senator ABETZ—I am sorry, we are in a democracy.

Dr Henry—Well, as I said, it may be a peculiar view and I am happy to be regarded as somebody who has a peculiar view about what amounts to responsible behaviour in situations such as this, a global financial crisis. Be that as it may, it is a bit unfortunate, I think, that some have interpreted comments that have been made about this matter to the effect that the government is considering a level of deposits above which there would simply be no guarantee. Nobody within the official family, if I can use that somewhat antiquated phrase these days, has suggested that.

Senator JOYCE—I just want to go to unsecured debenture holders. In your discussions, have you worked out exactly what extent these play in the economy? And now that obviously they are not covered, what will be the effect for those people who are involved in the industry and secured by unsecured debenture holders? In your discussions were they an item for consideration and have you had further discussions on how to deal with this issue?

Dr Henry—Yes, Senator, as indicated earlier, following the announcement, we have been consulting with people quite broadly throughout the financial system about the impact that the guarantee may be having on other instruments—instruments that are not covered by the guarantee. Those consultations are continuing. They have been quite open consultations, obviously—more open than such consultations normally are.

Senator JOYCE—Should be, yes.

Dr Henry—They are proceeding and we will be putting advice to government on those matters within a relatively short period of time. I cannot put a day on it, but within a relatively short period of time.

Senator JOYCE—With the current structure of the guarantee have you had consideration of how the position can be manipulated so that other banks, overseas banks, could utilise Australian subsidiaries to collect an Australian guarantee? Is that possible?

Dr Henry—I am not sure what you mean by ‘manipulated’, Senator. The guarantee explicitly extends to subsidiaries of foreign owned banks. So, to the extent that foreign owned banks are availing themselves of the guarantee through an Australian incorporated subsidiary, that is fully intended and that is certainly covered in the terms of the announcement.

Senator JOYCE—I just briefly want to go back to 1.1.1. With your discussions in regard to the package, the \$10.4 billion package, why was it the belief that the expenditure of predominantly half the surplus in a one-off package—the majority of which will be a fiscal stimulus issue before Christmas—would be seen as a silver bullet? And, what ramifications do you think it will truly have after Christmas? What do you see as the extent of the flow of money? How does this expenditure of such a quantum amount, in one foul swoop, going to do very much beyond Christmas except reduce our surplus?

Dr Henry—I understand why you are asking the question—and it is a question of some public interest, I understand that—but I do believe that that question goes beyond the sorts of questions that we would normally answer in this committee. You are asking not only for the details of policy advice that we might have provided to government, but you are going further and you are asking us to comment on the outcome of the decisions that the government has taken. Whilst I understand the public interest in the question, I think that question takes me into territory that I have not been in before and into which I do not wish to venture.

Senator JOYCE—If I back it up, just taking away the effects of the fiscal stimulus or whether there will be any true effects of the fiscal stimulus beyond us just following the world economy around, what about the effects on our forward budgetary predictions and, in a reassessment of the global economic conditions, are we now more likely or is it foreseeable in your forward estimates that we are heading towards a budget deficit?

Dr Henry—The government will be publishing updated fiscal estimates and updated economic forecasts in the Mid-Year Economic and Fiscal Outlook, which the government has indicated will be published next month, only a matter of weeks away now. That document will provide full transparency in respect of those matters.

Senator Conroy—You have asked Dr Henry to speculate on the size of the budget surplus deficit, to use your words, and I think, again, that is asking Dr Henry to go a little further than is traditionally the case in terms of advice that can be tendered to the Senate. I am happy for you to ask me that one.

Senator JOYCE—Well, I will ask you. I noticed, Minister, that you said surplus deficit. Is that—

Senator Conroy—I said I borrowed your words.

Senator JOYCE—Is that an acknowledgement—

Senator Conroy—Do not try and put words in mouth, Senator Joyce. I specifically said I was borrowing your words.

Senator JOYCE—Do you acknowledge that we could be heading towards a deficit?

Senator Conroy—No, I do not acknowledge that.

CHAIR—Senator Joyce, have you finished?

Senator JOYCE—With the current global credit position, do you feel that we are any way more vulnerable by the fact that we have now expended half the surplus? Does that reduce our—

Senator Conroy—You are asking an officer an opinion.

Senator JOYCE—Do you believe it?

Senator Conroy—Sorry, what was the question?

Senator JOYCE—Senator Conroy, now that we have spent half our surplus, do you believe that that circumstance has reduced our quality of credit availability in Australia, especially in light of foreseeable circumstances such as expenditure items, employment and other items that are coming forward?

Senator Conroy—No.

Senator CAMERON—I know what he is going to say.

Senator Conroy—The question is a little broad in its macro but, aside from that, I think the answer is coming.

Senator CAMERON—Keep them coming.

Senator JOYCE—Sorry?

Senator Conroy—It is a complex question. I am not sure I understood all of your question but, at the heart of it, I think the answer is no.

Senator JOYCE—The answer is no?

Senator BOB BROWN—Dr Henry, I was concerned by the precipitate way in which the necessary legislation went through the parliament a week ago, and now we hear amendments or follow-up measures having to be taken by government, including the potential need for insurance on larger deposits which are covered by the guarantee. What will be the nature of that insurance?

Dr Henry—I now have a copy of the Treasurer's second reading speech in front of me. As I indicated earlier, I thought it might be helpful if I read the relevant section of this speech out for the information of senators. I will do so now and then I will go on to answer the specific question that you have raised. In the second reading speech the Treasurer had this to say and I will quote:

In addition to the guarantee on deposits, the government will also guarantee eligible wholesale borrowing of Australian banks, building societies and credit unions and Australian subsidiaries of foreign-owned banks.

The government is consulting on the interaction between this guarantee on eligible wholesale borrowing and the guarantee on deposits.

If desirable, the government will proceed with measures to clarify the intersection of these guarantees and facilitate their operation.

This intersection is particularly important in relation to the market for short-term bank securities.

The government will ensure that the short-term money market remains viable and that the deposit guarantee does not provide disincentives for market participants from operating in this market.

So the issue that the Treasurer referred to in introducing the legislation in his second reading speech on Wednesday goes to the intersection between the two guarantees that are in this package. The first guarantee is a guarantee of wholesale term funding. As you would be aware, many, if not most, Australian financial institutions—certainly banks—raise a good deal of their funding from offshore and they raise the funding in wholesale markets. They also raise a good deal of wholesale funding domestically.

Governments around the world, commencing with the United Kingdom, were considering providing a guarantee of those wholesale funding instruments. The implication for Australia of not acting in the way that we did act and when we acted is that Australian financial institutions may have found it increasingly difficult to access wholesale funding in global financial markets because they would have been competing against financial institutions that had the benefit of a foreign government guarantee. So, those were the considerations that motivated us to advise the government that it should take the unusual step, the unprecedented step, of providing a guarantee for those wholesale funding arrangements. The second part of the announcement was to say that deposit—

Senator BOB BROWN—Can I just intervene there to ask: so the real impulse for the legislation was to not leave borrowers at a disadvantage in the international market, rather than to guarantee deposits?

Dr Henry—I am just coming to the second bit. The second part of the announcement dealt with the security of deposits in the Australian financial system. Our advice to the government was that, in the circumstances that confronted us in that period leading up to 12 October, rather than introduce the Financial Claims Scheme, which would have guaranteed depositors early access to the first \$20,000 of their deposits—and this is something we had been consulting with industry on for months—and rather than nominate any other figure, such as \$100,000, which had, through the Leader of the Opposition, been circulating publicly, we took the view that it was imperative in these circumstances simply to guarantee all deposits.

A large deposit could in fact be a source of wholesale funding for a financial institution. So what the Treasurer is referring to quite explicitly in the second reading speech is that we are considering, and we have been considering since the announcement, exactly how we deal with that intersection. If we continue with an unlimited guarantee for deposits, for which there is no charge, there is no insurance premium charged, but at the same time for short-term wholesale funding, we say, ‘Yes, there is a guarantee but there is a charge,’ then we will distort the short-term money markets. So this is an issue identified in the second reading speech in the introduction of the legislation on which we are working quite intensively in consultation with the Reserve Bank and APRA.

Senator BOB BROWN—When do you think you will have the proposed solution or best solution to that problem?

Dr Henry—As soon as we can, really. I do not know. I would hope that we are talking here about a matter of days and no longer than that.

Senator BOB BROWN—Do you now project that that will be a legislated matter or a regulated matter or some other device?

Dr Henry—As I indicated earlier, my understanding is that, were the government to do something along these lines, the legislation provides for it to be done by regulation. I understand however that the regulation would be a disallowable instrument.

Senator BOB BROWN—Yes, and it would be disallowable in the parliamentary sittings before Christmas provided it is not regulated after those sittings in which case it would sit there through summer with parliament not being able to review them.

Dr Henry—No, I understand the concern you are going through.

Senator BOB BROWN—But you are expecting within some days there will be a proposal put to the Treasurer?

Dr Henry—We are hoping to be able to do that.

Senator Conroy—Timing is of course subject to the government's timing, not just when the recommendations come forward. There is a degree of urgency in the matters that we have been discussing.

Senator BOB BROWN—That is right. What at this stage is the nature of the insurance that is being considered?

Dr Henry—You want me to go to quantum or—

Senator BOB BROWN—Quantum and structure.

Dr Henry—Quantum and structure—there are dozens of views that have been put to us on these issues. I do not want to talk in specifics because—

Senator Conroy—These are matters still to be considered by the government on the advice of Treasury. Some of this goes to the purview of advice to government, but I think Dr Henry is indicating he can describe the general nature.

Dr Henry—I will describe the general considerations, but I do not want to go to specific options that we may have under consideration. Firstly, it would be inappropriate for me to do so because once we settle on specific options these will be provided to the government in the form of policy advice. It is up to them to decide whether to take that policy advice and I do not want to compromise their ability to consider our advice. I do not want to put anybody in a difficult position here and I will not. The second reason I do not want to go to specific options is, as I indicated earlier, specific options have been bandied around in the press and some of those specific options, I believe, have added to uncertainty and have caused considerable concern—in fact, it is more than belief; I know this for a fact—and in some places considerable distress on the part of market participants. I am not going to go there. I do not want to add to any of that; as I indicated earlier, I think it has been quite unhelpful. However, the sorts of considerations that are at play here—if I can use that somewhat colloquial expression—go to these sorts of questions. Should the insurance premium, if we can use that expression, discriminate among financial institutions according to their risk rating? Should all

financial institutions, irrespective of their risk rating, be charged the same price? That is one question which obviously the government will need to come to an answer on.

Senator BOB BROWN—Can I ask who would be the insurer?

Dr Henry—The government; us, actually.

Senator BOB BROWN—So government will effectively take the role of the insurance agency—

Dr Henry—That is correct, yes.

Senator BOB BROWN—and levy an insurance which it thinks covers the risk?

Dr Henry—That is correct.

Senator BOB BROWN—What is the precedent for that?

Dr Henry—No, you see this is where the insurance analogy arguably falls down. The insurance premium analogy is helpful up to a point in explaining what we are doing; however, it would not be correct to conclude that the price will be an actuarially determined insurance premium. We are not going to structure the price on the basis of an actuarial assessment of risk and charge premiums in order to ensure that on average the premium income covers the probability of making a payment. The reason for that is we do not expect ever to make a payment; we really do not. Instead, the purpose of the insurance premium here is not to ensure that we have sufficient income to cover payments that we might make, as you would see in a normal insurance scheme, but rather to ensure that the pricing that applies to the wholesale funding of our financial institutions is more reflective of the sorts of pricing that they would experience in normal market conditions. You see, if markets were fully rational, and of course they are not, the immediate consequence of our guarantee announced on 12 October would be that overnight we had just made every financial institution in Australia AAA rated.

Senator BOB BROWN—Yes.

Dr Henry—Not only AAA rated but sovereign. If that is all we did, that would be a significant intervention in the market or some might even want say a significant distortion of our financial markets. In settling on what we can colloquially refer to as insurance premium, it is not as if we are seeking to build an insurance fund that will allow us to meet insurance claims; rather we are seeking to provide a set of prices that makes sense in the market.

CHAIR—Senator Brown, just to let everyone know, we are breaking for morning tea break at 11 am and Senator Xenophon has a question.

Senator BOB BROWN—I just wanted to ask one other question, and that is: what other countries are considering this form of action to regulate the big deposits that have been guaranteed?

Dr Henry—It is a very large number.

CHAIR—Can you take that on notice?

Dr Henry—I can take that on notice, but it is a large number.

Senator XENOPHON—Dr Henry, as I understand the reports, the previous guaranteed limit of \$20,000 covered about 80 per cent of depositors. Is that your understanding in broad terms?

Dr Henry—Yes, I think that is right.

Senator XENOPHON—You may provide an answer now or take these questions on notice. The opposition leader talked about a \$100,000 guarantee. That was the figure that was floated around. What percentage of depositors would that have covered? For instance, there is now a discussion about there being an insurance premium on a million dollars. Can I get some figures as to not only the number of depositors that would be covered by those various figures but also the amount of deposits that would be covered by such a guarantee—the distinction between the two?

Dr Henry—We will have to take those questions on notice.

Senator XENOPHON—Sure. Can I ask you in terms of your response to Senator Brown: is it also the case that the effect of an insurance premium would also reduce what some people say are market distortions in the sense that there has been a move away from the non-guaranteed deposits? Would that be a policy consequence of having an insurance premium on the larger deposits?

Dr Henry—I can probably only answer that in general terms and go back to what I said earlier—that we are consulting with financial market participants about the impact of both the government's announcement and of setting any threshold on deposits above which a premium will be charged for access to the guarantee. We are in active consultation with market participants about that. I do not think it would be helpful and I do not think it would be fair to those consultations for me to indicate, at this point, what our view on these issues might be.

Senator XENOPHON—Would it be fair to ask you, at this stage, whether differential insurance premiums are being considered depending on the size of the deposit? Is that something that would be considered in the policy mix?

Dr Henry—It is an option.

Senator BOB BROWN—I have a question, if I may. That is coming back, Dr Henry, to the impact on instruments not covered by the guarantee. Are you able to quantify that or say what the nature of that impact is?

Dr Henry—I am certainly not able to do it this morning, Senator. I do not know if we would ever be able to provide a reliable quantitative estimate of impact.

Senator BOB BROWN—This is largely a domestic impact. It is one that will be of concern to people who have invested money or who otherwise have dealings with those other instruments.

Dr Henry—Yes, I think that is a reasonable description of the sort of impact that you are talking about here.

Senator BOB BROWN—So it is a matter of concern. I wonder if you could find out for the committee what the impact appears to be at this stage after the guarantee has now been given to some financial instruments but not all.

Dr Henry—I am happy to take it on notice and see what we might be able to do, but what the impact turns out to be will not be the impact that we observe today. As I have indicated and—we have spent quite a lot of time talking about this—as was telegraphed in the Treasurer’s second reading speech the government will be considering some initiatives that go to the detail of the implementation of the scheme and those initiatives will themselves have impacts and so on. I will take your question on notice and I will see what we may be able to provide to the committee.

Senator ABETZ—I have two quick related questions. Just to make sure that we are on the same page in relation to the second reading speech by Mr Swan, can I quote to you just to make sure that I am quoting from the right second reading speech? Did the Treasurer say:

It--

referring to the legislation—

legislates for the government’s guarantee of deposits in Australian banks, building societies—

et cetera.

This will operate for a period of three years ...

As noted by the Prime Minister on Sunday, the government will examine a cap on the guarantee after three years.

Are we agreed that that is from the same second reading speech that you have been quoting from?

Dr Henry—Yes, I have the *Hansard* transcript of it in front of me. I presume it is correct.

Senator ABETZ—Was the statement made by the Prime Minister on Sunday in the following terms:

As part of the Government’s Financial Claims Scheme, the Government is guaranteeing all the deposits—

Not some—

held in Australian-owned banks—

et cetera.

The guarantee will apply immediately, and remain in place for three years. This means from today, there will be no limit on the deposits covered by the Financial Claims Scheme. At the end of the three-year period, the Government will review the cap on the guarantee.

Reading the Prime Minister’s statement of 12 October in conjunction with the second reading speech—and we are invited to do so by the Treasurer who refers to it—you could only come to one conclusion, could you not, that on Sunday, 12 October and again on 15 October, it was a guarantee for all deposits for a period of three years without any caveats, ifs, buts or indeed weasel words?

Dr Henry—I think I have already addressed this question. I do not want to offend anybody, least of all you, Senator, but I did indicate in an earlier answer that there has been some unfortunate confusion associated with this word ‘cap’.

Proceedings suspended from 11.00 am to 11.15 am

CHAIR—The committee will resume. We have Senator Abetz in continuation on his previous line of questioning, I believe.

Senator ABETZ—I will ask Dr Henry about the statement that the Prime Minister made on 12 October 2008. Were the terms of that statement agreed to by you?

Senator Conroy—This is a statement by the Prime Minister?

Senator ABETZ—That is right.

Senator Conroy—Dr Henry is Secretary to Treasury. Dr Henry may want to add to this, but I am just not sure that Dr Henry is in a position to comment on what the Prime Minister says. I appreciate Dr Henry obviously has been critically involved in all of the discussions, but this is Senate estimates hearings. If you were to say it is the Treasurer's statement, I would accept that perhaps you could investigate this area. But you are actually asking him to comment on the Prime Minister's statements, which is a little broad.

Senator ABETZ—Yes.

Senator BRANDIS—He is just asking—

CHAIR—I think Senator Abetz is quite capable of saying what he is asking.

Senator Conroy—He might just want to rephrase his question.

CHAIR—Senator Conroy, Senator Abetz has the call.

Dr Henry—My recollection is that I did see a draft of it before it was delivered and that I had no problems with it.

Senator ABETZ—Thank you very much. So, in response to his own question—as is the Prime Minister's wont—in the statement he asked:

What action is the Government taking?

He then answered:

... the Government is guaranteeing all the deposits ...

Senator Conroy—He answered his own question.

Senator ABETZ—He said:

The guarantee will apply immediately, and remain in place for three years. This means from today, there will be no limit on the deposits covered by the Financial Claims Scheme.

... ..

The guarantee applies, from today, to all deposits held in Australian-owned banks ... authorised to accept deposits by APRA and are subject to prudential regulation to protect the safety of these deposits.

The guarantee applies to all types of deposits, regardless of the type of account through which the deposit is made.

... ..

Both retail and wholesale deposits are covered by the guarantee.

Did the Treasury provide any advice as to the impact that statement might have on the market?

Senator Conroy—You just asked him about specific advice, Senator; you might want to rephrase your question. You know that officers are not in a position where they can give information to—

Senator ABETZ—The answer is either yes or no.

Dr Henry—Madam Chair, I am perfectly happy to answer the question. As senators are aware, the Prime Minister's statement on Sunday, 12 October 2008 was to the effect that all deposits and all wholesale funding instruments issued by approved deposit-taking institutions in Australia—banks, building societies and credit unions—would be guaranteed unequivocally. That remains the case. I am not aware of anybody within government who is presently formulating advice or involved in any way in the formulation of advice to government that would have the effect of qualifying that in any way.

Senator ABETZ—When the Treasurer referred to that statement in his second reading speech, people would have been of the view that all deposits would be guaranteed, and there was no talk on the level of those deposits?

Dr Henry—That is correct, Senator—and I have addressed this issue previously. Just before the break I indicated that there appears to be some confusion in people's minds concerning the use of the expression 'a cap' on the guarantee. If I can go to that question, I will explain this again.

Senator ABETZ—If I can just interrupt you there—

Dr Henry—Well, I would prefer to finish the answer, if you do not mind, Senator.

Senator ABETZ—That is fine.

Dr Henry—In the second reading speech, the Treasurer noted:

As noted by the Prime Minister on Sunday, the government will examine a cap on the guarantee after three years.

A 'cap on the guarantee' means that after three years the government will examine whether it should identify a particular level of deposits above which there would be no guarantee. That is the meaning of that.

Senator ABETZ—After three years?

Dr Henry—Correct.

Senator ABETZ—Yes, after three years.

Dr Henry—To my knowledge, and anyway not on my advice, the government is not presently considering whether to impose such a cap in the intervening period—that is, before the expiry of the three years. I am not aware of that. I do not believe that the government has that under consideration; it would certainly not be on my advice. I am not aware, as I have said, that anybody is formulating such advice to government. Instead, the question that we in the Treasury and our colleagues in the Reserve Bank are grappling with, and have been for the last week and a half, is this: is there a level of deposit above which the deposit should be treated as a wholesale funding and therefore, although quite explicitly benefiting from the guarantee, be required to make a payment for the benefit of the guarantee nevertheless?

Senator ABETZ—But that will only be after three years.

Dr Henry—No, Senator.

Senator CAMERON—Give Mitch a bowl.

Dr Henry—This is precisely the issue that was referred to by the Treasurer in his second reading speech when he said:

The government is consulting on the interaction between this guarantee on eligible wholesale borrowing and the guarantee on deposits.

If desirable, the government will proceed with measures to clarify the intersection of these guarantees and facilitate their operation.

This intersection is particularly important in relation to the market for short-term bank securities.

The government will ensure that the short-term money market remains viable and that the deposit guarantee does not provide disincentives for market participants from operating in this market.

The government is presently considering this matter and has been since the Treasurer made this statement—indeed before the Treasurer made this statement, but obviously after the Prime Minister's statement of Sunday, 12 October. The government is considering whether there is a threshold level on deposits above which it would be sensible, in order to ensure the effective operation of the market for short-term bank securities, that a charge be levied for access to the guarantee.

Senator ABETZ—Was this particular aspect canvassed in the Prime Minister's address on Sunday, the 12th?

Senator Conroy—I am sure we can get you a copy.

Senator ABETZ—I have a copy. It would just be interesting to see if this was an addition on 15 October which was not part of the statement of 12 October.

Senator Conroy—I am not sure if Dr Henry sat up and watched it on a Saturday evening.

Senator ABETZ—Dr Henry, have you received written advice from the RBA Governor outlining his concerns about the impact of the government's unlimited guarantee for bank deposits?

Dr Henry—I think I have already answered that question, Senator.

Senator ABETZ—Can you remind us?

Dr Henry—The Treasury and the Reserve Bank have been in active consultation on these implementation details since the time of the Prime Minister's announcement on Sunday, 12 October. There have been numerous exchanges, mainly by telephone, but there have certainly been numerous exchanges via email both between me and the Governor and also between members of Reserve Bank staff and members of my staff. I would not want to comment on whether it would be sensible to characterise any of these as expressing concerns or whether they amount to discussions of the relative merits of particular options that are under consideration. But there certainly has been quite a lot of discussion. This is precisely the sort of discussion that I would suggest one would expect us to be engaging in, given the Treasurer's statement that:

The government is consulting on the interaction between this guarantee on eligible wholesale borrowing and the guarantee on deposits.

Senator ABETZ—You have told us that there have been a lot of discussions between you and the governor since the 12 October statement. Did those discussions include a written advice from the RBA governor to you which said not only must there be a cap but the lower the better?

Dr Henry—I am not going to enter into this area for the reason that, as I have explained on several occasions already this morning, I do not believe that it is helpful for these issues to be discussed publicly. These are unusual times. This is not a run of the mill policy initiative that is being discussed between the Treasury and the Reserve Bank. All these initiatives, as I have said on several occasions, are unprecedented. They are unprecedented because of the highly precarious position that some aspects of the financial industry generally found themselves in before the time of the Prime Minister's announcement. It certainly has been my experience that almost every story since that time, written about a consideration of the Reserve Bank or a consideration of somebody in Treasury or a consideration of somebody in APRA, has itself generated unhelpfully uncertainty and concern on the part of market participants and has led to calls to my place, to the Reserve Bank and, I am sure, also to APRA, seeking clarification and seeking assurance. I think it would be much better for the time being, and I know this is difficult—perhaps in this country impossible—if these things could be dealt with in a sober way out of the public gaze for the time being, allowing officials the opportunity to reflect soberly and deeply upon the implications of various options and to provide appropriate advice to government, and government, in the normal way, to take its decision based on the advice of officials, to announce its decision publicly, and then let the debate begin.

Senator ABETZ—Have you proffered that advice to the Treasurer?

Senator FIFIELD—A point of order, Madam Chair: listening to Dr Henry, I do not think that concerns about a free press are grounds for declining to answer a question. Madam Chair—and this may assist Dr Henry—I remind you of your opening statement this morning where you said:

I remind officers that the Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise.

Senator BRANDIS—Madam Chair, if I may speak on the point of order.

CHAIR—Yes, Senator Brandis.

Senator BRANDIS—It necessarily follows from what Dr Henry has just said—I do not know if he intended to be understood to say so or not, but it does follow—that, in his view, parliamentary discussion of these matters is inappropriate.

Senator CAMERON—That is verballing.

Senator BRANDIS—Dr Henry has said that it is unhelpful that these matters be canvassed in public forums. Dr Henry—

Senator Pratt interjecting—

Senator BRANDIS—May I speak without interruption, please, Senator Pratt.

CHAIR—Please.

Senator BRANDIS—Dr Henry just said it is unhelpful that these matters be canvassed in public forums. It necessarily follows that the view of the official at the table is that it is inappropriate that they be canvassed in parliament and in the forum of a parliamentary committee, which is a preposterous position.

Senator CAMERON—You are verballing the secretary.

CHAIR—Senator Cameron!

Senator BRANDIS—Allow me to finish, Senator Cameron. Madam Chair, finally, objections to answering questions are not taken by officials. If they are to be taken, they are to be taken by the minister at the table, and the minister has not taken such an objection.

Senator CAMERON—That was not a point of order.

CHAIR—I think Dr Henry, contrary to the view of the Senators Fifield and Brandis, was answering the question as fully as he was able and not refusing to answer the question on any grounds.

Senator CAMERON—He sure is.

Senator PRATT—Hear, hear!

Senator CAMERON—Let him answer.

CHAIR—Sorry, can I have a bit of quiet. I am not sure where we are going. Have you finished, Dr Henry?

Dr Henry—There appears to be some misunderstanding. I should clarify, Senator Brandis.

CHAIR—Yes.

Dr Henry—I certainly did not intend to convey the impression that it is inappropriate for parliament to have whatever debates it may wish to have about these issues. What I intended to say, and I thought I did say it, but obviously I did not use sufficiently precise language, is that I do not think it appropriate for my views to be canvassed publicly at this time in any chamber.

Senator Brandis interjecting—

Dr Henry—Actually, I mean by anybody, but it is entirely up to you whether you wish to talk about what you understand to be my views within parliament, and obviously I accept that that is entirely within your right to be able to do that. But what I was saying is that I do not think it is helpful for the views of officials to be canvassed publicly at this present juncture, maybe at any time, but certainly at this present juncture in any forum.

Senator ABETZ—Did you give that advice to the Treasurer?

Senator Conroy—I am sorry, but you are not entitled—

Senator ABETZ—Did you give the advice to the Treasurer that it was unhelpful to canvass the view of officials in the current climate?

Senator Conroy—You are asking him to specify what advice was given to government, which you well know you would never accepted when you were a minister. It is inappropriate

to seek the content of advice that is given to government. You know that is the case, Senator. Maybe if you want to rephrase your question.

Senator Cameron interjecting—

Senator ABETZ—The difficulty that we have, Dr Henry, is that your boss—I assume he is your boss—Wayne Swan, the Treasurer, said on *The 7.30 Report* last night, quoting these officials, ‘The Reserve Bank is not arguing for a cap; that is Malcolm Turnbull’s policy.’ So it seems okay for the Treasurer to be able to quote what the Reserve Bank is saying, but then, when we seek to test the truth and veracity of that assertion by Wayne Swan on *The 7.30 Report*, all of a sudden it is a no-go area for the opposition.

Dr Henry—Far for being a no-go area, Senator, I think I have answered that question on numerous occasions this morning.

Senator Conroy—Senator, you still don’t understand the differences between—

Senator ABETZ—Dr Henry, have you provided any advice to the Treasurer about making public statements relying on officials? I am not asking what the advice was. It is whether any advice was provided, and the answer to that—

Senator Conroy—On a specific issue.

Senator ABETZ—It is what the view—

Senator Conroy—Therefore that goes to the content of the advice.

Senator ABETZ—No, it doesn’t.

CHAIR—Senator Conroy, if you would address yourself through the chair.

Senator Conroy—Sorry.

Senator ABETZ—Either advice was given or it was not given. I am not asking what the actual advice was. Dr Henry, have you or your department provided advice to the Treasurer to the effect that it is unhelpful to seek to canvass the views of officials in these unprecedented times?

Dr Henry—No, certainly not.

Senator ABETZ—But you are giving it to us?

Dr Henry—Yes, I am, indeed.

Senator ABETZ—But not to the Treasurer; interesting.

Dr Henry—The Treasurer is a minister of the Crown. He has particular responsibilities. He is also my minister. I provide advice to him. He then takes decisions. If he wishes, in explaining those decisions publicly, to indicate that these decisions were taken on the basis of my advice or on the advice of any other official, that is entirely up to him. Acting in accordance with his ministerial responsibilities, he is perfectly free to be able to do so, and I would not generally say to him, ‘I do not think it is helpful for you to be indicating publicly whether or not the decision that you have taken was taken with or without departmental advice.’ In fact, it is to the contrary. It is entirely up to him. It is a quite different matter when people will speculate, and necessarily it is speculation, about the sorts of options that are being considered before policy decisions are taken. That is one of the reasons why, in this

committee, in 24 years, I have tried to avoid entering into debates or any discussion really about policy options that may be in the process of formulation within the Public Service before going to government.

Senator ABETZ—But, Dr Henry, what we have—

CHAIR—Senator Abetz, Senator Joyce has some questions, so if you would just wind up.

Senator ABETZ—What we have here—and this is a very important conflict—is the Treasurer asserting publicly that the Reserve Bank is not arguing for a cap. That is a public assertion being made.

Dr Henry—Yes, and as I have said on numerous occasions, I understand it to be a correct statement.

Senator ABETZ—Right next to it we are told that last Friday you received written advice from the RBA governor that said not only must there be a cap but the lower the better, and you are refusing to answer whether or not you received that letter or written advice from the RBA governor. Did you receive such advice from the RBA governor?

Dr Henry—I will say two things. I have said them both before but I will say them again. First, I will not comment on any correspondence that the governor may have had with me or that I may have had with the governor or that Reserve Bank officials may have had with my staff. I will not comment on that since it necessarily goes to the formulation of policy advice. I have never before in this place answered such questions and, given the sensitivity surrounding—

Senator COONAN—It is not advice to the governor.

Dr Henry—these issues, it would be particularly inappropriate on this occasion for me to do so. The second thing I have said, and I will say it again, is that the use of this word ‘cap’ has clearly caused considerable confusion. We have seen plenty of demonstration of it here this morning in the committee’s hearing. I have done my best to try to explain the source of that confusion and, frankly, I do not think I can do better.

Senator ABETZ—All right. Is the Governor of the Reserve Bank confused?

CHAIR—Senator Abetz, I indicated that Senator Joyce—

Senator ABETZ—Chair, no, sorry, I will persist with this because this is right on-issue.

CHAIR—Certainly, but after Senator Joyce’s questions.

Senator ABETZ—Is the Governor of the Reserve Bank—

CHAIR—No, Senator Abetz; Senator Joyce has the call.

Senator ABETZ—Is the Governor of the Reserve Bank confused about the term ‘cap’?

CHAIR—Senator Abetz—

Senator BRANDIS—Senator Abetz is asking a question.

CHAIR—Yes, but I had given Senator Joyce the call.

Senator Conroy—Senator Joyce, you have the call.

Senator ABETZ—Can I make this point very, very strongly; halfway through a line of questioning where we are getting to, if I might say so, some interesting issues, for the chair to quickly switch is completely inappropriate. These estimates ought to allow—

CHAIR—Senator Abetz, I indicated to you before your previous question that Senator Joyce was about to get the call, and I indicated that that would be the last question. I call Senator Joyce.

Senator FIFIELD—Point of order, Chair. You cannot randomly withdraw the call from a senator in the middle of a line of questioning. That is not the practice—

CHAIR—That is not a point of order, Senator Fifield. Senator Joyce—

Senator FIFIELD—I have not finished my point of order. There has never been the practice in Senate estimates to randomly withdraw the call from a senator in mid-questioning.

Senator Conroy—Yes, there has. I have been the victim of it on a number of occasions.

CHAIR—I will say it again: I did indicate to Senator Abetz that I had said Senator Joyce would have time for questioning. Senator Abetz has now been questioning for 25 minutes. He has had most of the morning. I call Senator Joyce.

Senator EGGLESTON—Point of order.

Senator ABETZ—I understand that Senator Joyce will cede to me for another two questions.

Senator JOYCE—I will make that call.

Senator ABETZ—You just did to me across the table.

CHAIR—We have a point of order.

Senator EGGLESTON—Senator Abetz is developing a line of questioning—

Senator JOYCE—I will defer to you, but do not pre-empt my deferral.

Senator Conroy—Caving into the Liberals again, Barnaby?

Senator CAMERON—Yes, the Nationals have gone again.

Senator Conroy—Roll over and tickly my tummy, Barnaby.

Senator ABETZ—Can I ask Dr Henry—

CHAIR—No, Senator Abetz. I call Senator Joyce.

Senator JOYCE—I defer to him.

Senator ABETZ—Dr Henry, did you receive written advice from the RBA Governor last Friday or thereabouts in relation to whether there should be a cap on this measure?

Senator Conroy—I think Dr Henry has indicated—

Senator ABETZ—I am not asking about the content of the letter. I am asking: did you receive a letter or written advice?

Dr Henry—I have already answered the question, Senator.

Senator ABETZ—Well, can you remind me whether you did or did not?

Senator Conroy—That is two questions.

Senator FIFIELD—It is hardly going to unearth—

Dr Henry—Precisely. I am sure that is right and, as you might have noticed, I have had no difficulty answering the question, and I have answered it on numerous occasions this morning. The first part of the answer is: I am not going to enter into discussion—

Senator COONAN—But did you receive the letter?

Dr Henry—I am not going to enter into discussion about any particular correspondence that may have gone between the governor and myself or members of the staff of the Reserve Bank and my own staff on these matters. That is the first part of the answer to the question. The second, which I will repeat as well, is that there is very, very clearly considerable confusion in this committee about the meaning of the word ‘cap’.

Senator ABETZ—That was not the question. Did you get a letter or did you not?

Senator BUSHBY—Point of order.

CHAIR—Senator Bushby has a point of order.

Senator Conroy—Even Senator Bob Brown understood the difference.

Senator BUSHBY—Dr Henry has on a number of occasions this morning indicated that he, of his own volition, is not going to enter into discussions or answer questions that have been properly put to him. As I understand it under the rules that govern estimates, he has no authority whatsoever to refuse to answer any question. If he has issues with answering a question, he can refer it to the minister at the table. The minister at the table then has the option of trying to find one of the areas of public interest immunity under which he may then claim a right for the officer at the table not to answer. I have seen no evidence of any of that procedure happening this morning on the occasions that Dr Henry has refused to answer questions.

CHAIR—I did—

Senator BRANDIS—I assume that you will entertain submissions from other senators? It was you, Madam Chairman, who read the statement at the start of the proceedings instructing that no witness had a discretion to withhold answers. If you are going to observe your own ruling, you will uphold Senator Bushby’s point of order. Secondly, it is an acknowledged conventional exception in this committee, as those like Senator Conroy and I who have participated in this committee for much longer than you, Madam Chairman, well know that, where a public interest exception is taken, that might properly be taken but, as you said yourself in the opening statement, it must be accompanied by a statement setting out the basis of the claim. That is a reference to the standing orders governing these proceedings. No such statement has been provided to the committee in any event; nor has this been a case in which Senator Abetz has sought advice to government. He has asked what is purely a process question—that is, whether or not a letter bearing upon a particular topic was sent on a given date. That is a process question. It has nothing to do with either policy development or advice to government.

Senator CAMERON—It goes to policy.

Senator EGGLESTON—Can I make a point of order also?

CHAIR—Yes.

Senator EGGLESTON—I draw your attention to the grounds of public interest immunity claims which accompanied the letter from the Clerk of the Senate to me last night. I would just like to read two paragraphs:

The terminology “public interest immunity” is significant. The Senate has made it clear that a claim that particular information should not be produced must be based on a particular ground that disclosure of the information would be harmful to the public interest in a particular way. A statement that the holder of information does not wish to produce it, or that the information is confidential, is not a proper claim for public interest immunity.

The other paragraph I would like to read is the third paragraph, which states:

The most significant principle drawn from Senate precedents is that the Senate has insisted that a claim that information should not be produced remains merely a claim unless and until determined by the Senate. Any agreement by a committee to accept a claim is subject to determination by the Senate, which may be initiated by any senator.

So, I would suggest that this claim by Dr Henry that he will not disclose this information is not sustainable as a public immunity claim, and we can take it to the Senate and require him to answer it if necessary.

Senator CAMERON—That is so petulant, and we are getting nowhere.

CHAIR—We have a number of points of order on slightly different topics. Dr Henry, I think, was trying to answer the question as fully as possible, as he has done all morning.

Senator BRANDIS—He said he would not answer the question. You cannot honestly be saying that, Madam Chairman. You cannot honestly assert—

CHAIR—Senator Brandis, is this a point of order?

Senator BRANDIS—You cannot honestly assert that Dr Henry was answering the question fully when he said he declined to answer the question.

Dr Henry—Excuse me, I do not think I did.

Senator CAMERON—Imagine you guys talking about honesty and openness; what a joke.

CHAIR—I am quite prepared—

Senator CAMERON—You guys talking about honesty and openness in government; what a joke.

Senator COONAN—Can the committee come to order, for goodness sake.

CHAIR—I am quite prepared to stay here all morning arguing points of order, but I thought this committee had a lot of questions for Treasury here, which is why we have extended the time. Now, we have spent—

Senator ABETZ—The idea is to answer the questions.

Senator CAMERON—They are a rabble.

CHAIR—We have spent nearly 10 minutes on this point of order wasting time on answering questions. I will answer—

Senator COONAN—Let us get on with it, Chair.

CHAIR—I will answer the point of order. Dr Henry did indicate how he would intend to answer. The Minister, it is true, must be the one to make claims of public interest immunity. But again, this is a matter of informality which is a common practice on these committees, and if the committee pushes it, the minister will take that public immunity claim. But in the interests of allowing the committee—

Senator COONAN—But he has not.

CHAIR—In the interests of allowing the committee to flow freely and smoothly and not waste our time with public immunity questions—

Senator COONAN—Could I get the call, please, for just one question?

Senator Conroy—Hang on.

CHAIR—We do not, customarily, insist on every occasion that the minister makes the statement. Dr Henry indicated the area in which he felt constrained in answering that question. If the committee wants to go into a private meeting and push that further, I am quite prepared to do that. But the indications are that there are a number of questions here and we want to get on with it.

Senator CAMERON—Eric, stop bullying Barnaby. Let him ask his question, stop bullying him.

Senator ABETZ—I am not bullying him.

Senator CAMERON—There he goes again.

Senator JOYCE—I will call a point of order on Senator Cameron's comments. That is out of order.

CHAIR—I did not hear Senator Cameron's comments.

Senator JOYCE—I have some questions.

Senator COONAN—Can the committee proceed?

CHAIR—I believe there is one question over on this side. Senator Coonan?

Senator COONAN—Thank you; then it is to Barnaby.

Senator Conroy—Barnaby is exercising his right; Barnaby wants the call.

Senator COONAN—Excuse me, I just wanted to reformulate the question in a way that I do not think would be offensive to any witness to have to answer.

Senator CAMERON—What a rabble.

Senator COONAN—Did you, Dr Henry, receive a piece of correspondence from the Governor of the Reserve Bank last Friday?

Senator ABETZ—That is what I asked.

Dr Henry—I am sure I received more than one, Senator.

Senator COONAN—Did one of the pieces of correspondence refer to clarifying the retail cap?

Dr Henry—Now you are going to the content of correspondence.

Senator COONAN—Well, did it? That is alright.

CHAIR—No. Senator Joyce.

Senator JOYCE—I think we need to discuss this in a private meeting.

Senator ABETZ—Yes, we need a private meeting; this is getting ridiculous.

Senator Conroy—Okay.

Senator JOYCE—The witness is defying the committee; we need to address—

Senator Conroy—If only they would let you ask the questions, Mitch, we might be making more progress.

CHAIR—Alright, the committee is adjourned for a short private meeting.

Proceedings suspended from 11.49 am to 11.58 am

CHAIR—The committee have made a decision, but we need an indication from the minister, according to our standing orders, as to whether or not Dr Henry should answer that specific question.

Senator Conroy—Perhaps if we could hear the question and then Dr Henry might respond and, if necessary, I can then respond?

CHAIR—Certainly.

Senator ABETZ—The same question. Did you, Dr Henry, receive written advice from the RBA Governor, Glenn Stevens, last Friday dealing with the issue of the unlimited guarantee for bank deposits?

Dr Henry—Chair, I believe I have already answered the question.

Senator COONAN—Is it yes or no?

Senator ABETZ—It is either yes or no, whether you received a letter?

Dr Henry—Let me say what I said earlier. I will not go through the entirety of what I said earlier, but I received, I am sure, more than one piece of correspondence from the governor on that Friday.

Senator ABETZ—On this topic?

Dr Henry—I do not wish to divulge the content or the subject matter of discussions that have occurred between the governor and me on this matter or any matter. The particular subject matter that we have been discussing this morning concerns the formulation of policy advice to the government. I have never before in this committee gone through the details of considerations among officials in the formulation of policy advice to the government. When pressed to do so, I have on numerous occasions sought leave of the chair to take the question on notice in order that I have an opportunity to consult with the Treasurer and specifically to ask the Treasurer how he would propose that I best handle my responsibility in helping him to discharge his responsibilities to the parliament. If that is the only course available to me on

this occasion, then that is what I will do. I will seek leave of the chair to afford me an opportunity to consult with the Treasurer to see whether there is any information that the Treasurer would wish me to provide to the committee in answer to this question.

Senator ABETZ—Chair, it is a technical device that is open to Dr Henry to take any question on notice, but I must say it is passing strange that you would have to take on notice whether or not you received a letter dealing with a particular topic. Could I invite you, Dr Henry, to do so during the lunch break so that we can canvass this immediately after lunch?

Dr Henry—As you know, senator, subject to the Treasurer's availability, I am happy to do so, but of course it is up to the Treasurer to decide—

Senator Conroy—Questions taken on notice are required to be provided to the committee by a date which I am not sure that you have set yet; you normally set it at the end.

CHAIR—Yes, we have.

Senator Conroy—I am sure that the Treasurer will comply with the wishes of the committee.

Senator BRANDIS—Minister, surely given the sensitivity of this matter and what Dr Henry has himself just said, that he is willing subject to his availability to consult with the Treasurer at lunchtime, you will not stand on your rights and delay the response to a question taken on notice until the last possible date, surely not?

Senator Conroy—I am indicating the processes of the committee, first. It will be entirely in the Treasurer's hands whether the information is able to be provided before we resume. I would simply make the point that parliament is sitting; the Treasurer is not watching with bated breath our every word, I promise you.

Senator BRANDIS—I do not presume that for one moment.

Senator JOYCE—You know that is not true, Stephen. He is watching every minute of this, Senator Conroy.

Senator Conroy—I have known Wayne a long time and he has a very low boredom threshold, and he would have long passed into it by now.

Senator JOYCE—You do not do yourself justice, Senator Conroy.

Senator EGGLESTON—Madam Chair—

Senator ABETZ—So you can tell us what the Reserve Bank Governor said—

CHAIR—Sorry, Senator Eggleston has a point of order.

Senator Conroy—We have indicated if you want to press—

CHAIR—Minister!

Senator Conroy—You have not indicated whether you are going to press yet.

Senator ABETZ—Yes, we are.

CHAIR—Minister!

Senator Conroy—If you press it, then we will take it on notice.

CHAIR—Senator Eggleston has a point of order.

Senator EGGLESTON—Thank you, Madam Chair. I would simply call the attention of the committee to the fact that there are many precedents for information being sought from a minister during the course of estimates being provided within a very short time. The minister is well aware, I am sure, whether or not correspondence of the nature referred to was sent to the secretary, and I am sure that, given these precedents, this question can be answered by early this afternoon.

Senator Conroy—We have taken this—there is no point of order.

CHAIR—Actually, that is not a point of order.

Senator Conroy—We have taken it on notice. Next question?

Senator BRANDIS—It is not a question of whether the Treasurer is aware of it? Dr Henry knows the answer. It is a question of whether the Treasurer will authorise him to answer the question.

CHAIR—Senator Joyce has the call.

Senator JOYCE—I want to go back to Output 1.1.1. I heard you say at the start, Dr Henry, that you started becoming aware of the crisis in about February. Is that correct?

Dr Henry—No, I think I indicated earlier that February was probably the first occasion on which I had a discussion with the government about what policy responses might be required if the global financial crisis were to worsen and were to pose a serious threat to the Australian financial system.

Senator JOYCE—So you were aware of the possibility of a global financial crisis in February, and that would not be unusual seeing other articles by Dr Eric Jensen, Dr Mark Faber and Dr John Woolley, and books published such as by Justyn Walsh on *The Keynes Mutiny*, a whole range of respectable economic commentators who were saying that there was something coming down the track towards us—would that be a fair comment? It was a point of discussion well and truly in February, was it not?

Dr Henry—Yes, it was.

Senator JOYCE—Your discussions in a form would also have involved, I imagine, Glenn Stevens?

Dr Henry—Yes, I indicated earlier that I have had numerous conversations with the governor about these matters over a very long period of time.

Senator JOYCE—So he would have been aware of it as well? Obviously he would be aware of it?

Dr Henry—Clearly it is not for me to speak for the governor, but I think it is also pretty clear that the governor has been following developments in the global financial crisis with considerable interest.

Senator JOYCE—Considerable interest?

Dr Henry—Yes.

Senator JOYCE—In following the effects of the global financial crisis with considerable interest, can you foresee any reason why we would have had a 25-point rise in February and another 25-point rise in March of interest rates?

Senator Conroy—That is not a question; you are asking for an opinion. The officials are not entitled to give their opinions. They are entitled to answer factual questions.

Senator JOYCE—It was factual; we definitely had them.

Senator BRANDIS—I am sorry, Madam Chairman—

Senator Conroy—Oh, stop it.

Senator BRANDIS—No, this is a new rule.

Senator Conroy—Now you want them to speculate on Reserve Bank decisions—

Senator BRANDIS—This is a new principle that has never been articulated in an estimates committee before, that you cannot—

Senator Conroy—That is just not true, George.

Senator BRANDIS—ask the professional opinion of expert witnesses.

CHAIR—I was distracted, sorry. My understanding was that Dr Henry was in the middle of answering a question.

Senator JOYCE—Did you have any discussions in any way, shape or form with the government in regard to the implications of interest rate rises in the period which has obviously been set out as one of financial uncertainty where the rest of the world was reducing interest rates?

Dr Henry—All I can indicate in response to that question is that I provide macroeconomic policy advice to the government on an ongoing basis. That is part of my job. Necessarily, in those discussions, questions going to monetary policy would have arisen. Our discussions would have included discussions about the impact of monetary policy decisions. I cannot give you specific detail, but I can confirm that, in providing macroeconomic policy advice to the government, I certainly would have included in that advice that goes to monetary policy matters.

Senator JOYCE—What circumstances did you foresee in February when these discussions were going on that the world was heading into a period of financial turmoil, uncertainty, problems with credit as you have stated? What discussions could anybody have had that would imply that the appropriate course of action was to raise interest rates?

Dr Henry—The governor speaks for the Reserve Bank Board as you are aware. I am a member of the Reserve Bank Board. It is the governor's job to speak for the Reserve Bank Board. These days the Reserve Bank publishes the minutes of the Reserve Bank meetings, and these days the governor publishes a statement following every meeting as to whether or not there has been a change in the stance of policy. Following that meeting, the governor did issue a statement, and the minutes of that meeting were made public. I think it is appropriate that the governor speaks for the board, as is appropriate and accepted practice with respect to all boards of responsible entities.

Senator JOYCE—I asked the question, obviously, because you are a member of the Reserve Bank Board, as no doubt is Mr Stevens. You have acknowledged that you have had discussions with him about what the pending global economic position was, as well as with Mr Swan, yet, irregardless of that, a decision was made by that board on two occasions to raise interest rates after your discussions.

Dr Henry—What I am saying is that, whilst I do not have the minutes of that particular Reserve Bank Board meeting in front of me, I think it is the case that those minutes would answer your question.

Senator JOYCE—I want to go back to the \$10.4 billion package. Did you do any modelling on the effect of that package, or did anybody in your department do any modelling on the effect of that package?

Dr Gruen—No formal modelling was done of that package. Certainly, analysis was done of that package, but it was not formal modelling.

Senator JOYCE—So we have spent half of the nation's surplus without a formal modelling of the package, is that correct? We have spent half of the nation's surplus without a formal modelling of the effects of the package?

Senator CAMERON—These guys just do not believe there is a crisis.

Senator JOYCE—I am asking a question.

Senator CAMERON—They do not support the package because they just do not believe anything is going on.

CHAIR—Can we let Dr Gruen answer?

Dr Gruen—I can confirm that the package was \$10.4 billion and that no formal modelling was done. I can confirm that no formal modelling was done.

Senator JOYCE—Do you believe that is prudent?

Dr Gruen—Yes, I think it goes to what I tried to lay out in my opening statement about the nature of the environment that the Australian economy has been facing over the last few weeks. We are dealing with a situation of very substantial disruption in credit markets. With the best will in the world, it is extremely difficult for formal models to come to terms with such events. We have a qualitative understanding of the sorts of impacts that such disruptions have on the economy, but, as I said, we are dealing in the nature of changing balances of risks, and it is a situation which calls for judgment. What came out of formal modelling would depend on what you put into the formal modelling.

Senator JOYCE—We have put \$10.4 billion into it. How long would you have had to have delayed the package to have obtained that formal modelling?

Senator Conroy—Could you repeat the question, Senator?

Senator JOYCE—How long would you have had to have delayed the package to have obtained that formal modelling?

Dr Gruen—It depends on the nature of the formal modelling that you are requesting. If the question how long it would have taken to have put together a set of forecasts beforehand and

afterwards—in other words, to try to assess the size of the effect—one could have done such a thing. It could have had as input formal modelling, but formal modelling would simply be an input.

Senator JOYCE—How long would it have taken?

Dr Gruen—As I say, it depends what the question is. In principle, you could put together a set of forecasts over the course of a few days, but—

Senator JOYCE—Thankyou; the course of a few days.

Dr Gruen—Let me just finish.

Senator JOYCE—So we could not delay this package for the course of a few days to do the prudent process of getting the formal modelling right?

Dr Gruen—No, I did not say that. I did not say that at all.

Senator JOYCE—Have we done any modelling on it now?

Dr Gruen—We are in the process of putting together the forecasts that will go into the Mid-Year Economic and Fiscal Outlook. We are doing as careful an assessment as possible of the package, along with everything else that is going on as a consequence of that, and what the outcome will be for the Australian economy. That is what we are doing.

Senator JOYCE—It has been more than a few days since the decision was announced, so no modelling has happened yet?

Dr Gruen—Formal modelling is part of the process of coming up with the MYEFO forecast, so that process is happening as we speak.

Senator JOYCE—Dr Gruen, I am asking you a very specific question. Have you done modelling now? I do not want to know what the modelling says, but have you done modelling now with respect to how this package will operate? Has it or has it not been done? It is either a yes or no answer.

Dr Gruen—We are in the process of updating the forecasts, and part of that updating is running formal economic models. We are in the process of doing it.

Senator JOYCE—As my good friend and colleague, Senator Brandis, said, that is stuff you were going to have to do for MYEFO anyhow, so have you done it?

Dr Gruen—We are in the process of doing it.

Senator JOYCE—Okay. Let us go back to what you actually did base spending half of our nation's surplus on. What was the stringent analysis that went on in Treasury to come up with this magical amount of \$10.4 billion, half of our nation's surplus? Tell me the form of the analysis that you undertook?

Senator CAMERON—Don't you support it any more? Have you changed your mind? Have you done a back-flip?

Senator JOYCE—On a point of order, just for the record, Senator Cameron, you will be happy to know I was one of the only people who never agreed with this from the start.

CHAIR—I do not want any conversation across the table.

Senator JOYCE—I really do want this answer, and I want it on behalf of the Australian people, because you have spent their money. I want to know what analysis you did to ascertain that figure of \$10.4 billion?

Dr Gruen—I think I have addressed that question in my opening statement.

Senator JOYCE—What was it?

Dr Gruen—What I said was—

Senator ABETZ—What page?

Dr Gruen—I went to the issue of how we were seeing the—

Senator COONAN—What page?

Dr Gruen—The last two pages.

Senator COONAN—Thank you.

Dr Gruen—I went to the issue of how we were seeing the evolving events, and what we thought was an appropriate response to those evolving events. We were dealing with a situation of very considerable uncertainty which was evolving rapidly. As I said, over a period of three weeks following the collapse of Lehman Brothers—

Senator JOYCE—A period of three weeks?

Dr Gruen—Sorry?

Senator JOYCE—A period of three weeks. Keep going.

CHAIR—He is going to. Dr Gruen.

Dr Gruen—I have already read these words. The last time I read them I did not get that reaction. Over a period of three weeks following the collapse of Lehman Brothers, we got a very strong signal that the outlook for the world economy had deteriorated significantly. The shock was unusual in terms of both its size and the size of its transmission through the world economy. Even before the recent intensification of the global financial crisis became evident, the Australian economy was growing at a below trend pace, and it was expected to slow further. In these circumstances, the government decided that the least regret policy was to introduce a significant short-term fiscal stimulus package to support economic activity.

Senator JOYCE—We are getting to the crux of the issue. For three weeks since the collapse of Lehman Brothers, you did not do any modelling, but you acknowledge that you can do it in a matter of three days if pushed, and at this point in time—

Dr Gruen—No, I did not say that, actually.

Senator JOYCE—you have not declared to us one form of statistical analysis that you did to come up with a package of \$10.4 billion. So the question I ask is: where did this magical figure come from?

Dr Gruen—I do not believe that I said what you have suggested I said. What I did say was that, given where we were—namely, with a set of well-articulated forecasts in mid-September—we could have come up with a new set of such forecasts in a period of a few

days. Had we done so, when we emerged from that process, we would have seen that the international environment had changed sufficiently that we would have wanted to do it again.

Senator JOYCE—I will get right down to it: since you did not do any modelling and you did know that there was the collapse of Lehman Brothers and you were devising the outcomes for our nation, what analytical tool did you use to come up with the figure of \$10.4 billion? I will be direct here: for want of a better term, did you pluck it out of thin air?

Dr Gruen—Ultimately it is decision for government what size package government chooses to implement and whether or not to implement that package. It is not for us to come up with those numbers. That is ultimately a decision for government.

Senator Conroy—That goes to advice to government. You are asking him to comment on advice to government. The point that Dr Gruen is making is that ultimately the size of the stimulus package was a decision for government.

Senator JOYCE—So the amount of \$10.4 billion—and you have confirmed this, Minister—was purely a decision of government?

Dr Gruen—I would not say—

Senator Conroy—Based on advice.

Senator JOYCE—Basically, they plucked it out of thin air?

Senator Conroy—Based on advice.

Senator JOYCE—And no-one has been able to table for me yet any form of stringent analysis in any way, shape or form of how we came up with \$10.4 billion.

Senator Conroy—I can simply go back to the words that Dr Gruen read out earlier in his opening statement:

In such circumstances, the central forecast of what might happen to the economy is probably less valuable than a careful assessment of the balance of risks. And, for the most part, the accumulating evidence was suggesting that the balance of risks around our September forecasts for Australian economic growth were shifting decisively to the downside.

In situations like this, macroeconomic policy must be ready to respond quickly and substantively to developments as they occur.

This government did that. It made decisive action around the regulatory issues on the weekend, and by mid-week it was making a decisive impact with a fiscal stimulus based on the advice that it was receiving on the dramatically changing world environment.

Senator JOYCE—Minister, the day you announced the package, the market went down 6.6 per cent; that is how much effect your package had. Seeing there was no stringent analysis, what is wrong with the figure of \$5.4 billion?

Senator Conroy—You are welcome to win government and make those calls. We made a decision based on the best possible advice that was available to us in rapidly and dramatically changing circumstances, and that was the position the cabinet took.

Senator JOYCE—It is amazingly flowery language, Minister, but it is quite obvious now that you plucked the number of out thin air.

Senator BRANDIS—Dr Gruen, Senator Joyce seems to have exposed the fact that half of the nation's surplus was spent without any modelling. Would it shock you to learn, if you are not already aware of it, that the Finance estimates were told yesterday afternoon that the costings for the expenditure of half of the nation's surplus were arrived at in the course of a few hours, between Saturday afternoon, 11 October and Monday morning, 13 October, by five public servants?

Senator Conroy—What an excellent job they did.

Senator BRANDIS—It was a quick back-of-the-envelope calculation to decide the costings for the expenditure of half of the nation's surplus. Would it shock you, Dr Gruen, to know that that was the process followed in Finance?

Dr Gruen—Senator, you cannot expect me to answer that question.

Senator BRANDIS—If that were so—and I invite you to consult the Finance estimates *Hansard*, which would be on the web by now—would that shock you?

Senator Conroy—That is asking for an opinion on something that is not relevant to the estimates of this committee.

Senator BRANDIS—Would you expect the expenditure of half of the nation's surplus to have been costed in more than a few hours over the weekend by five public servants?

Senator Conroy—You are asking him to comment on *Hansard* from another committee.

Senator ABETZ—Dr Henry, for us mere mortals, you indicated that there was some confusion between the term 'cap' and another word. Is that right?

Senator Conroy—Can't Mitch have a go? Let Brett bowl.

Senator ABETZ—Thank you, Minister.

CHAIR—Minister, we only have five minutes left in this session.

Senator ABETZ—A bit of—

CHAIR—Committee! Please, we have a short time left in this session.

Senator ABETZ—Thank you, Chair. Dr Henry, you indicated that there was some confusion between the term 'cap' and another term—what was that other term?

Dr Henry—I think what I said was that there was some confusion about the meaning of the word 'cap'. I do not think I used another term; maybe I did.

Senator ABETZ—All right. There is some confusion. What do you understand the term 'cap' to mean?

Dr Henry—I have explained this on numerous occasions; I will do it again. There appear to be two senses in which the word 'cap' has been used in this committee this morning. One is the sense of a level of deposits above which a guarantee would cease to be made available by the government. That is the sense in which 'cap' was used in the Treasurer's second reading speech when he said, 'As noted by the Prime Minister on Sunday, the government will examine a cap on the guarantee after three years.' That is the sense in which 'cap' is used there.

Senator ABETZ—Is that the same sense—

Dr Henry—It—

Senator ABETZ—Sorry, keep going.

Dr Henry—No. Maybe it would be helpful if you ask your question now?

Senator ABETZ—Yes, all right. Thank you. Is that the same sense in which the Governor of the Reserve Bank uses the word ‘cap’?

Dr Henry—Is this a trick question, Senator?

Senator ABETZ—Decide for yourself.

Senator Conroy—Perhaps you might want to address that question to the Governor of the Reserve Bank. If Dr Henry would like to add to it—

Senator COONAN—It is the same as a retail cap, is it not?

Senator ABETZ—Is it your understanding of what he means?

Dr Henry—Okay, let me—

Senator BRANDIS—He must use it every day. You must have an understanding of what he means by—

CHAIR—Senator Brandis, interjections are disorderly.

Dr Henry—Let me answer the question this way. Look, for example, at the story in the *Australian* newspaper this morning that refers to correspondence that I have apparently received from the governor and refers to a cap on deposits. If that is what you are referring to, then my guess would be—maybe I can do better than guess—that, no, the word ‘cap’ has quite a different meaning.

Senator ABETZ—Different to the one you just offered?

Dr Henry—Yes.

Senator ABETZ—So the Reserve Bank governor has a different meaning for the word ‘cap’—

Dr Henry—No, I did not say that.

Senator ABETZ—than you do? Is that right? If I misunderstand—

Dr Henry—You have misunderstood.

Senator Conroy interjecting—

CHAIR—No, we do not need any assistance. Senator Abetz has asked a reasonable question, and Dr Henry will answer.

Senator ABETZ—I am willing to admit I am a mere mortal and I do not have ‘Dr’ in front of my name—

Senator Conroy—But you do have Senator Fifield in the wings, champing at the bit.

Senator ABETZ—I would be obliged if you could re-explain to me.

Senator Conroy—Perhaps at lunch, Senator Fifield, you could do us all a favour.

Senator FIFIELD—The easiest way would be to produce the letter.

CHAIR—No, Dr Henry is answering the question.

Dr Henry—The discussions that—

Senator Conroy—Economics 101 in that room with Senator Fifield at lunchtime.

CHAIR—Minister!

Dr Henry—The discussions that have been taking place between the Reserve Bank and the Treasury over recent days—that is, since the Prime Minister’s statement on 12 October—have gone to matters referred to later in the Treasurer’s second reading speech, where he says:

The government is consulting on the interaction between this guarantee on eligible wholesale borrowing and the guarantee on deposits.

If desirable, the government will proceed with measures to clarify the intersection of these guarantees and facilitate their operation.

In the consideration of that matter, officials—both in the Reserve Bank and in the Treasury—have been considering the question whether there is a level of deposits above which, whilst the guarantee applies, a charge will also apply. Call that a threshold if you like, call it a cap if you like, but the word ‘cap’ clearly in the discussions we have had this morning and continuing into this afternoon has more than one meaning.

CHAIR—We are breaking for lunch. I should indicate that we will probably continue this session after lunch, but can I ask the remainder of the committee to stay behind so that we can have some discussion about how that scheduling will go.

Proceedings suspended from 12.30 pm to 1.30 pm

CHAIR—We will recommence the committee meeting.

Senator ABETZ—Could I ask the secretary whether he or anyone on his behalf during the luncheon adjournment contacted the Treasurer or his office?

Senator Conroy—The Treasurer was actually holding a press conference during lunch.

Senator ABETZ—I asked a question. The answer is either yes or no.

Senator Conroy—The Treasurer was actually conducting a press conference and preparing for question time, so—

Senator ABETZ—Not for the full hour?

Senator Conroy—For a fair bit of it and I would probably say, yes, if allowed. I have spoken with the Treasurer and he was deep in preparation for question time after his press conference.

Senator ABETZ—Because I am not sure that it is in your personal knowledge, can I ask the secretary whether he or anyone on his behalf contacted the Treasurer’s office during the lunch break.

Dr Henry—I did.

Senator ABETZ—Did that include a request as to whether you could confirm whether or not you had received a letter last Friday dealing with the issue of unlimited guarantee to bank deposits?

Dr Henry—Yes, I did have that discussion with the Treasurer. The Treasurer answered the question in his press conference.

Senator ABETZ—Let us get this clear. You did have a discussion with the Treasurer during the lunch break?

Dr Henry—I did.

Senator ABETZ—Minister Conroy, would you like to explain your answer?

Senator Conroy—You are like the Black Knight in *Monty Python and the Holy Grail*. You have got no limbs left at all.

Senator ABETZ—Could you explain your answer to the committee that it was the full hour that he took in having a press conference and preparing for question time?

Senator Conroy—I am sure that having a conversation with the Secretary of the Treasury would fall into the broad definition of preparing for question time.

Senator ABETZ—Can I tell you that that answer was either very stupid or designed to mislead, but I accept Dr Henry's answer—

Senator Conroy—You are like the Black Knight in Monty Python.

Senator ABETZ—and from that the Treasurer has not agreed to you indicating to us whether or not you received a letter from the Governor of the Reserve Bank.

Senator Conroy—I think the answer Dr Henry gave was very straightforward. It was an answered by the Treasurer in his press conference.

Senator ABETZ—Just so that I can get it clear, I know I am slow but just so that I can get it clear, I want to know—

Senator Conroy—It is hard to run with no legs and arms.

Senator ABETZ—whether the Treasurer agreed that the secretary could advise this committee whether or not he had received a written communication from the Governor of the Reserve Bank on the issue of unlimited guarantee for bank deposits?

Dr Henry—The answer is that having consulted with the Treasurer I have nothing further to add to the answer that I gave to the committee this morning.

Senator ABETZ—I am sorry, I thought the purpose—

Senator Conroy—Which we had taken on notice.

Senator ABETZ—I thought the purpose of the consultation was as to whether or not you could advise this committee. Is that right—that the purpose of your discussion with the Treasurer was to ascertain whether or not—

Senator Conroy—We have taken the question on notice as we are allowed to under the standing orders and procedures quoted extensively by Senator Brandis, you, Senator Eggleston and the chair.

Senator ABETZ—I accept all that, but the secretary very kindly agreed to canvass this issue with the Treasurer during the lunch break. We are agreed that that occurred. I am now asking whether part of that communication between the secretary and the Treasurer included instruction that it was not to be advised to this committee whether or not there had been written advice from the RBA governor to Treasury Secretary Ken Henry, about unlimited guarantee for bank deposits. What are we trying to hide here, Minister?

Senator Conroy—I was just asking Dr Henry a question.

Senator ABETZ—Affected laughter will not get you anywhere. Can I have an answer?

Senator Conroy—You are like the Black Knight.

CHAIR—Minister? Dr Henry?

Dr Henry—I am going to have to answer the question the same way. I consulted with the Treasurer and we discussed a range of matters in a rather brief conversation in the luncheon break, but, having consulted with the Treasurer, I cannot add further to the answers that I tendered to the committee this morning.

Senator ABETZ—To nail it right down, did you consult with him about the particular issue that was raised before lunch and this written advice allegedly from the Reserve Bank governor to you last Friday?

Dr Henry—Yes, I did.

Senator ABETZ—That topic was raised? The Treasurer has indicated via Sky News and now through the courtesy of the secretary that this information will not be made available to us?

Dr Henry—I am sorry, I may have given the wrong impression. His news conference preceded my conversation with him. When I said—

Senator ABETZ—There is no criticism of you in that, because I am sure that the Treasurer's office was watching and the Treasurer would have been notified by staff that a lunchtime request might be made. Clearly, the Treasurer was briefed on the matter and once again it seems he spoke without advice from you, which is very interesting. But I will let the matter rest there other than to indicate, Chair, that I would seek a ruling. We do not need that now, but I ask that you seek written advice from the Clerk as to the objection that was earlier taken. I do accept that the question has been taken on notice now and therefore has obviated that for the time being, but when we get the answer back I think a ruling from the Clerk would be very helpful. If that could be put in train that would be helpful. I should also indicate that we as a coalition will give serious consideration as to whether this matter is brought before the Senate as a whole.

Senator COONAN—I want to turn to the topic of what accounts are covered and what are not by the guarantee with a view to asking you some questions about excluding, for example, several sectors once considered safe, such as cash management trusts and listed property funds, which has led to nervous investors withdrawing their funds. My question about that is: was it a foreseeable, perhaps even an inevitable, consequence that investors and rating agencies would prefer government guaranteed investments?

Mr Murphy—I think you can find on the Treasury website, which followed up the government's announcement, that a list of the specific deposits are included within the deposit guarantee, and they have been specified. In terms of your question, I think there is a wrong assumption. I think I heard you say, 'Certain instruments or transactions which were formerly regarded as safe or secure.' The government's guarantee does in no way imply or in any way lead one to the conclusion that various investments are no longer safe and secure investments in the Australian financial system.

Senator COONAN—I accept that, but we are dealing with human behaviour here and often it is not rational. We have seen, for example—

Mr Murphy—Can I ask the question—

Senator COONAN—Can I just ask a question here? Leaving out cash trusts appears to have prompted, for example, the biggest cash management trust, Macquarie Cash Management Trust, to switch its assets to government backed assets. I have a couple of others to make the point. I am just dealing with publicly identified ones. Yesterday it was announced that Australia's biggest mortgage fund, Challenger Howard, with \$2.9 billion of the mortgage funds, is set to freeze investor redemptions following the government's deposit guarantee following a run of withdrawals and investors flocking to the big banks. There were reports that Lonsec plans to place all mortgage funds on hold in the \$30.9 billion mortgage fund sector. Obviously there are a lot of people there making judgements, however rational or irrational they may be, about what this unlimited cover or guarantee for certain accounts does to those which are not covered.

Senator Conroy—Before Mr Murphy answers that—and I appreciate we are not trying to stop Senator Coonan from asking these questions—but given the market sensitive nature of some of the questions you are asking, and of some of the answers, it is possible the committee might want to consider going in camera to take some of the evidence. Some of the areas you are moving into are considered by officials to be very market sensitive. If you want the answers—

Senator COONAN—Let me just say this—

Senator Conroy—I am offering it as an option to avoid an argument.

Senator COONAN—I understand that. I think we should proceed a bit further and if there is a need for—

Senator Conroy—It is being flagged to me now that there is possibly a need to consider this now.

Senator ABETZ—These are stories lifted from the media.

Senator Conroy—You are asking for Treasury officials—

Senator COONAN—I am as conscious as you are—

Senator Conroy—No. I am now responding to Senator Abetz, which I should not be, but—

Senator COONAN—I am conscious of the sensitivities and—

Senator Conroy—I appreciate that.

Senator COONAN—But I have been on the other side of the table in these sorts of situations.

Senator Conroy—The officers, in probably the first time I have ever seen in Senate estimates—and I have been doing it for 12½ years now—have said that the committee might want to consider going in camera. I have never experienced that suggestion before. I just think it is something the committee should think about. You might want to have a meeting and think about it.

Senator COONAN—Let me just say that knowing that that could well have been the reaction of those—

CHAIR—I think we have a point of order on the left.

Senator PRATT—I have a point of order.

Senator COONAN—Oh, for goodness sake.

Senator PRATT—If it is not in the public interest to continue a line of questioning, the committee needs to answer the question of whether answering the question is indeed in the public interest.

Senator COONAN—If the senator will just wait for a moment until we have finished our exchange; it is perfectly civil and it is a very important point. Can we just please continue, because I just happen to know what I am doing, Senator.

Senator PRATT—Chair, the witnesses have really indicated that they are limited in their ability to answer the question because of the public interest.

Senator FIFIELD—Limited in their willingness, not their ability.

CHAIR—Can I hear the point of order, please.

Senator PRATT—I do not want to leave this unduly exposed considering the debates we have already had this morning.

Senator BRANDIS—I do not think you understand that Senator Coonan is a very experienced barrister and she knows better than most here what—

CHAIR—Do you have a point of order?

Senator PRATT—Do not patronise me, Senator Brandis.

Senator FIFIELD—It was a statement of fact on the part of Senator Brandis.

Senator JOYCE—It is not patronising. It was a statement of fact. She is an experienced barrister—

Senator COONAN—I understand your point of order—

CHAIR—I understand your point of order, but I would like Senator Coonan to finish the discussion.

Senator COONAN—I am just trying to explore here a way that I can answer some questions which I have deliberately—

Senator Conroy—Hopefully you can ask them rather than answer them.

Senator COONAN—I said at the beginning that that was in the public domain. If it is necessary to deal with the questions for something that is not in the public domain—

Senator Conroy—The question may be in the public domain; the answer is the issue.

Senator FIFIELD—Indeed it is.

Senator COONAN—Perhaps we will go a bit further.

Senator BRANDIS—That is uncontroversial, Senator Conroy.

Senator FIFIELD—The answer is what we are after.

Senator Conroy—Thank you. I am trying to be uncontroversial.

Senator ABETZ—We might get an answer on the letter.

Senator BRANDIS—You are almost statesmanlike, if I may so, Senator Conroy—uncharacteristically.

Senator JOYCE—The issue about in-camera evidence was suggested by one of the cameramen here before.

Senator Conroy—That is because you keep bobbing your head up in the way.

Senator ABETZ—No, that is ‘on camera’.

CHAIR—I was just having a discussion. Where are we at?

Senator COONAN—I was just going to ask another question. If it causes Dr Henry difficulty or the minister takes a view about it we may have to revisit their previous point. Last Friday the Australian heads of several investment banks wrote a letter to the government—it was presumably given to the Treasurer and the Prime Minister—complaining that their exclusion from the scheme was damaging their business in lending to the corporate and the mortgage market. These were, of course, very senior heads of banking: JP Morgan, UBS, Deutsche, Society Generale, BNP Paribas and the Bank of Scotland. Was a copy of this letter given to the Secretary of the Treasury?

Dr Henry—I have seen a copy of the letter to which you refer. I am surprised that you would have it, but, be that as it may, I believe I have seen a copy of that letter.

Senator COONAN—Has the government sought your advice in respect of the matters canvassed in the letter?

Dr Henry—As I indicated this morning, we are engaged in active consultation—and I use ‘we’ to refer to the Treasury, the Reserve Bank and APRA—with industry participants about a whole range of matters. We are in the process collectively of formulating advice to the government. I think I indicated this morning that we were close to being in a position to finalise that advice and to tender it to government. I hope that we are talking—and I anticipate that we are talking—about a matter of days and no longer.

Senator COONAN—The situation here, is it not, is that the speed and rapidity with which the market reacted took you by surprise.

Dr Henry—Let me give a flat answer: no.

Senator COONAN—You anticipated that, not having fixed this up at the time the package was announced, there would not be an adverse market reaction having left this package at large with an unlimited guarantee covered by the government of certain accounts?

Senator Conroy—I am not suggesting for a moment that these are not matters of legitimate public speculation and interest. We probably only have one or two options at this side of the table, which are to either take it on notice or go in camera to possibly continue a discussion along those lines. I offer you either opportunity.

CHAIR—I have advice that estimates is not to be held in camera, that it needs to be a public discussion.

Senator Conroy—As I said, I am offering the opportunity—

CHAIR—We do have the opportunity as a committee to have a private briefing subsequent to estimates.

Senator ABETZ—Can I try this question then: was Treasury anticipating the market reaction that followed? I think that is about as neutral a question as can be asked.

Senator Conroy—I will take the question on notice.

Senator ABETZ—This is appalling.

Senator BRANDIS—Was Treasury anticipating a market reaction, Dr Henry?

Dr Henry—I will take the question on notice.

Senator COONAN—I hope I can ask some questions to which you can be responsive, Dr Henry. I appreciate that this is in a kind of consultation phase. I am just interested, for example, how the three-year time limit for deposit guarantees actually work the way the thing is structured at the moment. For example, does it have a terminating maturity date of October 2011, or does it mean that guarantees over the life of any three-year deposit over the next three years are covered?

Dr Henry—That matter is dealt with in the legislation.

Senator COONAN—I know that. I am just asking for an answer.

Senator ABETZ—What does the legislation tell us?

Senator Conroy—We could table it for you, Senator Abetz.

Senator ABETZ—It is not uncommon at estimates to ask these sorts of questions.

Senator COONAN—It is a foundation question.

Ms Wijeyewardene—The way the legislation is structured is that the three-year guarantee will run until 12 October 2011. You can look at it on page 5 of the legislation. It is item 12, section 5(6).

Senator COONAN—As to the wholesale term funding, I want to talk a bit about the conditions of providing a guarantee for loans used by banks to raise capital on the wholesale market in contradistinction to what we have been discussing. How will the fee that is mooted to be structured?

Dr Henry—I answered that question from Senator Brown this morning and I have nothing to add to the answer that I provided then.

Senator COONAN—Will it apply to new and existing issuances of debt securities?

Dr Henry—The likelihood is that it will apply to new instruments. That is, if a financial institution wants an instrument that it issues to be covered by the guarantee, it will seek a guarantee in respect of that particular instrument. It would be applied on an instrument-by-instrument basis.

Senator COONAN—Would it be proposed that each transaction would be individually priced?

Dr Henry—Yes. It is rather difficult, for the reasons I mentioned this morning. It is for the government to take these decisions. The government has not considered the matter yet, but in extending considerable licence I can indicate that has been the general thinking to date.

Senator COONAN—To do this, would regulatory bodies need to be making credit assessments of each transaction? I have just come into the prudential side of it.

Dr Henry—Again, this is a matter of detail on which the government has yet to make a decision. It will be a government decision.

Senator COONAN—I know that Senator Joyce spoke a little earlier about liabilities. I would like to ask if there is a plan to ensure taxpayers are protected other than by the charging of a fee? I am getting to the moral hazard issue of a 100 per cent guarantee.

Dr Henry—In response to that question, I would say that Australia's prudential regulation system provides effective protection, if that is the word you want to use, for Australian taxpayers in respect of this guarantee.

Senator COONAN—What I am putting to you is that a 100 per cent guarantee of any business operations effectively relieves them, does it not, from taking responsibility in the same way they might? In other words, it alleviates or relieves them from some prudential and risky behaviour.

Dr Henry—I think Dr Laker would take a very dim view of that.

Senator COONAN—Has Treasury made an assessment of whether or not there is any moral hazard attached to providing an unlimited guarantee for a business and, if so, what protection is there for taxpayers?

Dr Henry—I have answered the second part of that question about what protection there is for taxpayers. The protection for taxpayers is afforded by APRA's prudential regulation, all of the standards that APRA enforces under that prudential regulation and all of the powers available to APRA under the relevant legislation. I know you are aware that those powers are very, very strong powers. Those are the protections that are afforded Australian taxpayers in respect to this guarantee.

With respect to the question of moral hazard, extending guarantees to banking systems has featured in finance textbooks at least since the Second World War and probably earlier, and in theoretical discussions of explicit government guarantees of banking system deposits an issue

that is typically dealt with in those textbooks is the question of moral hazard. I think those textbooks are in the process of being rewritten by the events that we are confronting.

Senator BRANDIS—That does not mean there is a moral hazard issue they have got there. You are not saying that, are you?

Dr Henry—In concept—that is, as an abstract theoretical proposition—one should of course admit the possibility that government guarantees have an element of moral hazard associated with them and one should therefore be very careful about the circumstances in which they are used. Perhaps I could go so far as to say that they should only be used in exceptional circumstances. I said this morning that the circumstances that governments around the world have been confronting and dealing with over the last few weeks are very much in the nature of exceptional circumstances.

Senator COONAN—Are there new prudential arrangements in connection with the supervision of the guaranteed accounts?

Dr Henry—I have not had it put to me that there is a need for enhancements to our prudential regulatory standards.

Senator COONAN—I am not saying there is a need. I am just asking whether there are any new arrangements?

Dr Henry—Mr Murphy reminds me, and I should have pointed out, the act that the parliament has passed does, of course, extend additional powers to APRA.

Senator COONAN—I thought that was the case, but we had to deal with it in such a hurry that you might forgive us for not having had a chance to really tease out all of this. That is why I am asking a couple of these questions. Has the government received or requested any advice as to whether the proposed levy, fee or price on term funding guarantees will have any impact on interest rates?

Dr Henry—It has arguably already had an impact on interest rates. I stand to be corrected on this, but I think that the ANZ Bank in its announcement some days ago that it was cutting its mortgage lending rate by, I think, 25 basis points indicated that one of the reasons it was able to do so was the existence of these new arrangements.

Senator COONAN—Is it proposed that the arrangements in respect of providing the wholesale term guarantee will be the subject of legislation?

Dr Henry—I indicated earlier that the act provides for regulations to be made to address those detailed design elements.

Senator COONAN—Yes, except that regulations have to be within power. I may stand to be corrected here, but if any of these guarantees were actually called on, if I am not mistaken, they would require an appropriation, which could not be done by regulation.

Mr Murphy—We are examining the issue and taking advice as to whether there should be legislation to underpin the wholesale funding guarantee.

Senator BRANDIS—Can I just come in?

Senator COONAN—Yes.

Senator BRANDIS—Mr Murphy, when you say you are taking advice, do I understand you to mean you are taking legal advice?

Mr Murphy—Yes, and advice from other sources.

Senator BRANDIS—Is that advice from the Attorney-General's Department, the Australian Government Solicitor or private counsel briefed by the Australian Government Solicitor?

Mr Murphy—It is from the Australian Government Solicitor.

Senator BRANDIS—Is it not a bit late to be still taking advice? Surely any legal advices to the necessity or indeed the prudence of a legislative backing for this part of the scheme should have been taken prior to the scheme being announced.

Mr Murphy—It is within the government's powers. It is constitutional.

Senator BRANDIS—I will just stop you there, Mr Murphy. Have you been advised that it is constitutional?

Mr Murphy—Yes.

Senator BRANDIS—You have been advised that it is a proper exercise of the executive power under section 61 of the Constitution?

Mr Murphy—Yes.

Senator BRANDIS—Was that advice from the AGS or Attorney-General's?

Mr Murphy—The Australian Government Solicitor.

Senator BRANDIS—Was that advice received by you or by Treasury prior to the 12 October announcement?

Mr Murphy—It was subsequent to that.

Senator BRANDIS—When was it received?

Mr Murphy—We have had a meeting and then we have had preliminary advice. We have not got signed off advice.

Senator BRANDIS—I will say I have no criticism if the advice was preliminary advice. I think we all understand the urgency of this situation. Just because legal advice might be preliminary advice, it does not mean it is not good advice.

Mr Murphy—That is right.

Senator BRANDIS—One would have expected that there would have been advice, whether it was of a preliminary character or otherwise, taken as to the constitutionality of this before the scheme was announced. Did you say there was?

Mr Murphy—No.

Senator BRANDIS—Coming back to my previous question, what was the date on which this advice was given? It would have been between 12 October and today.

Mr Murphy—It was the Monday or the Tuesday after.

Senator BRANDIS—The 13th or the 14th?

Mr Murphy—I think so. I cannot be sure, but we had a meeting with various parties. There is a constitutional aspect and there is also looking at the powers of the Reserve Bank and APRA as to how the administration of the scheme goes. It is quite complex.

Senator BRANDIS—I have looked at it myself. Was the preliminary advice that was taken on the Monday or Tuesday oral advice in conference?

Mr Murphy—Yes, but we have had a follow-up.

Senator BRANDIS—Has it now been reduced to a written opinion?

Mr Murphy—A preliminary.

Senator BRANDIS—A preliminary opinion?

Mr Murphy—Yes.

Senator BRANDIS—By counsel or by solicitor?

Mr Murphy—It would be counsel. They are quite senior in the Australian Government Solicitor.

Senator BRANDIS—When was that received?

Mr Murphy—That would have been later that week or in the following week.

Senator BRANDIS—Thank you.

Senator COONAN—I just wanted to finish off a couple more questions. Last week the Prime Minister promised absolute maximum transparency in respect of this package. Minister, is there any reason why a view is taken that this should not be subject to parliamentary scrutiny? To put it all beyond doubt, why would this not be the subject of legislation?

Senator Conroy—I am not aware that the government has taken a decision along the lines you are describing.

Senator COONAN—Despite what has been said publicly by the Prime Minister, your understanding is that there still may be legislation?

Senator Conroy—No. I just said that I am not aware that a decision has been taken in the way you described.

Senator COONAN—What decision was taken?

Senator Conroy—I do not believe a final decision has been taken about how we will go forward.

Senator COONAN—That seems to leave open the possibility that it could be—and in my view, for what it is worth, it should be—the subject of legislation to put these matters beyond doubt and to give parliament an opportunity to look at this package.

Senator Conroy—As I said, I am not aware that any final decisions have been made on these matters. The premise of your question is anticipatory.

Senator COONAN—It is not included yet.

Senator BRANDIS—There are two issues here. One is, as a matter of law, legislation is constitutionally necessary. But even if the answer to that question is no, which is apparently

the preliminary advice that has been given to Treasury, there is a second question—that is, notwithstanding that, whether legislation would be prudent or appropriate, particularly since one is dealing with a contingent liability which, if called, would require the appropriation of potentially a very large sum of money.

Senator Conroy—I am not sure that was a question or just expressing your opinion. I appreciate the comments that you and Senator Coonan have made and we will be weighing all of these matters up before we make a final decision. At this stage we have not made a final decision.

Senator COONAN—No doubt no-one will want to answer this question or respond to this comment. I think this is a fair characterisation of the evidence that we have heard today in that there obviously are some highly complex and difficult details still to be worked out and, if this is not an example of policy on the run, making it up as you go along, I do not think I have ever seen one.

CHAIR—Senator Cameron has one question.

Senator Conroy—I would like to respond to Senator Coonan before Senator Cameron takes the call. Perhaps Senator Coonan has not noticed the advice that has been tendered today, the advice that has been put out worldwide by many eminent organisations with the calling of global financial crisis meetings and the severe threat to Australia's economic security that we have been facing. That is why—

Senator JOYCE—That is—

Senator Conroy—I am responding to something Senator Coonan said.

Senator JOYCE—There does not appear to be any due diligence in your process whatsoever.

Senator Conroy—The world economy is entering a major downturn in the face of the most dangerous financial shock in a mature financial market since the 1930s. It is as simple as that. If you want to bury your head in the sand and run down both sides of the street pretending you are trying to help solve the problem, but at the same time demanding and making accusations against senior officials like you have made today and Mr Turnbull made yesterday, then you are not acting in the country's best interests.

Senator COONAN—We want to have confidence in the officials and in their capacity to deal with these kinds of shocks and crises. We think we did when in government and we are just exploring what the reactions are and what is proposed in respect to the fix-up package.

Senator BRANDIS—You know, Senator Conroy, Mr Turnbull offered bipartisanship on this at an early stage.

Senator Conroy—This is the *World economic outlook* produced by the IMF and they have described this as 'the most dangerous financial shock in mature financial markets since the 1930s'.

Senator COONAN—Nobody is disputing that.

Senator Conroy—You certainly seem to be with your flippant 'on the run'. There have been extensive consultations worldwide about how to deal with this.

CHAIR—Minister, can I have a bit of order. People have been making long questions and comments and have not been interrupted. Now the minister has a chance to respond and I would ask for your interjections to cease.

Senator Conroy—I have concluded.

Senator CAMERON—Dr Henry, I am new to this process and I would like to try to contextualise some of the issues. Senator Brandis has been raising this issue of legal advice prior to government taking steps and also econometric modelling before the government takes steps on big issues. My mind goes back to a \$10 billion package of the Howard government, the Murray-Darling package. Was this type of bar that is now being set by the opposition set by them during government? I am trying to contextualise where this is all at at the moment.

Senator BRANDIS—What has the Murray-Darling got to do with the Treasury estimates?

Dr Henry—I think I would answer the question this way. As I said on numerous occasions to the committee this morning, it has not been my practice over many years to detail the considerations that have gone into the provision of policy advice to governments. Neither have I, over many years, reflected in any way on the decisions that governments have taken. Consistent with that position, I would prefer not to answer the question. It is rather difficult for me, obviously, to seek leave to take that question on notice and refer it to today's Treasurer and I would prefer not to use that path. I would prefer, instead, to seek the indulgence of the committee. Understand that, were I to start answering questions like that, it would put the Public Service in a very difficult position in respect of its relationship with the government of the day. That is not to say anything at all about its relationship with members of former governments. So I would prefer not to answer that question.

Senator CAMERON—Given that position, I accept your response.

Senator ABETZ—I would like to go back to the issue of the threshold and ask: why was it decided that a threshold was required?

Dr Henry—No such decision has been taken.

Senator ABETZ—So no decision has been taken. Has any information been provided to the government in relation to the desirability or otherwise of introducing a threshold?

Senator Conroy—Take the Black Knight off and give Mitch a bowl!

Dr Henry—I answered this question on several occasions this morning and I indicated that this is one of the principal issues that is being discussed among the government's advisors currently and has been the subject of considerable discussion over the past week or so. As I indicated this morning, the reason that we have been having these discussions is that the senator said his second reading speech in introducing the legislation:

The government is consulting on the interaction between this guarantee on eligible wholesale borrowing and the guarantee on deposits. If desirable the government will proceed with measures to clarify the intersection of these guarantees and facilitate their operation.

Senator ABETZ—Do you agree with us that the Prime Minister's statement of 12 October did not canvass the issue of a threshold?

Dr Henry—I do not know. I would have to go back and refresh my memory of that statement to see whether it canvassed any issues of detail in the implementation of these schemes. It would be rather unusual for it to do so, but I am not sure.

Senator ABETZ—But it was not unusual for the Treasurer to say so three days later?

Dr Henry—If I may explain, the Treasurer was, three days later, as you say, introducing legislation into the parliament and he was foreshadowing, for the benefit of parliamentarians, that the legislation provides for the making of regulations in order to deal with these sorts of issues. That is a perfectly natural thing for ministers to do in introducing legislation.

Senator ABETZ—It was very kind of the Treasurer to inform parliamentarians of that possibility. Minister, why did the Prime Minister not think it was desirable not for parliamentarians but for the money markets to know that this was in the government's thinking when the Prime Minister made his announcement on Sunday 12 October?

Senator Conroy—I do not know how much more transparent you can be than including it in your second reading speech.

Senator ABETZ—We have agreed that that is the case, that it was canvassed in the second reading speech, for the purposes of this discussion. What I am asking about is why was it not canvassed in the Prime Minister's speech on Sunday 12 October? Reference to the second reading speech is irrelevant.

Senator Conroy—This is Senate Estimates for Treasury and right now there is a forum that the Prime Minister is available to be asked questions. If you can convince the House tactics committee on your side that this merits asking the Prime Minister a question, then that is the perfect opportunity to ask what is in the Prime Minister's mind. I am not in a position to comment on what is in the Prime Minister's mind. I am happy to take it on notice and seek some further information, but it is not actually within the purview of this Senate Estimates on Treasury for me to be able to speculate on what is in the Prime Minister's mind. But there is a perfect opportunity—

Senator ABETZ—Did the Prime Minister—Sorry. Continue.

Senator Conroy—No, I am finished.

Senator ABETZ—Did the Prime Minister talk on behalf of the government and on behalf of the Treasury when he made his statement on 12 October—a statement that was in fact seen by the Secretary of Treasury before it was made, if I understood this morning's discussion?

Senator Conroy—I think it has been agreed that Dr Henry said that he saw a copy, did he not?

Dr Henry—Yes.

Senator Conroy—But now you are asking us to comment on what was in the Prime Minister's mind. I think that is an imperfect way of describing questions.

Senator ABETZ—Was it a deliberate omission on Sunday 12 October not to refer to a threshold and other matters which are now being relied upon in the second-reading speech, or was it thought about after the Prime Minister's announcement on Sunday 12 October and the introduction of the legislation on 15 October? Did it arise as a new issue?

Senator Conroy—Again you are asking me to speculate on the Prime Minister's thinking in devising a speech. I am happy to take it on notice but, I repeat, there is an opportunity to ask that Prime Minister that very question to his face. It is taking place at the moment.

Senator ABETZ—And we have an opportunity at Senate Estimates and that is what I am doing as a senator.

Senator Conroy—Perhaps if you had asked that question in the estimates for PM&C you might have been able to get a more direct response, but I am not responsible for the Prime Minister's speeches and, more importantly, the intents that you are seeking to get to. I am happy to take that on notice and seek whatever information I can get for you.

Senator ABETZ—Did the speech that the Prime Minister—

Senator Conroy—There is only a mercy rule in baseball, not in cricket.

Senator ABETZ—Did the Prime Minister's speech on Sunday 12 October outline the government's full position at that time in relation to the unlimited guarantee for bank deposits?

Senator Conroy—Dr Henry has discussed the second reading speech at length. We have discussed the Prime Minister's speech at length and I am happy to take on notice a question and seek further information so that I can give you a satisfactory answer.

Senator ABETZ—Technically you are entitled to take it on notice, but we have a full understanding as to why you are taking it on notice and you are treating this place with absolute contempt.

Senator COONAN—Dr Gruen, what are the revised growth in unemployment estimates for the Australian economy on which the government relied in formulating the fiscal stimulus package of \$10.4 billion?

Dr Gruen—The government had at its disposal the September JIEFG report, which we gave them in late September, combined with our assessment of what the evolving financial crisis was implying for the Australian economy. That is what they had available. As I said earlier in my opening remarks, there was no formal updating of those forecasts and I tried to explain at some length why it was that we did not formally update those forecasts.

Senator COONAN—In response to a question put to him in question time, I think the Prime Minister said that the growth figure had a two in front of it.

Dr Gruen—Yes. I confirmed that this morning.

Senator COONAN—What kind of fiscal jolt would you need with a growth figure with a two in front of it, and would it be really in the magnitude of \$10.4 billion?

Senator Conroy—That is asking Treasury officials to speculate on the economy.

Senator COONAN—No, it is not. It is asking for an assessment and that is what he does; he is a forecaster.

Dr Gruen—I can give an answer that I think may be helpful. As I tried to elaborate in my comments, the international situation was evolving rapidly in a way that on balance was suggesting that the downside risks to the Australian economy were shifting 'decisively to the

downside'. That was the phrase I used. In other words, we recognised that the forecasts that we had put together on the basis of the JEFG meeting that had occurred just a few days after the Lehman collapse were forecasts at a point in time and that an awful lot had changed since we had put those forecasts together.

As I tried to explain, our assessment was that the downside risks to those forecasts were significantly larger than was the case when they were put together. So, it would not be a fair characterisation to say that the situation facing the government when it was making a decision about whether or not to introduce a fiscal stimulus package was that it had in front of it forecasts in which there was a kind of settled situation where the central forecast had a two in front of it. That was not the situation facing any of us.

Senator COONAN—Today we have got a new inflation figure. What risks are there that the package will fuel inflation and how confident is Treasury that the downturn in the economy will be significantly severe that this stimulus will not end up largely fuelling inflation?

Dr Gruen—We will answer those questions in MYEFO, which is the government's document, but we will be providing advice for the government to put together the MYEFO forecasts which will provide forecasts for growth and inflation—the best forecasts that we can put together—for the current financial year and the next financial year. We will be giving our considered answer to that question and that considered answer will be available when the MYEFO forecasts are released.

Senator BRANDIS—I raise a point of order, following Dr Gruen's answer. Nobody suggested the question was objectionable. What Dr Gruen has said is, 'We are going to provide the answer but we are not going to give it to you. We are going to provide it in MYEFO.' The question is a proper question. It is a question about a matter of fact within the province of this witness, that is, the state of the forecast. It is certainly not within the province of any witness to say words to the effect of, 'I do have an opinion about this. I do know the answer to this question but I am not going to tell you. I am going to produce it through another process, that is, through the MYEFO process.' If it is a proper question and the witness is in a position to answer it, as he has made it plain he is, then the committee is entitled to have it answered here.

Dr Henry—For clarification, what Dr Gruen was referring to was the publication of the government's forecasts.

Senator BRANDIS—Yes.

Dr Henry—The Treasury does not publish forecasts. We do not do it. We provide policy advice to government, including advice on economic forecasts. If the government accepts those forecasts then they become the government's forecasts and they are published by the government. They are published only twice a year, in the budget and in the Mid-Year Economic and Fiscal Outlook, and that is the way it has been, at least since the Charter of Budget Honesty was legislated under the former government. So we do not have institutional forecasts. To the extent that they exist as institutional forecasts, they should properly be regarded as advice to government.

Senator BRANDIS—But the Treasury has views, Dr Henry.

CHAIR—I will make a ruling on that point of order. I think, in fact, Dr Gruen had not quite finished his answer so it is a bit premature. I think he was explaining that it was advice to government, not something he was withholding from the committee. Dr Gruen, do you want to add anything?

Senator BRANDIS—I do not think that is what he said at all. He never said anything like that.

Senator Conroy—I do not think he said any of the things you accused him of saying, Senator Brandis, so we are perhaps even.

CHAIR—I think could well be said too.

Senator BRANDIS—You know I am always fair to witnesses, Senator Conroy. I am even fair to you.

CHAIR—Dr Gruen, do you have anything further to add to your answer?

Dr Gruen—No, I am having trouble keeping up. No, I do not think I do.

Senator FIFIELD—I think the point has been raised theoretically that the government does have the option of massaging the forecasts.

Senator Conroy—I thought you had taken your bat and ball and gone home, Senator Fifield.

Senator FIFIELD—Not at all, Senator Conroy.

CHAIR—Order!

Senator Conroy—I am very pleased to hear your contribution.

CHAIR—Can we have questions, please, rather than discussions across the table? Question, Senator Abetz?

Senator Conroy—It was actually that they have run the entire team out but Mitch is still sitting on the bench.

CHAIR—Senator Joyce has indicated he has got three questions. Yes? Three questions?

Senator Conroy—We are on the thirteenth drop and they still will not let Mitch bat.

Senator JOYCE—Dr Henry, in the ascertaining of future economic stimulus via the use of the infrastructure fund and the Future Fund, can you tell me what portion of the Future Fund is held and shows as inaction?

Dr Henry—That is not actually our area of portfolio responsibility. It is a finance matter.

Senator Conroy—It is a finance portfolio issue.

Senator JOYCE—This all links up; I am trying to cut through. Do you see that our underwriting of—

CHAIR—Senator Brandis, Senator Joyce is right next to you and asking a question. I cannot hear.

Senator JOYCE—Do you see that our underwriting of an unlimited guarantee to banks may have an effect on how people perceive the risk rating in lending money to the Australian government?

Dr Henry—No.

Senator JOYCE—You do not think it will affect how people perceive the lending of money to the Australian government?

Dr Henry—Correct.

Senator JOYCE—Why would someone not take that into account and say they have an undocumented contingent liability—and we do not quite know how deep this hole goes. It could go to the centre of the earth.

Dr Henry—One answer to that goes back to an answer that I gave earlier when we were discussing the contingent liability. I indicated that my present understanding is that we were likely to refer to the contingent liability in the statement of risks in the budget, and in talking about the contingent liability we would describe it as ‘a remote and unquantifiable liability’. I would imagine that people who are responsible for rating sovereign debt would take the same view.

Senator JOYCE—So, yes?

Dr Henry—Both unquantifiable and remote—that is, small, extremely unlikely and so on.

Senator JOYCE—So your statement is that the sovereign debt will not be a factor in the assessment of Australia’s credit rating?

Dr Henry—No, sorry—

Senator JOYCE—In how it pertains to the bank guarantee.

Dr Henry—Right. As a theoretical proposition, if the consequence of the existence of the guarantee was that sovereign debt was to accumulate because we had to—

Senator JOYCE—Run into a deficit.

Dr Henry—pay out on the guarantee—if I can use a somewhat colloquial expression—then of course what happened to sovereign debt would have an impact on assessments of our sovereign debt rating. But, as I have indicated, we do not expect that there would be any impact at all on the net debt position of the Commonwealth as a consequence of having extended this guarantee.

Senator JOYCE—I find that peculiar. From my rudimentary banking experience as an accountant, if I ever saw a guarantee in the security documentation of anything, I would want to know what it was all about.

Dr Henry—Yes.

Senator JOYCE—You certainly have a guarantee.

Dr Henry—I understand that and perhaps I should say that it may well be the case under Australian Accounting Standards that whilst we would indicate—and we are still taking advice on this matter because we have got some time to have that advice concluded—that the

contingent liability is remote and unquantifiable, we might go on to say that the value of borrowings that are covered by this guarantee as of 30 June 2009 is this much—X dollars.

Senator JOYCE—Do we even have a ballpark figure of what this amount is at this moment?

Dr Henry—It is zero at this moment.

Senator JOYCE—What it will be?

Dr Henry—With respect to the wholesale borrowings, it is zero. What it will be? It depends how many institutions seek to avail themselves of the guarantee and in respect of what instruments they seek to avail themselves of the guarantee.

Senator JOYCE—Let us say the big four banks do and all the secondary banks such as Suncorp all come in onboard as well, what are we looking at then?

CHAIR—I think that is a hypothetical question.

Senator JOYCE—It is not, actually. It is a very real question. There is an amount out there.

CHAIR—Dr Henry may be able to give some information around it.

Senator JOYCE—It is totally factual though, with all due respect.

Dr Henry—I think the wholesale borrowings of the Australian banks in normal circumstances—and obviously we have not experienced normal circumstances for at least 12 months—would be of the order of \$150 billion to \$200 billion per year, maybe a bit more. But whether and what proportion of those borrowings going forward would avail themselves of the government's guarantee and incur the fee is a moot point.

Senator JOYCE—When I take this three-year facility from the government, do I take on board the liability as at the point of the inception of the guarantee or for whatever that pertains to that institution over the period of that guarantee?

Dr Henry—I think you may be referring now to the deposit guarantee rather than the guarantee of wholesale borrowings?

Senator JOYCE—Yes, deposit guarantees. Over that period of time am I saying, 'I am guaranteeing you for what you have right now on this date or in the year of our Lord 2008', or, 'I guarantee you for anything over that three-year period.' Which one is it?

Dr Henry—The guarantee of deposits is a guarantee of whatever the deposits happen to be at any time during that three-year period.

Senator JOYCE—You could extrapolate that right out. Once I find that this guarantee is in place, if I were somewhere else I could say, 'Beauty, that is where I am going to invest my money', and throw it over there and all of a sudden your \$200 billion becomes four, five, eight hundred billion, or whatever.

Dr Henry—The \$200 billion is a reference to wholesale borrowings, not deposits. These are two different things.

Senator JOYCE—Do you acknowledge that it is a guarantee of a varying amount for which there cannot be prescribed any real structure because it is determined by whatever the implications of the market are over that three-year period?

Dr Henry—Yes, that is precisely why we would in the budget papers describe it as unquantifiable.

Senator JOYCE—That is a problem.

Dr Henry—We would also describe it as remote.

Senator JOYCE—Have you factored in the budgetary consequences of this in your 2009-10 and 2010-11 budgets and taken into account that you now also have in place a reduced cash surplus by reason of the \$10.4 billion package and also taken into account the perspective as has been pointed out by the International Labour Organisation on where the economy is perceived to be going?

Dr Henry—I am sorry, could you repeat that? I think Senator Brandis may have coughed.

Senator JOYCE—Have you done any sort of factoring in at this point in time into your 2009-10 and 2010-11 budgets taking into account the reduced cash surplus by reason of the \$10.4 billion expenditure and also taken into account other fundamentals of the economy such as we believe the expansion of unemployment as defined by the statistics that are out there at the moment such as those from the International Labour Organisation.

Dr Henry—As Dr Gruen indicated earlier, the government will be publishing both economic forecasts and budget forecasts in the Mid-Year Economic and Fiscal Outlook that will address those issues and answer your question.

Senator JOYCE—Do you acknowledge that in the Future Fund there are assets that are going to have to be written right down?

Senator Conroy—What?

Senator JOYCE—Because they are shares.

Senator Conroy—That is a question for finance.

Dr Henry—It is a question for finance—

Senator JOYCE—You are the Treasurer. You must know.

Senator Conroy—No. Finance manage the Future Fund. There were extensive questions, I think when Senator Fifield was actually allowed to ask questions—

Senator JOYCE—You are not saying that you do know the prices of the shares or you do not know the shares?

Senator Conroy—No, it is not actually a matter for these estimates. The Future Fund and its portfolio was rightfully the subject of extensive questions by somebody who knows something about these issues—Senator Fifield—and that was yesterday I believe. You can check with Senator Fifield, but I think it was yesterday.

Senator BRANDIS—Going back to one of Senator Joyce's questions of a moment ago, does it amount to this, that the consequence of these measures is that the government is

exposing the revenues to an unquantifiable but remote future liability? Those are both words you used. I am just trying to draw—

Dr Henry—No, I think I was rather more careful than that in my language. I referred to the way in which this contingent liability would be handled in the budget papers.

Senator BRANDIS—Yes. But the liability as you said before is an unquantifiable liability?

Dr Henry—What I am saying there is that I think the fiscal accountants, if I can call them that, would take the view that that would be the appropriate recording in the budget papers of such a contingent liability, both under what we call GFS standards and also under the Australian Accounting Standards covering our fiscal reports. That is all I was saying.

Senator BRANDIS—I understood you perfectly but—

Senator COONAN—It is the presentation—

Senator BRANDIS—Either a liability is for a certain sum or it is for a sum which can be determined by reference to some formula or some other objective standard.

Dr Henry—Yes, standard.

Senator BRANDIS—Sure, it is unquantifiable. Now it is the latter in this case, of course, isn't it?

CHAIR—Senator Abetz.

Senator ABETZ—Thank you chair—

Senator BRANDIS—Could I get an answer to my question?

Dr Henry—I understand the question. It is a perfectly reasonable question. I think the fact is that until there was some historical record of the operation of such a guarantee—this is a purely theoretical, purely abstract conversation we are having here—it is an abstract concept. Until there was some history of defaults, if you like, under such a scheme anybody would be hard pressed to put a precise number on the size of the contingent liability.

Senator BRANDIS—Of course. That is presumably why you said, if I may say so with respect, quite rightly, that it is unquantifiable.

Dr Henry—Sure.

Senator BRANDIS—Senator Conroy, who is himself an economist it should be remembered, is nodding in agreement.

Senator Conroy—I am nodding because you are correctly for once reporting Dr Henry's words.

Dr Henry—Unquantifiable and remote.

Senator BRANDIS—My question then is this: when, if ever, has an Australian government assumed an unquantifiable contingent liability, albeit remote?

Dr Henry—I will give you an example: the unemployment benefit. The unemployment benefit is a promise that successive Australian governments have made to all employees in the country: if you become unemployed, you will get a payment of X dollars a week.

Senator BRANDIS—But—

CHAIR—Senator Abetz.

Senator BRANDIS—I am not finished.

CHAIR—I remind you that you had one question.

Senator BRANDIS—No, I said I had some questions.

CHAIR—No.

Senator BRANDIS—In relation to the unemployment benefit that is a quantity which is capable of a ceiling. Even if one were to assume theoretically 100 per cent unemployment, which is then a known figure, the amount of the unemployment is a known figure, so no images are unknown quantities. Even if it is at the most extreme hypothesis that is not an unquantifiable amount in that these ceilings would always be there and be known.

Dr Henry—I think it would be regarded as unquantifiable unless you would think it reasonable to assume that the probability of employment was 100 per cent.

Senator BRANDIS—No, I was asking you to assume that it was a theoretical possibility.

Dr Henry—In any case let me give you a more precise answer to your question. I refer you to the budget statements, Budget Paper No. 1 2008-09, on pages 810 through to 821. This is a list of the Australian government's unquantifiable contingent liabilities. There are many of them.

Senator BRANDIS—I have not seen the budget paper but did you mean to say unquantifiable or unquantified, because there is a big difference?

Dr Henry—Unquantifiable.

Senator BRANDIS—Incapable of being quantified?

Dr Henry—Unquantifiable.

Senator ABETZ—Did you at any stage—

Senator Conroy—At this point Brett Lee spat the dummy. You just brought Cameron White back on. You are getting hustled—

Senator ABETZ—Chair, you have a responsibility to control them as well.

CHAIR—Yes, I was just trying to.

Senator ABETZ—Did you at any stage advise the government to, 'Go early, go hard and go households'?

Dr Henry—That goes to advice tendered to government.

Senator ABETZ—I thought you might say that because it mysteriously appeared in a puff piece in the *Sydney Morning Herald* on 17 October, so it seems that the government is willing to put words into your mouth publicly but not allow you to even tell us whether or not you received certain communications from the Governor of the Reserve Bank. Allow me to ask another question: were you involved in any way in the commissioning of a series of papers on the options that the government might follow given the international situation?

Dr Henry—Again, that goes to advice tendered to government.

Senator ABETZ—No, it does not. What I am asking is: did you commission a series of papers? I am not asking what they said or what they might have said or suggested. It is no secret, on 17 October, the *Sydney Morning Herald*, said in the first column:

Fearing the effects on the world economy, Rudd decided to prepare an economic stimulus package for Australia. He and Swan—

and that is where the Treasury comes in—

began canvassing specific ideas with their officials—

I assume you would be one of Mr Swan's officials—

They commissioned a series of papers on the options.

This has been deliberately put out into the public domain by the government spin doctors and yet you are not willing to say whether you said the words attributed to you in inverted commas? You are not even willing to advise us whether any papers were commissioned.

Senator Conroy—Are you suggesting that Dr Henry was interviewed for this article? I am actually just trying to see—

Senator ABETZ—No, but, clearly, Peter Hartcher was briefed by the clothes dryer prime ministerial office—because all they operate on is a spin cycle. I ask you: did you or did you not commission a series of papers on the options?

Dr Henry—That goes to the preparation of policy advice to government, surely?

Senator ABETZ—No, it does not.

Dr Henry—Yes, it does.

Senator Conroy—It could not be more clearly that.

Senator ABETZ—With great respect, if I asked you, 'What did those option papers canvass?', we would be in different territory. All I am asking is, like with a letter: does it exist? And we seem to have a great problem with that. I am now asking: is this report correct, that the Treasurer commissioned a series of papers on the options?

Dr Henry—I do not think I would normally answer a question like this. I would find some way of not answering it but—

Senator ABETZ—You do that very well.

Dr Henry—I will say yes.

Senator ABETZ—You did?

Dr Henry—Yes.

Senator ABETZ—It was not that hard but we wasted about five minutes to finally get there—

Senator Conroy—Congratulating yourself on your own brilliance!

Senator ABETZ—It is easy when transparency is the first thing on your mind.

Senator BUSHBY—Can I take you back, please, to the statement that was made earlier this morning that discussions were held with the government in February this year relating to the measures that might need to be put in place to address or to protect the Australian economy to the maximum extent possible, I guess from the effects of the international financial crisis? I have read somewhere in a newspaper report—and I confess I do not have it with me—that one of the government members was alleged to have been working on the stimulus package at that point or that a stimulus package was canvassed as an option at that point.

Dr Henry—I would not confirm or deny something like that. I do not wish to go into the subject matter of any of those discussions that I had with the government in February. In these committees we do not discuss the detail of policy—

Senator Conroy—If you are indicating that that was a comment from the—

CHAIR—Can I ask senators on the left here to carry on their conversation outside the room. I am trying to follow this conversation.

Senator Conroy—I was just indicating that, if you were suggesting it was the Treasurer who made that comment, I am happy to take that on notice and seek his advice, but I do not know if you were quite that specific. I am not sure how we go—

Senator BUSHBY—No, I was not that specific—

Senator Conroy—I know you do not have the article with you. I am not sure how I answer a question on behalf of the government about something you think you remember.

Senator BUSHBY—I am asking because of the comments that were made earlier today that there were discussions held in February relating to the need or the possible need to take measures to address the impact. I think that was in Dr Gruen's statement, and I think Dr Henry said something similar to that earlier today as well. At what point did Treasury consider it necessary to consider that there might be a need for some form of package to stimulate the economy?

Dr Henry—That goes to advice to the government.

Senator BUSHBY—I am not asking—

Senator Conroy—You did; you were asking when did Treasury think—

Senator BUSHBY—No, I am asking for a date. I am saying at what point did Treasury feel that there may be some need for a package to stimulate the economy. I am not asking for advice. I am just saying when did it become apparent to you, looking at the state of international affairs, that there may be some need for a stimulus package?

Dr Henry—It seems to me that it is the same question.

Senator Conroy—You have cutely changed it around but it fundamentally goes to advice to government.

Senator BUSHBY—With respect, I am not asking at all about what the advice was—

Senator Conroy—Yes, you are. You say, 'After you formed the opinion that they needed to, when did you tell the government?' That is exactly what you are attempting to do.

Senator BUSHBY—Did Treasury ever form an opinion that the state of international affairs required a stimulus package for the good of the Australian economy?

Senator Conroy—We will take that on notice. That is absurd. You are asking for information that directly goes to the formulation of government policy. You know that is not the purpose of the Senate estimates.

Senator ABETZ—Surely everyone would agree that the answer is yes. I am astounded.

Senator Conroy—The truth is no, they did not; they left us just wandering around in the dark for the best part. For the official record, that is all being facetious.

Senator BUSHBY—I have a question for the minister. At what point did the government become aware of the severity of the potential impact on the Australian economy of what was happening internationally?

Senator Conroy—I think Dr Gruen read out a very comprehensive outline of the deteriorating time line—

Senator BUSHBY—At what point did the—

Senator Conroy—I think, as it has been indicated, the Treasurer said that he—

Senator BUSHBY—Was it January, February, or September when this was—

Senator Conroy—has been keeping in touch with agencies and governments all around the world since February. If I can borrow the graph that was tabled earlier and refer you to chart 1, I think it becomes fairly clear where there is a truly dramatic financial shock being transmitted around the world.

Senator BUSHBY—For the record, when was that?

Senator Conroy—Lehman Brothers bankruptcy. I think 15 September is the marker on this chart.

Senator BUSHBY—Are you saying—

Senator Conroy—No, do not try to put words in my mouth. I am saying that the government was staying apprised of international developments. It was in constant contact with agencies here and overseas—

Senator ABETZ—As of what date?

Senator Conroy—I said ‘constant contact’.

Senator ABETZ—Yes, from what date?

Senator Conroy—To borrow from Dr Gruen’s comments earlier:

What we did think would be useful was to carefully track developments in financial markets in the world economy and to analyse their implications for Australia. We were constantly updating the Treasurer and his staff and, through them, the government on events as they unfolded and their likely implications for the Australian economy.

They were keeping us posted.

Senator ABETZ—From what date?

Dr Gruen—From the date the government was elected.

Senator ABETZ—So you were aware of this impending crisis from 4 November?

Senator Conroy—Stop trying to put words—

Senator ABETZ—Dr Gruen, when was the government elected?

Senator Conroy—It is almost exactly a year.

Senator ABETZ—When was the government elected?

Senator Conroy—We are in a new world—

Senator ABETZ—Sorry, when was the government elected?

Senator Conroy—and the global financial crisis intensified—

Senator ABETZ—When was the government elected?

Senator Conroy—My vague recollection is that it was 24 November.

Senator ABETZ—So from that date on they were constantly undertaking these—

Senator Conroy—Please, just interject with a question that has some basis of credibility.

Senator BUSHBY—During question time—

Senator Conroy—I am just trying to respond directly, the global financial crisis intensified following the collapse of Lehman Brothers. This is not a secret. You may have missed it.

Senator ABETZ—That did not happen on 24 November.

Senator BUSHBY—Are you saying that the collapse of the Lehman Brothers is when the government decided that it needed to take some action?

Senator Conroy—No. What we are saying is that the global financial crisis intensified beyond just your normal one-institution issue. Lehman Brothers was not the first institution to fall over the last six months. You may have noticed that.

Senator BUSHBY—Absolutely.

Senator Conroy—But it was Lehman Brothers when the markets reacted, as was described quite eloquently by Dr Gruen earlier, and that was the trigger for a whole range of intensive information being given to government.

Senator BUSHBY—If Lehman Brothers had not collapsed, would you consider that—

Senator Conroy—That is a hypothetical.

Senator BUSHBY—Let us go back. On 13 February this year Senator Evans stated in the chamber:

The severe downturn in the US housing market and the associated financial market volatility pose significant challenges for global growth and the Australian economy.

That was back on 13 February this year. Your fellow minister was highlighting the challenge that was being faced at that point.

Senator Conroy—Yes, we have been ahead of the game in preparation. The Treasurer himself has talked extensively about the number of discussions and meetings, both here and internationally. I am sure Dr Henry can give you chapter and verse, because I am sure he has been dragged to most of them. There have been extensive discussions, consideration and

preparation if the situation were to intensify. We have said that for months and months. With Lehman Brothers falling over it intensified.

Senator BUSHBY—That is fine. Are you telling us that the government clearly understood back in February the potential negative impact on the Australian economy of the severe downturn in the US housing market and the associated financial market volatility?

Senator Conroy—I think you are trying to put words into our mouths.

Senator BUSHBY—I am using a phrase of Senator Evans.

Senator Conroy—We had responded with a budget with a surplus of \$22 billion—not assisted by your party at all—and what we had indicated on top of that was that we were monitoring international developments and that, if the global financial crisis intensified, we were well placed by a lot of hard work and preparation over many months to respond accordingly. There was what is considered to be a seminal event with Lehman Brothers's bankruptcy, and a whole range of other discussions were then commenced.

Senator BUSHBY—In a general sense—and this is probably best directed to Dr Henry—would a government normally have regard to a severe downturn in the US housing market and associated financial market volatility if it is considered by its officials and advisers that such a scenario could pose significant challenges for global growth and the Australian economy when considering its fiscal policy?

Senator Conroy—Dr Henry may want to come in here. I think the Treasurer in his budget speech mentioned quite specifically significant countervailing forces. The budget was framed and—

Senator BUSHBY—What was the budget framed to do?

Senator Conroy—The budget was framed to give us a buffer against the uncertainties that existed. What has happened since the budget, as Dr Gruen has very eloquently described—

Senator BUSHBY—Was the fiscal strategy of the budget to actually cool the economy, to take the stresses off the economy, to reduce inflationary pressures?

Dr Henry—I do not remember every line of the Treasurer's budget speech, but I am pretty sure that it did refer to powerful countervailing forces acting on the Australian economy: on the one hand, considerable strength in domestic demand and inflationary pressures emerging in the Australian economy; on the other hand, deteriorating global conditions stemming principally from some rather unprecedented developments in global financial markets. Bear in mind that on 17 February Northern Rock was nationalised by the UK government. On 16 March Bear Stearns was bought by JP Morgan with funding support from the US Federal Reserve. The Treasurer and I were in Washington shortly after the US Federal Reserve acted in respect of Bear Stearns and we had several discussions with US regulators and US policymakers about the difficulties that were being experienced in North America and the prospects of the financial market turmoil there spreading globally.

Those developments were very much in the mind of the Treasurer in framing the budget. I refer you to page 1-1 of Budget Paper No. 1, Statement 1: Budget Overview. Page 1-1 in the third paragraph, states:

Powerful countervailing forces are confronting the Australian economy. Slower growth in advanced economies and greater global financial market turbulence could slow growth in the Australian economy. Counteracting this, robust growth in emerging economies is expected to lead to further large rises in Australia's terms of trade, which will boost income and increase upward pressure on prices. Through this Budget, the Government is putting downward pressure on inflation and helping to keep the economy strong in the face of difficult global financial conditions.

Senator BUSHBY—Would it be fair to say that the strategy employed by the government to try to put downward pressure on inflation was fiscal restraint to try to cool the economy?

Senator Conroy—I would add some further information to Dr Henry's. This is from the Treasurer's budget speech.

Senator BUSHBY—Is this in answer to my question?

Senator Conroy—Yes, absolutely. It states:

It is the responsible budget our nation needs at this time of international turbulence, and high inflation at home.

A Budget carefully designed to fight inflation, and ensure we meet the uncertainties of the future from a position of strength.

Turning further into the budget papers that Dr Henry has been quoting, Statement 2: Economic Outlook, page 2-3:

Powerful countervailing forces are confronting the Australian economy.

Senator BUSHBY—But that is—

Senator Conroy—No, I am sorry. You have asked about the framing of the budget.

Senator BUSHBY—No, I have asked about the strategy that went into it, not the words that have made it to print.

Senator Conroy—It goes on to say:

Turbulence in global financial markets also remains an impediment to global growth, particularly in advanced economies.

Further into the paper, on page 2-7, it states:

Any further escalation in financial market turbulence would represent a significant downside risk to global growth.

To now try to rewrite history—

Senator BUSHBY—I am not trying to rewrite history.

Senator Conroy—about what the fiscal position of the budget was is clearly grabbing at less than straws.

Senator BUSHBY—I have sat in many question times when you have stood up and told us the strategy behind the budget. Despite all those words, which no doubt are acknowledging the challenges of the international economy—and it is nice to hear that the government recognised it back then—

Senator Conroy—Yes, we did.

Senator BUSHBY—the actual strategy itself—and I could pull out many *Hansards* to quote from you in your answers in question time—was to tackle the inflation genie. You talked about all the warnings, et cetera. The strategy that you have employed fiscally is to cut spending to relieve pressure on the Australian economy. Is that an accurate summation of a strategy that was included in the budget?

Dr Henry—I refer you to page 1-4 of budget statement 1.

Senator Bushby interjecting—

Senator Conroy—You are trying to characterise the entire budget in one sentence. Dr Henry is perfectly entitled—

Senator BUSHBY—You did that on many occasions when you were attacking us about it.

Senator Conroy—to answer this question in the way he sees fit.

Dr Henry—The only reason I refer you to this is that you have expressed an interest in the government's fiscal strategy. There is a heading 'Fiscal strategy' on page 1-4 of the budget papers. I think it speaks for itself and for that reason I will read it. It states:

Current economic conditions require a strong budget surplus, in order to:

Then there are three dot points, the first of which is:

- bear down on the inflationary pressures in the economy by reducing public demand;

That is part of the fiscal strategy to which you are referring. There are two following dot points. The second states:

- provide funding through current and future budget surpluses for future capital investment in the infrastructure, education, health and hospital needs of the nation;

The third one states:

- ensure a strong financial position at a time of heightened uncertainty in the international economy.

The fiscal strategy, which involved a strong budget surplus, in the words of the budget statement, was framed on those three legs.

Senator BUSHBY—Given that that was the fiscal strategy in May, the decision to spend half of that budget in one hit on spending that had not been modelled—it had been put together in a short period of time, as we have heard today—

Senator BRANDIS—And hadn't been costed.

Senator BUSHBY—and it had not been properly costed. It does not really fit in with the strategy of maintaining that sound economic position to deal with the unforeseen fallout of this crisis that may yet be before us.

Senator Conroy—I would just like to say I think that is wrong.

Dr Henry—I think it sits at least reasonably well with the third of those dot points: ensure a strong financial position at a time of heightened uncertainty in the international economy.

Senator BUSHBY—You have just blown half of that in one hit. You have just blown half of the surplus, which constitutes—

Senator Conroy—Are you saying you oppose it?

Senator BUSHBY—No.

Senator Conroy—I thought you were voting for it.

Senator JOYCE—I say I oppose it.

Senator Conroy—The National Party are voting against it.

Senator BUSHBY—What I am trying to do is to understand your strategy. If you are trying to maintain a strong budgetary position to deal with the uncertainties that are coming—

Senator Conroy—We have got that on *Hansard*—the National Party is opposing it.

Dr Henry—If you anticipate a risk of a substantial weakness down the track, the reason for having a budget surplus is so that you have something to deploy when you come to the view that indeed that risk is material.

Senator Conroy—That would be called prudent, wouldn't it?

Senator BUSHBY—That comes back to the fact that money has no value until you actually spend it. I understand your point.

Senator Conroy—I think that is a rhetorical flourish.

Senator BUSHBY—Yes.

Dr Henry—I was not trying to make a rhetorical flourish.

Senator BUSHBY—I understand what you are saying. Nonetheless, doing it all in one hit is very strange or could be verging on irresponsible. In terms of fighting inflation, at the time of the budget what was the current annual CPI rate?

Senator Conroy—I am telling you, Senator Fifield, if Senator Boswell gets a question I would resign my commission before you.

Dr Henry—On page 2-6 of the budget papers we report the consumer price index through the year to the June quarter of 2007 as being 2.1 per cent and an estimate of the inflation rate—this is the consumer price index rate of inflation through to the June quarter 2008—of four per cent.

Senator BUSHBY—We hear today that it has now risen to five per cent. Fighting inflation in May was a significant imperative and today it is even higher, six months later. What is Treasury's assessment of the inflationary effect of the recent stimulatory package? Have you done an assessment?

Dr Henry—As we indicated earlier, details will be provided in the mid-year economic and fiscal outlook to be released in a matter of weeks.

Senator BUSHBY—That is not an answer. They are obviously not going to answer it.

Senator Conroy—It is an answer that you do not like, but it is an answer.

Senator BUSHBY—All else being equal, what impact on GDP would a one per cent stimulus package be expected to have? I am not asking for specifics. I am saying, in a general sense, all else being equal, how would a stimulus package of one per cent of GDP flow through to economic growth?

Dr Gruen—The question you are asking is: what is the fiscal multiplier? As you say, for every one per cent of GDP spent—all other things being equal—what effect does that have on GDP? There is quite a big literature on fiscal multipliers, which unfortunately is—

Senator Conroy—Read them out.

Dr Gruen—No, I am not going to read them all out. It gives a range of estimates. Let me read from a document that I have found helpful, which was produced by the US Congressional Budget Office at the beginning of this year called *Options for responding to short-term economic weakness*. They make the point:

The most effective fiscal stimulus policies share two common features:

- They focus on the time period when stimulus is most likely to be needed, and
- They are designed to increase economic activity as much as possible for a given budgetary cost.

They make the point that timing is critical. It is extremely important not to bring in a fiscal stimulus when the economy is already recovering. There is a range of references that I could draw your attention to. They make the point that there are considerable differences in estimates of the size of the multiplier and so any estimates of the effect of fiscal stimulus will be quite uncertain. With those caveats, they say that:

... a multiplier of one is roughly the right order of magnitude. That is, a spending increase or a tax cut of a dollar, if it is well timed and directs the money to people who will spend it quickly, adds about a dollar to GDP in the short run in times of economic weakness.

Other estimates would be lower than that. There are quite a lot of other estimates around.

Senator BUSHBY—If you spend a dollar, you get an additional dollar? Is it a multiplier of an additional dollar or do you add \$1 to GDP?

Dr Gruen—You add \$1.

Senator BUSHBY—So, spend a dollar and you get a dollar?

Dr Gruen—Yes.

Senator BUSHBY—But sometimes if you spend a dollar you might get less than a dollar back?

Senator Conroy—On a range of assumptions that were made by the Congressional Budget Office—

Dr Gruen—It is the effect on GDP.

Senator BUSHBY—Yes, exactly.

Dr Gruen—After all, there are an awful lot of things that can happen to that dollar. People can save it. It does not automatically feed through into domestic production, which is after all what GDP is measuring.

Senator Conroy—You have probably wandered into a whole string of hypotheticals at this point to try to illustrate the point you are making.

Senator BUSHBY—Dr Gruen has given me exactly the kind of answer that I was after.

Senator COONAN—Isn't this a gigantic shopping package?

Senator Conroy—No.

Senator COONAN—Most of it will be—

Senator Conroy—To be able to answer your question, you have to make the famous economics assumption, which you are very familiar with, that all else is equal. The real world is not like that, as you also know. This is leading us down a very hypothetical discussion, which I am more than willing to have, but this might not be the appropriate forum to have it in.

Senator BUSHBY—I am quite happy with the answer that Dr Gruen has given me. I am very satisfied with that.

CHAIR—Have you finished?

Senator BUSHBY—Yes.

CHAIR—Senator Boswell.

Senator ABETZ—I indicated that I had some questions after Senator Bushby and before Senator Boswell.

CHAIR—Yes, I know you did. Senator Abetz.

Senator HEFFERNAN—Dr Henry, is the US technically insolvent?

CHAIR—Senator Heffernan, Senator Abetz has the call.

Senator Conroy—Ignore him. He hasn't got the call.

CHAIR—Senator Abetz has the call.

Senator ABETZ—We have been told during the course of today of the seriousness of the situation that Australia was facing. Dr Gruen tells us Treasury had been working on that ever since the election of the government.

Dr Gruen—If that was the impression that you got from my answer, that was not what I was intending to say.

Senator Conroy—He is choosing to put words in your mouth.

Senator ABETZ—Well, have a look at the *Hansard*. But you were aware—

Dr Gruen—Could I please make it clear what I was attempting to say? What you were asking was: when did we start giving briefing to the government about these issues?

Senator ABETZ—That is right.

Dr Gruen—Namely, when did we start giving briefing to the government about the global financial crisis?

Senator ABETZ—That is right.

Dr Gruen—The answer is: we briefed the previous government as the global financial crisis was getting underway in August of 2007. When the government changed, we briefed the current government on continuing developments.

Senator ABETZ—Yes, from the date of the election. Dr Gruen, what is the issue here?

Senator Conroy—He wanted to make sure that you did not take his words out of context.

Senator ABETZ—We are in heated agreement, which is great. As of the election of the government, things got more and more difficult and more and more storm clouds were gathering. Yet it was during this time, on 27 June, that the secretary took five weeks leave, telling the Australian people—

Senator Conroy—This is disgraceful.

Senator ABETZ—that the economy was ‘in pretty good shape’, and for five weeks went off to look after 115 hairy-nosed wombats.

Senator Conroy—This is a disgraceful reflection, which just shows that you have run out of substance with your questions.

Senator ABETZ—I want to know how seriously we treated this issue.

Senator Conroy—You should invite Senator Fifield, someone who is at least reasonably qualified to ask questions of the Treasury officials, to have a go. You should withdraw these insinuations that you are making at the moment. It is actually beneath you, Senator Abetz. You are a better person than this. I would terminate your line of questioning here.

Senator ABETZ—It is a question that I think is of interest to the Australian people, given the gravity of the situation that we now know was developing even before the election of the new government. There was already a problem before November last year. We then proceeded month by month, with more and more storm clouds gathering, yet the Secretary of Treasury on 27 June says the economy ‘is in pretty good shape’, and goes off for five weeks to look after 115 hairy-nosed wombats. Is this the seriousness with which we are dealing with the issue?

Senator Conroy—Senator Abetz, all I can do is give you advice: this line of questioning is beneath you.

Senator ABETZ—Did the government agree to Dr Henry taking that five weeks leave?

Senator Conroy—I am sure that the Treasurer approved Dr Henry’s leave, but I am happy to take it on notice to confirm it.

Senator ABETZ—Despite all the storm clouds on the horizon?

Senator COONAN—I want to pursue with Dr Gruen a little bit his statement about a policy of least regret, which I must say is a policy with which I am not immediately familiar. I suppose it is the opposite of ‘no tears before bedtime’, or something like that, policy. What additional risks to the economy does Treasury expect if the \$10.4 billion package turns out to be premature—that is, it fuels inflation this year but leaves less money in the kitty for a downturn later in 2009?

Senator Conroy—Can you repeat the question?

Senator COONAN—Yes. It is a serious question. I am interested to know what additional risks to the economy does Treasury expect if the inflationary package of \$10.4 billion turns out to be premature—that is, it fuels inflation this year but leaves less money obviously in the kitty for a downturn later in 2009?

Dr Gruen—The point I was trying to make in my opening remarks was that the situation that has been confronted over the last several weeks is one where, before the intensification of

the financial crisis—roughly in the middle of September—we were already in a situation in which the Australian economy, as best as we can tell, was growing below trend. We expected that situation to continue for some considerable time. As I outlined in some detail, we then had a rolling series of events which were more and more troubling, both in the global financial markets but also in incoming data on the state of the global real economy, particularly in the United States but also in several other advanced economies. Both incoming data on the global real economy and the truly worrying developments in financial markets meant that our assessment was that—remember our starting point was one where the Australian economy is already growing below trend—we faced a very significant and well-telegraphed, if you like, large shock, which we judged very substantially raised the downside risks for the Australian economy.

In that situation the judgment that has to be made when considering macroeconomic policy, whether it be monetary policy or fiscal policy, is: has there been a material change to the balance of risks? The governor, in his statement explaining the one per cent cut in the official cash rate in early October, pointed to precisely this—that there had been a material change to the balance of risk, which led him to move rapidly. In fact, his comments made it clear that enough happened from the time the paper was written for the board to the time the board meeting occurred that the board took the view that a full one per cent was necessary. I made the point in my opening remarks that much the same logic applies to decisions about a possible fiscal stimulus package. The point about ‘least regret’ is simply that you do not want to be in a position of not acting and then finding that those significant downside risks have materialised and that you therefore regret the fact that you had not acted.

Senator COONAN—Was some lower figure—say, \$5 billion—thought at any stage to be more prudent?

Dr Gruen—That goes to advice to government. Obviously, this is the government’s decision and we were in continual conversation with them about the nature of the decision, and I cannot talk about that.

Senator COONAN—Yes, I can appreciate that, but I think there is a fair inference from the answers that have been given that perhaps it might have been thought more prudent by Treasury that the stimulus not be quite so large, and really what we have got here is a shock and awe factor—a huge \$10.4 billion package. So, sock it to them that way.

Member of the committee interjecting—No more *Hollowmen*.

Senator Conroy—I will be generous and describe that as a rhetorical flourish as opposed to something else. I undertook to get some more information on an issue raised by Senator Abetz a moment ago. I just want to read the Treasurer’s press release around the Secretary of Treasury’s leave arrangements:

Treasury Secretary, Dr Ken Henry, is perfectly entitled to take leave with his family, and this leave is being taken with my approval and that of the Government.

Dr Henry has worked non-stop for seven months helping us implement our substantial program of economic reform and deliver the Government’s first Budget.

The Secretary took no leave at Christmas, so that he could work through the summer on the new Government’s economic agenda and the 2008-09 Budget.

Dr Henry has not had substantial leave for a year, that is, since the month he took off in the middle of 2007 under Treasurer Costello.

This is the optimal time for him to recharge, given what he has achieved in the last seven months and the work we require him to do on tax, emissions trading, COAG and other issues in the coming months and years.

Dr Henry has taken a month off in the middle of at least the past four years – it was his usual arrangement under the former government.

Treasury is a highly professional organisation with many highly talented officials – it will be in very good hands during the Secretary's absence.

There is some other stuff that is not relevant. I undertook to get you some more information, and I will leave it at that.

Senator ABETZ—Thank you very much for that. It is just a pity that the Treasurer cannot respond as quickly and as fully in relation to whether or not a letter was written from the Governor of the Reserve Bank to the Secretary of Treasury. You have made my point very well.

Senator BRANDIS—Dr Henry, I want to go back to the guarantee of wholesale borrowings. What I am going to ask might fairly be regarded as technical questions. How is this guarantee actually to operate? Is it anticipated that there will be some kind of legal instrument entered into between the Commonwealth and participating institutions by way of a deed of guarantee? By what other manner is effect to be given to this policy proposal?

Dr Henry—I am happy to answer the question but I would like to indicate upfront that, with technical questions such as this, the government has yet to take decisions on matters of design detail and we have yet to tender advice to government on these matters of design detail. Nevertheless, I am happy to entertain the question in the nature of a hypothetical, if you like. What you have described—if I can put it this way—would be an obvious way of implementing the arrangements.

Senator BRANDIS—What I am really trying to pin down is—and perhaps you can help with this too, Senator Conroy—that it has to be more than what you might call an uncovenanted assurance or a politician's promise. There is actually going to be an enforceable instrument, isn't there, whereby these guarantees would, in the unlikely event that the contingency crystallised, be enforceable against the Commonwealth?

Dr Henry—That is right, yes.

Senator BRANDIS—Who was designing these instruments? Was it the Attorney-General's department or Treasury in collaboration with other agencies? By what process is the instrument being designed?

Dr Henry—We are working on that issue at the moment with the assistance of lawyers.

Senator BRANDIS—Is it anticipated that these instruments that commit the Commonwealth to a potentially very large contingent liability will be public documents or are they going to be commercial-in-confidence with the participating institutions?

Dr Henry—I think I will have to take that one on notice. We have yet to formulate advice to the government on that matter. There is a question here of whether it is appropriate that

specific instruments be made public or rather that there be some reporting in respect of a class of instruments and so on. We have not come to a landing on that question yet.

Senator BRANDIS—Is it anticipated that there will be a common instrument? You mentioned different classes of instruments. Why would there be different classes of instruments giving effect to a guarantee of a contingent liability arising under a common policy?

Dr Henry—We may have borrowings of different terms, for example. I do not know, but the government may decide that it would be appropriate to disclose the amounts guaranteed according to the term structure. This is hypothetical. We have not tendered advice to the government on this, and the government has not taken any such decision, but that would be one way of aggregating up information and providing it in a way that may be meaningful. Alternatively, the government might decide that it is more appropriate to provide one number covering all borrowings that were covered by the guarantee in a budget year. There is a range of options available here as far as the reporting of these guarantees is concerned and the government is yet to take a decision on these matters.

Senator BRANDIS—Have you turned your mind to the question of whether the rights under these instruments should be assignable or transferable—in other words, whether there is the possibility of a secondary market in these instruments?

Dr Henry—That is not something we have contemplated.

Senator BRANDIS—If you have not contemplated it, will you contemplate it, or is that a way of saying under no circumstances would you expect that the development of a market in these instruments would be permitted?

Dr Henry—It is among the many issues that have to be considered in finalising the details of the guarantee arrangement. Again, as an abstract proposition, thinking about application to particular institutions, I am prepared to discuss this but I am not sure that there is a strong case for allowing what you suggest.

Senator BRANDIS—You are not sure there is a strong case?

Dr Henry—No.

Senator BRANDIS—I am not suggesting anything; I am merely asking a question. I am certainly not advocating that there ought to be a capacity to assign these instruments. I am merely inquiring whether Treasury has turned its mind to the question.

Dr Henry—Mr Murphy is reminding me that of course in considering the design details here what we would have in mind is how best to achieve the underlying policy objective. The underlying policy objective, as I indicated earlier, is to ensure that Australia's financial institutions continue to have access to wholesale funding. That is why I am not sure that it would be necessary to facilitate the operation of a secondary market in these instruments in order to achieve that objective.

Senator BRANDIS—That is true. I was just wondering whether you had turned your mind to the question. Again, has Treasury turned its mind to what might loosely be called due diligence issues? What checks is it proposed to make through Treasury, APRA or through

some other agency on the soundness of the institutions as a condition precedent to entitling them to take advantage of this guarantee?

Dr Henry—That is an issue that we certainly have been focusing on.

Senator BRANDIS—Have any decisions been made in relation to that matter?

Dr Henry—No.

Senator BRANDIS—Might I just ask this much: is it anticipated that APRA would be the relevant agency for the purpose of undertaking that exercise?

Dr Henry—No decision has been taken on that.

Senator HEFFERNAN—Let me just ask a pretty simple question: has Australia ever been where we are going?

Senator Conroy—Perhaps you could narrow the frame of your question fractionally. Do you mean the Australian cricket team? Perhaps not.

Senator HEFFERNAN—As to the position the globe and we are in, have we ever had to design what we are now designing before?

Dr Henry—No. These circumstances are quite unprecedented. I do not think there would be a policy adviser or policy maker alive today who has confronted circumstances such as these.

Senator HEFFERNAN—Is it an unreasonable question to ask, which I asked in Harvard 18 months ago: is the US technically insolvent? Is that an unreasonable question?

Dr Henry—It is a complex question and I would therefore like to take that one on notice, if you do not mind.

Senator JOYCE—The charge for guarantees when I was banking was one per cent. That is what we would charge someone to issue them with a guarantee. What is the government charging these institutions?

Dr Henry—I did address that question earlier. Decisions have not been taken on that matter yet. We are still preparing advice to government on what the appropriate pricing should be. I indicated this morning that there is a whole range of considerations. Should it be one price for instruments of every term whether it is zero to 12 months or whether it is a five-year instrument? That is one question. Another question is whether the price should vary according to the risk rating of the borrower. Those questions are very much at the front of our mind in preparing advice to government.

Senator JOYCE—You will review that each year and, if your exposure has increased, your charge will increase?

Dr Henry—That is probable, yes. That is how it would normally work.

Senator JOYCE—We will know in the Senate estimates what our exposure is, therefore?

Dr Henry—Certainly my expectation is that there will be sufficient information provided in the budget papers for the parliament to have a pretty good sense of the value of borrowings that are covered by the guarantee.

Senator JOYCE—Who will do the credit assessment of risk weighting to know what the charge should be?

Dr Henry—Again, we have not settled that issue, but we understand that is an issue that has to be settled. But the government has not taken a decision on that matter at this stage.

Senator COONAN—When did the Treasury first become aware that there were meetings to be held with the government on 11 and 12 October?

Dr Henry—I am not sure. I would have to take that one on notice. It is not that I have any problem answering the question; it is just that I really do not know.

Senator COONAN—It is not a trick question.

Dr Henry—I cannot remember.

Senator COONAN—I am just trying, once again, to get some clarity around process and dates, as opposed to the substance, and around when this fiscal stimulus package was actually prepared. It would obviously have been the subject of a cabinet submission, I would imagine, or some under-the-line document. I am not asking you what it is, but I am interested to know, out of these burgeoning issues that we all have canvassed to death—world global issues and the impact on Australia—somewhere or other a fiscal package pops up. I am trying to understand the date on which Treasury's advice on this was finalised.

Senator Conroy—Cabinet met and finalised the package on the Tuesday morning.

Senator COONAN—I am sorry, Senator Conroy, I have just missed that?

Senator Conroy—I think cabinet met and approved the package on the Tuesday morning. I think that is when we met.

Senator COONAN—When was Treasury's advice in relation to that finalised?

Dr Henry—As you would be aware from your long experience of these matters, during the period in which governments formulate budget packages, whether it is for the budget itself or whether it is for another economic package during the course of the year, Treasury's role is to provide continuous advice through that process. You are very familiar with the ERC process and you understand the role that the Finance Department and the Treasury provide through that. As you know, the Treasury Department does not provide one piece of advice and then wait for a month or even days while the government considers how it is going to handle that advice. Our role is to be there at the table providing advice on a continuing basis throughout the development of such packages, and that was the role that we played on this occasion.

Senator COONAN—I perfectly appreciate that, but somehow or other out of this process—which I understand perfectly; there is nothing exceptional about it at all—came together a package with various components in it and numbers hanging off it. When was the package formulated and when was it finalised?

Senator Conroy—The package was finalised when cabinet determined it was finalised on Tuesday morning.

Senator COONAN—No, I am talking about Treasury, not cabinet.

Senator Conroy—The package is not finalised until the government finalises it. It is the government's package.

Senator COONAN—No, the Treasury's advice?

Senator Conroy—Treasury gives us advice.

Senator COONAN—When was the Treasury's advice—

Senator Conroy—The government's package was finalised on the Tuesday morning.

Senator COONAN—When was Treasury's advice finalised?

Dr Henry—On the Tuesday morning, I guess. We were in the process of providing continuous advice.

Senator COONAN—Were you present on the Tuesday morning, Dr Henry?

Senator Conroy—He certainly was.

Dr Henry—I believe I was.

Senator Conroy—With bells on.

Senator COONAN—And you were present—

Senator ABETZ—With a tie or sleeves rolled up?

Senator Conroy—I am sorry?

Senator ABETZ—No, I was joking. With a tie or sleeves rolled up for that Sunday newspaper picture that we all saw?

Senator Conroy—Senator Abetz.

Senator ABETZ—It was just a flippant comment.

Senator Conroy—I know it was.

Senator COONAN—Was there anything materially different in Treasury's advice between it being submitted in writing to cabinet and the decision?

Senator Conroy—That really does go to the heart of advice to government. I know you are trying to be very specific, but I really think you have crossed over into an area where—

Senator COONAN—This is a serious process.

Senator Conroy—We are happy to take that on notice.

Senator ABETZ—Can I just ask for clarification in relation to this issue of threshold? Is it correct that no decision has been taken about whether a threshold is going to be introduced?

Dr Henry—That is correct.

Senator ABETZ—That is correct, is it?

Dr Henry—Yes.

Senator ABETZ—And you would not need a threshold because you believe in a comprehensive guarantee for everyone; you can give a comprehensive guarantee to everyone without a threshold? Is that right?

Dr Henry—The threshold does not go to the question of the guarantee. The threshold goes to the question of, as I have said on numerous occasions today, the level of deposits above which it would be appropriate to charge people for enjoying the coverage of the guarantee. That is the question. I might say that that is the threshold question.

Senator ABETZ—Very droll, but good to see a bit of humour from that side of the table. If I were to say, because I believe in a comprehensive guarantee for everyone, I am going to place a charge above a threshold, would that not be very good economic commentary?

Dr Henry—I am sorry, I do not understand the question.

Senator ABETZ—If I were to say, because I believe in a comprehensive guarantee for everyone, I am going to put in place a charge above a threshold, is that good economic commentary or analysis?

Senator Conroy—Maybe I am a bit slower than Dr Henry. Undoubtedly I am a bit slower than Dr Henry. I am not sure I actually understand your question.

Senator ABETZ—Right.

Senator Conroy—I am not being facetious. I actually do not think I understand your question.

Senator ABETZ—So, somebody who would make such a statement—chances are like me—does not have a good grasp of economics and the situation that we are dealing with. But allow me to try it again. The government has not made a decision about a threshold; we are agreed on that?

Senator Conroy—That is right.

Senator ABETZ—Somebody is suggesting to me that, if you believe in a comprehensive guarantee for everyone, you would put in place a charge above a threshold. Does that make sense or not?

Dr Henry—That is—

Senator Conroy—If we understand you correctly—

Dr Henry—If I understand you correctly, that is probably what will happen here now.

Senator ABETZ—That is probably what will happen. Can I advise you that the government in fact has made a decision in relation to the threshold.

Dr Henry—I am sorry?

Senator ABETZ—I thought this might surprise you. And it shows how these decisions are being made on the run.

Dr Henry—I am sorry? Perhaps—

Senator ABETZ—The government has made a decision, Dr Henry.

Dr Henry—Has it?

Senator ABETZ—And it is quite clear that you do not know about it. During question time today the Treasurer said, 'Because the government believe in a comprehensive guarantee for everyone, we are going to put in place a charge above a threshold. That charge or that fee

above a threshold will be above \$1 million', and you, Secretary, were not aware of that government decision until I just announced it to you courtesy of Senate Estimates. That, I must say, confirms to me that all this is being done on the run.

Senator Conroy—We have clearly indicated that we have not made a decision. If the Treasurer has now announced it, then clearly the final decision has been made.

Senator ABETZ—Thank you very much for that. We now know as well, on the record—thank you very much—that Dr Henry was not aware of that government decision or that government announcement until I told him about it just a matter of one minute ago.

Senator Conroy—Dr Henry has been trapped in here with all of us. The timing of any announcement of a decision is entirely within the province of the Treasurer. But if that is a revelation to you, Senator Abetz—

Senator ABETZ—But just before question time the secretary in fact did meet with the Treasurer.

Dr Henry—I spoke to him.

Senator ABETZ—Or, sorry, spoke with the Treasurer. And he was not made aware of the government's decision at that time. That was between 12.30 and 1.30. But sometime after 2 o'clock, half an hour later, the Treasurer seems to be in a position to make an announcement on this very issue.

Senator Conroy—I am pleased you recognise the decisiveness and swiftness with which this government reacts to the global financial crisis.

Senator ABETZ—Without the knowledge of the Secretary of Treasury, which has been the point we have been trying to make all morning.

Senator Conroy—I do not think so.

Senator ABETZ—We are now getting somewhere to how the government has been responding.

Senator COONAN—How will the fee that we now know will be charged be administered? Will it be an opt-in?

Senator ABETZ—He does not know about it so he will not know.

Senator COONAN—I am entitled to ask him.

Senator ABETZ—Of course you are. It is just more embarrassment for them.

Senator COONAN—We know the threshold is \$1 million and I just want to know whether it will be an opt-in arrangement.

Senator Conroy—We will take that on notice and try and get you information as fast as we can.

Senator COONAN—Will a fee be charged on deposits over \$1 million or \$5 million retrospectively, or how will it operate?

CHAIR—Senator Joyce.

Senator JOYCE—With respect to your risk analysis, you have also acknowledged that you will be collating a risk matrix on the calculation of a fee. That is what you stated earlier on. Does that mean that the cost will also get to a point where there are some people who you may actually deny the facility to?

Dr Henry—I think that question goes to the question that Senator Brandis asked earlier in respect of what we might call vetting or due diligence.

Senator JOYCE—Have you done a risk analysis of the potential for other people to offload unwanted risk via this facility by just using the Australian government facility as a deposit point for any unwarranted risk that they are carrying?

Dr Henry—Are you talking now about the deposit guarantee?

Senator JOYCE—Yes, the deposit guarantee, or any of the facilities that you are currently offering a guarantee on. Have you done a risk analysis of any possible ways that other entities could structure facilities to just leave you as a drop-off point for their unwarranted risk?

Dr Henry—I think there are two elements to that. The first question is: is there such a risk in respect of the deposit guarantee? I will come back to that one. The second possible element of that question is that matter of due diligence that Senator Brandis was referring to earlier—or what we have colloquially, within shop, referred to as ‘vetting’. We understand the need for that question to be addressed. In respect of the deposit guarantee, what is material there is the financial position of the financial institution itself. That goes to the matters affecting the prudential regulation of our financial institutions, which we discussed at length this morning.

Senator JOYCE—You will accept all risk or there were some risks that you will not accept?

Dr Henry—I think if there is to be vetting in this scheme there certainly would be risks that the Commonwealth would not accept.

Senator JOYCE—So there will be some risks that you will not accept?

Dr Henry—In respect of the wholesale deposit guarantee, absolutely.

Senator JOYCE—Mr Gruen, following up something that Senator Bushby said, you talked about the fiscal multiplier. What do you believe the multiplier would be in retail spending as opposed to capital investment spending? Which one would deliver a better fiscal multiplier to the economy? Retail spending around about Christmas-time on presents or capital investment spending in long-term projects?

Dr Gruen—I am afraid that the economic evidence, such as there is, can give some broad indications of under what circumstances a fiscal stimulus will provide the most stimulus to the economy, but they are broad indications. I am certainly not aware of specific studies that have looked at whether it is spent at Christmas or not. But I can, at least, refer to the document that I was referring to earlier.

Senator JOYCE—I am only too happy to refer to the document as long as it gives an answer.

Dr Gruen—That was my intention. The point that this drew attention to, and with which we would agree, is that it is extremely important for the stimulus to be well timed and directed

to people who will spend it. The general situation is that people who are less well off tend to have higher marginal propensities to consume, which is the technical term for their propensity to spend money that they are given. The general idea is that people who are at particular stages of the lifecycle—such as having small children—and people who tend to be less well off have a higher propensity to consume than people who are well off. That goes to giving it to people who are most likely to spend it.

The other issue about whether the spending is more likely to be done if it is in the hands of consumers or in terms of, say, capital spending, goes to how quickly that spending is likely to happen. There are many more implementation difficulties in putting together a package that stimulates capital spending.

Senator JOYCE—Mr Gruen—

CHAIR—No, Senator Joyce.

Senator JOYCE—But we have to get to the answer.

CHAIR—No. We are on a tight timetable. I am going to go to a break and I would ask committee members—

Senator JOYCE—We do not want to go to a break. We want to have the questions answered. Surely having a question answered is more important than having a cup of tea.

CHAIR—We are going to a break and we will come back at 4.00 pm with Outcome 2: Effective Government Spending Arrangements, until 5.20 and then we will resume with other sections.

Proceedings suspended from 3.47 pm to 4.02 pm

CHAIR—We are dealing with output 2, Effective government spending arrangements, and output 2.1, Fiscal group.

Senator Sherry—Madam Chair, were any other changes to the program discussed over the afternoon tea break?

CHAIR—At this stage we propose to deal with this section. Then we will return to dealing with outcome 1, Macroeconomics, up to the dinner break and afterwards proceed with the rest of the program.

Senator Sherry—Thank you.

Senator BOSWELL—Can you direct me to where in the budget estimates the government has made allowance for the cost of climate change for each government department and agency?

Mr Ray—I am not sure that I understand your question.

Senator BOSWELL—Every department, I would imagine, would be requested to do some work on climate change. What would that cost be for the various departments?

Mr Ray—The most obvious place to start would be the Department of Climate Change, so you probably should ask them about their estimates. We can answer questions on where in our—

Senator BOSWELL—Just a moment. Isn't this the Department of Climate Change?

Senator Sherry—No.

Mr Ray—No, it is the Treasury.

Senator BOSWELL—It is the Treasury. But when I ask the Department of Climate Change I get flicked over to the Treasury. Senator Nick Sherry directed me.

Senator Sherry—No. I think that was in primary industry estimates, Senator Boswell.

Senator BOSWELL—Whatever.

Senator Sherry—We have to know what estimates we are at to ask the right questions.

Senator BOSWELL—I am well aware that we are at Treasury, but this is where you directed me to ask these questions.

Senator Sherry—Your questions, as I recall, went to issues around modelling.

Senator BOSWELL—They were, but I was told to ask these questions also in Treasury. Are you saying that Treasury, which is in charge of climate change modelling, has not taken into account the costs of every department that will be saddled with additional costs for climate change? You are the guys that are doing the costing on this.

Dr Henry—Perhaps I can offer some comments here. I think the question you are asking in respect of the cost to departments goes to the running costs of departments within government. For the government, the Department of Climate Change would be the biggest single running cost expense that is associated with developing responses to climate change. Our department, the Department of the Treasury, certainly has some expenses associated with developing policy responses to climate change and also with climate change modelling. We are happy to take on notice what the cost associated with climate change is for the Department of the Treasury. Other departments throughout the Commonwealth would have costs associated with assisting the government to develop policy initiatives relating to climate change.

Senator BOSWELL—When will the Treasury modelling on this be made available?

Dr Henry—I might hand to Meghan Quinn, who runs the climate change modelling project within the Treasury department.

Ms Quinn—The government has stated that the economic modelling report will be released by the end of October this year.

Senator BOSWELL—Will it include the cost to government of climate change?

Ms Quinn—It is looking at the economic cost of climate change, so it is looking at the distribution across industry as the macroeconomic cost and the implications for sectors and households. It is not looking at the fiscal cost of climate change.

Senator BOSWELL—So it does not include what it will cost the government to implement climate change policies.

Ms Quinn—No.

Senator BOSWELL—Does the Treasury modelling take into account the recent world economic crisis?

Ms Quinn—No.

Senator BOSWELL—I direct this question to Dr Henry: how can Treasury modelling give a realistic guide as to an emissions trading scheme if it does not take into account the major upheavals of the current economic situation? Dr Henry, you have spent the last six hours telling us how bad the situation is—and rightly so. How can you implement a climate change model if you do not take into account what is happening around the rest of the world?

Dr Henry—I will chance my hand at this, but my colleagues may want to add something. The modelling that Treasury is undertaking in respect of climate change is necessarily medium to long term. It is very ambitious in that respect, of course, because it is trying to quantify over a very long period of time the assessment, on the structure of the Australian economy, of the introduction of a carbon pollution reduction scheme. The matters that we have been discussing all day relate to the short-term behaviour of the Australian economy and—

Senator BOSWELL—Could I just interrupt you?

Dr Henry—Yes.

Senator BOSWELL—You, more than anyone, would be aware that this scheme is to come in in 2010. That is not long term; that is a year away. So you cannot say that it is going to impact long term. It is going to impact in 2010.

Dr Henry—Sure, but I am saying that our modelling is long term in its focus. The modelling work that we are engaged in—this is just one piece of information that will support, or one input into, the government's decision making—is long term. It is modelling of the long-term economic impact. I am not denying at all that there would be a short-term economic impact. I am just saying that our modelling, which is only one input into the decision making, is focused very much on the long-term economic impact.

Senator BOSWELL—With respect to you, the impact of this will be felt in 2010. I do not see how you can say that you are doing long-term modelling when the government has said ad nauseam that its ambition is to bring this scheme in in 2010. That is short term. I cannot see how you can give the government modelling figures when the world is in turmoil. As you have said, you have never seen anything like this happen in the world before. You have never seen such economic turmoil and you believe that no-one else has ever seen it. So won't that throw your modelling out?

Dr Henry—No, I do not think it will throw out or into turmoil modelling of the long-term structural or economic impact of a carbon pollution reduction scheme. It certainly makes it more difficult and more challenging to assess the short-term economic impact of the introduction of an emissions trading scheme and, indeed, of any other policy initiative that affects the behaviour of the economy.

Senator BOSWELL—That is my entire point. How can you, as one of the two most senior officers in the government—you and Mr Stevens—say with any confidence what will happen in 2010 when you have spent all morning telling us that this is the worst crisis that you have ever seen and probably that anyone else has ever seen?

Dr Henry—Nevertheless, as I also said this morning, we will be producing forecasts. We will produce short-run economic and fiscal forecasts, and—

Senator BOSWELL—And will these include the world turmoil?

Dr Henry—Yes, that is correct. We will be attempting to take that into account.

Senator BOSWELL—Is there another body of opinion—and this question is not to you, Dr Henry—beyond that of the IPCC as to what is happening in climate change? Are there respected scientists who hold different views and conclusions to those reached by the IPCC and, if so, has the department considered these alternative views in preparing advice for the government?

Dr Henry—This is not our area of portfolio responsibility; it is the portfolio responsibility of the Department of Climate Change. However, I am aware that there are respected scientists who hold a view that is at odds with the generally accepted view.

Senator BOSWELL—Have you in your modelling—and you must have—taken into consideration how many jobs will be lost as a result of the government's Carbon Pollution Reduction Scheme?

Dr Henry—I doubt that our modelling, being long-run modelling, would produce a sensible estimate of such an effect. Ms Quinn may comment on this. I do not want to put her in it, so maybe the easiest thing to say is: yes, he is right. Ms Quinn, can you add to that?

Ms Quinn—The analysis that we have done for the government is not in the public domain and is not completed yet, but the models that we are using to analyse the long-run implications for trajectories and targets on the Australian economy are computational general equilibrium models, which do not capture short-run dynamics in the economy. As such, they do not do a very good job of capturing short-run unemployment movements. They assume that wages adjust through time so that employment maintains its equilibrium position. So, within the structure of an emission or carbon price, you find that labour moves between sectors but that aggregate unemployment does not necessarily change.

Senator BOSWELL—Mr Glyde with primary industry told the estimates committee on, I think, Monday night that it would cost around an extra 15 per cent for livestock and an extra two per cent for the cropping sector, which gives an assumption of an increase for livestock of 18 per cent and six per cent for crops. I would like to ask someone about the modelling of that. I have asked Senator Sherry to arrange to have here specific people who could answer my questions.

Ms Quinn—So what is your specific question?

Senator BOSWELL—Representatives from ABARE told us that, if a carbon price of \$40 a tonne in agriculture came into the scheme in 2015, livestock would have an increased cost of 18 per cent and cropping would have an increased cost of six per cent. I understand that people from ABARE were seconded to the Treasury to advise someone here how to answer that question.

Senator HEFFERNAN—Can I add to that?

CHAIR—No, Senator Heffernan. We are very short of time. Ms Quinn?

Ms Quinn—Treasury is undertaking different scenarios for the government, which will be included in the government's report on climate change.

Senator BOSWELL—No. I am—

Senator Sherry—Hang on, Senator Boswell. Let her get a fair way into her answer before you start to clarify.

Senator BOSWELL—But Ms Quinn is not understanding what I am saying. The ABARE advisers were supposed to be able to brief Treasury advisers on the modelling that they have done. As you are aware, Senator Sherry, we were told that, at \$40 a tonne, it would increase the cost of grazing cattle by 18 per cent and would increase the cost of cropping by six per cent.

Senator Sherry—I think the officer got about half a sentence through the answer. Perhaps you could give her the opportunity to go on for a little longer and then indicate if you do not feel satisfied with the response.

Ms Quinn—The modelling that Treasury is undertaking will be in the public domain as part of the government's report by the end of October. It is true that cattle and sheep are more emissions intensive than other parts of agriculture. So, if you put a price on emissions and those sectors are included in an emissions trading scheme, they would be affected more heavily than other, low-emission animals such as chickens and pigs. The precise modelling that Treasury is undertaking will be in the public domain as part of the government's report as well as, with respect, the ABARE modelling that you have already talked to them about.

Senator BOSWELL—But Mr Glyde has said—

CHAIR—Senator Boswell, please. I will try to give you some time at the other end, but Senator Xenophon has some questions.

Senator XENOPHON—I will go the minister first with a process question. The modelling will be out at the end of this month. Can you give any particular day?

Senator Sherry—One of the officers may be able to help us out with a precise date, but I am not sure that we have one.

Ms Quinn—The government has not announced the precise date. It is simply by the end of October.

Senator XENOPHON—Between now and nine days time, yes. I direct this question to the minister. The modelling will be out by the end of October. What process is there for scrutiny and consultation in relation to that modelling?

Senator Sherry—The results or the methodology?

Senator XENOPHON—On all of it—the methodology and the results.

Senator Sherry—Personally I am not aware. Maybe one of the officers can assist us on this.

Ms Quinn—The government will be releasing a report by the end of October. It will contain a very comprehensive set of analyses and results. The government is committed to a process of consultation after the release of the report and that will include publication of the

material. There is also an intention to have public opportunities for people to ask questions of Treasury officials and others who are part of that modelling process. The precise dates and logistics of that process have not been settled. They are being organised at the moment. So far in this process we have had a very open-door policy. We have talked to industries across the board, and everyone and anyone has an opportunity to come and talk to us. As part of that process, we released an assumptions book a few weeks ago and have taken bilateral requests and questions through consultation meetings and workshops.

Senator XENOPHON—That assumptions book is the *Summary of assumptions and data sources*, 3 October 2008. I will take you, for instance, to page 24 and the technology assumptions in relation to a study carried out by MMA Consultants.

Ms Quinn—That is right, yes.

Senator XENOPHON—Some of the assumptions there, for instance, relate to black coal and USC post-combustion capture. That would be an ultrasupercritical coal plant with CCS technology built into it. Would that be correct?

Ms Quinn—Yes.

Senator XENOPHON—That assumes its capital costs would be about \$2,482 per kilowatt, with a capital cost de-escalator of 1.5 per cent. Is that right?

Ms Quinn—Yes.

Senator XENOPHON—In relation to its carbon capture and storage, elements of capturing it, piping it, injecting it, storing it and capping it are involved.

Ms Quinn—Yes.

Senator XENOPHON—It is still fairly nascent technology, isn't it?

Ms Quinn—There are demonstration plants, but it is certainly not deployed at a commercial level at the moment.

Senator XENOPHON—So you are making an assumption that it would be commercially deployable at that particular cost.

Ms Quinn—Yes.

Senator XENOPHON—Is that a brave assumption at this stage, given that it is still fairly nascent technology?

Ms Quinn—As Dr Henry said earlier, doing any modelling over any length of time involves quite a large number of assumptions, some of them more firm than others. In any exercise like this, we do need to make assumptions. We have taken advice from a wide range of people. The general consensus amongst the people that we have taken submissions from or had discussions with is that carbon capture and storage is likely to be a viable technology at some point in time. People vary on the time in which they think that might happen and the costs. As part of our exercise, we have taken expert advice and formed a central view, but we are aware that reasonable people can disagree about those estimates and we are looking at sensitivity analysis in our analyses.

Senator XENOPHON—For instance, in relation to geothermal or hydrothermal and hot dry rocks, under renewables, you refer to capital costs. But as for getting that power into the grid—it is a few hundred kilometres away from anywhere at the moment in terms of a capital city or a significant user of power—have you factored in the cost of transmission and the transmission losses that would be involved?

Ms Quinn—Yes. There are several technologies that involve costs other than just those of capital equipment. Carbon capture and storage includes the costs of piping, maintaining and monitoring the carbon. Geothermal and some other technologies also require transmission lines to be built. Those transmission costs and pipeline costs have been factored into the electricity sector bottom-up modelling that we have undertaken.

Senator XENOPHON—So would that be in the order of about \$1 million to \$1.5 million per kilometre of transmission?

Ms Quinn—I do not have the exact numbers. I can take that on notice, if you would like.

Senator XENOPHON—Please take that on notice. I will go to the ETS models that were looked at. The Canadian system, which some would say is a form of cap and trade, was not really considered in the green paper to any degree, was it? Given that Canada has a similar resource-rich economy to ours and is roughly of a comparable size, can you explain why the Canadian model was not considered in the process? I am addressing this question to you or to anyone else.

Ms Quinn—This is not one for me. I have been involved in doing the economic analysis and economic modelling and not the policy decisions of the government.

Mr French—I think that question might be best put to the Department of Climate Change.

Senator XENOPHON—They referred us to this particular committee today, and Senator Heffernan can confirm that. We were told that it was best to put that to you.

Senator Sherry—I was not privy to that, but we will sort that out for you, Senator.

Mr Ray—Perhaps we could take the question on notice and see what we can find out for you.

Senator XENOPHON—Sure. Does anyone know anything about the Canadian scheme being considered with respect to the Australian model?

Dr Henry—No.

Senator XENOPHON—It is disappointing that we were referred to this particular committee. Senator Wong, in her committee, said that the Canadian scheme might control the quantity of emissions. Can anyone comment on that? Is that fair to say, Dr Henry?

Dr Henry—No, I am sorry; I am not familiar with the Canadian scheme. I do not know.

Senator XENOPHON—Perhaps I can put on notice: was the Canadian scheme considered? Assertions were made the other night that Canada will not meet their greenhouse gas targets, but apparently they are looking at different bases. I do not think that was a complete answer when you scratched below the surface. I will put a general question to you: what happens if other nations do not adopt an ETS? What impact will that have on the trajectory of the ETS that is being planned? I suppose a seminal question there is: can you

indicate what the trajectory of the ETS scheme will be, or do we have to wait until the end of October? What impact will it have on how we approach this issue?

Dr Henry—I think those questions go to matters of policy design. As I indicated earlier, the modelling that we are doing within the Treasury is one input into the policy decisions that the government will take. But the precise trajectory that the government will decide upon is still a matter for government consideration. We cannot talk in this committee about either the nature of advice we would provide to government on those matters or the decisions the government might take. It is really a matter for the government.

Senator XENOPHON—With the government's green paper on the ETS, I am trying to understand why one approach was considered and perhaps other schemes were not. I think there are the baseline and credit approach and the Canadian cap and trade approach. Perhaps you can take this on notice. I am trying to understand why there was a particular emphasis on certain schemes. From my dim memory of what was in green papers in years gone past, I understand that there was very robust discussion of various options, and there is a concern that the various options were not as robustly considered as they could have been, particularly in relation to the Canadian scheme.

Dr Henry—As Mr Ray indicated earlier, we are happy to take that question on notice and see what we can find out for you.

Senator XENOPHON—Chair, I will leave that for now.

Senator EGGLESTON—I am concerned about the impact of the emissions trading scheme on revenue and its economic impact on the resources industry. What percentage of our economy and our revenues depend on the resource industry—say, with royalties and taxes? I can see Dr Henry raising his eyebrows—

Dr Henry—I am just trying to recall—

Senator EGGLESTON—as it is a difficult question.

Dr Henry—Yes. I understand the question. Dr Gruen might know what proportion of value added is contributed by mining.

Dr Gruen—The answer to the question is in a speech by the Governor of the Reserve Bank that was delivered yesterday. The mining share of the Australian economy is 6.8 per cent.

Senator EGGLESTON—That is less than I would have expected it to be.

Dr Gruen—That is in 2007-08.

Senator EGGLESTON—I presume that the mining share of our export income is higher, though.

Dr Gruen—Yes, that is correct; it is much higher as a share of exports—absolutely.

Senator EGGLESTON—So what do you think it would be around?

Dr Gruen—It is more like a half; that is rough, but it is more like a half.

Senator EGGLESTON—Around 50 per cent. Reading through the papers, I see from thewest.com.au of 21 October that Chevron warned that an emissions trading scheme would

increase costs to them by some \$400 million per annum and Woodside said that it would increase costs by \$500 million per annum. Mr Voelte, the head of Woodside, said that they were very concerned about the increasing costs and that, because of the increased costs that the emissions trading scheme would impose on their industry, Woodside might not continue to develop projects in Australia but would take future developments offshore to other countries, such as Indonesia, Nigeria and Qatar. I find that a matter of great concern. What is Treasury's view of these impacts on the resources industry? In addition, what proposals, if any, might Treasury have to mitigate the impact on the resources industry of these increased costs caused by the ETS?

Dr Henry—These questions go clearly to matters of policy design. The government has indicated that it will be considering, among other things, what measures might be appropriate to deal with heavily affected emitters and also emissions intensive, trade exposed industries. I think the questions that you are raising go very much to those policy design features. They are matters for government. We will be providing advice, but obviously we are not able to canvass in this committee the form of policy advice that we will be providing to government on those matters. In addition, of course, we are not the key policy agency in providing advice to government on those matters in any event; that is the Department of Climate Change.

Senator EGGLESTON—That is why I couched my opening in terms of the revenue impacts, because you are obviously not the key policy agency. I notice that Vice-President Kuroda of Inpex, a gas company developing a facility off the Kimberley coast that now plans to set up its facilities in Darwin, said that the emissions trading scheme posed a greater threat to business in Australia than the world financial crisis. That comment has been made by other people also. Given that, I presume that inevitably you would take the impact of the emissions trading scheme very seriously in your planning and advice to government. Would that not be the case?

Dr Henry—It is certainly the case that in our advice to government we would take these possible impacts into account. But, of course, the precise impact, even the rough order of magnitude of the impact, depends upon the policy design detail. As I indicated earlier, those policy design details have not yet been finalised. The government is yet to take a decision on those matters of detail.

Senator EGGLESTON—That is very interesting. There is another quote that I would take from the *West Australian* of 18 October, when Senator Wong, the responsible minister, said that there would be no delay in the implementation of the emissions trading scheme in spite of the global financial crisis. That would seem to me to be a rather less concerned attitude than I would expect from a senior government minister.

Senator Sherry—That is a matter you could put to Senator Wong. I am not here representing Senator Wong. I believe that you have an ability to do that to her directly. I am aware that there are quotes almost every day about some aspect of this issue in the well-known Tasmanian *Advocate* newspaper and the Hobart *Mercury*. Every newspaper has quotes from someone about this matter, as you would expect on a major public policy issue. A huge range and number of views will be taken into account by cabinet members when they make the decision.

Senator EGGLESTON—I assure you that it is of far wider concern in the newspaper world than just being in the Tasmanian *Advocate*.

Senator Sherry—I think that is a serious reflection on my local newspaper—and the Hobart *Mercury* well.

Senator EGGLESTON—Serious journals, like the *West Australian* and the *Financial Review*, are concerned about it.

Senator Sherry—I take great pride in reading my local newspapers, including the Launceston *Examiner*—I should not leave them out. There is a very major debate. Senator Milne is often quoted, particularly in those Tasmanian newspapers, I might mention also.

Senator EGGLESTON—But it does seriously concern me that Senator Wong has the view that there would be no change in the implementation of the emissions trading scheme in spite of the world global financial crisis and in spite, I presume, of the impact on industry. I think this is a matter that should concern us all: that a responsible senior minister like Senator Wong should have a rather frivolous view of the impact of the global financial crisis and the ETS on the resource industry.

Senator Sherry—I do not accept that criticism, which has been given in the form of a question, of Senator Wong and the descriptions you have outlined. I have known Senator Wong for a long time. She is an extremely serious, knowledgeable, intelligent and hardworking member of the cabinet. You have the opportunity to put that opinion to Senator Wong in the estimates process. I do not think it would do me justice to pass it on to her. If you want to make that view known to her, do so directly.

Senator HEFFERNAN—Mr Henry, by the way, if it is \$17 a tonne, every irrigated dairy farmer will be insolvent. They cannot offset the emissions on their farms if we go to full trading, and I want to address that. However, before I do, I want to give a little background against the global food task and the Intergovernmental Panel on Climate Change, which says that in 40 years time 50 per cent of the world's population will be water poor; one billion people will be unable to feed themselves; there will be a doubling of the food task; and in Asia, where two-thirds of the world's population is going to live, assuming that we grow the population from 6.9 billion, 30 per cent of the productive land will go out of production. That is the go. We are going to have a serious deterioration in southern Australia and some opportunity in the north. Against all of that, the government is giving consideration to whether we go to full carbon trading for farming. Do you agree?

Dr Henry—That is one of the issues that is before the government, yes.

Senator HEFFERNAN—Today I would like to flag with you the fact that I have the privilege of chairing the Select Committee on Agricultural and Related Industries in looking at whether in the future we can produce food that is affordable from an environment that is sustainable and farmers that are viable. Against that background, in looking at whether we should go to full carbon trading and at the future global food task, which is going to double, I wonder whether you could give consideration to making some presentations to that inquiry before you make your decision on whether we go to full carbon trading. I think there is a lot more to it. Given the intergovernmental panel prediction on the future, where you have 400 million people in northern China and 200 million or 300 million in central South Africa who

will be displaced et cetera and the question of the food task—where what is in the fridge is more important than what is in the car in the garage—I wonder whether there will be an intense enough study by Treasury on the question of how you do all that with an environment that is sustainable and a farmer that is viable and can pass the costs forward, if there are carbon costs.

Dr Henry—Yes.

Senator HEFFERNAN—Against that background, would you be able to make a presentation to that inquiry, which is now calling for submissions?

Dr Henry—As you know, these are immense questions.

Senator HEFFERNAN—They are immense questions. That is why I do not want us to do what we have done with water and just stumble into an endless bog. We have to be fully informed before we start, so I am very enthusiastic to include Treasury as part of the figuring. Against the background of global cartels in fertiliser, chemicals, fuel and all the rest of it, the food task—

CHAIR—Senator Heffernan, are we reaching the end of your question?

Senator HEFFERNAN—We are. I am sure Mr Henry appreciates what I am flagging.

Senator Sherry—I think this is an outline of a case for an appearance of Treasury at another committee. I assume—

Senator HEFFERNAN—But also, Minister, I am just flagging the immensity of the issue.

Senator Sherry—Yes. As I said earlier, almost every day there is not a newspaper I pick up where there is not some aspect of this issue covered. But I assume, Senator Heffernan, that the secretariat of your select committee have sent a request and that will be handled and—

Senator HEFFERNAN—Yes, true. But we are here, looking at carbon emission trading. For some people, it is just a question of whether farmers are in or out. There is a lot more to it than that. Thank you very much for the opportunity, Minister and Chair.

Senator MILNE—I apologise for being a bit late and I hope I am not going to repeat what has already been asked. I want to ask about the assumptions that have been made. I take on board the statement that the assumptions outlined in the document have been judged by Treasury to be plausible central estimates. Which particular areas are you going to subject to sensitivity analysis? I heard one a little earlier, but could you run through for me which areas you will subject to sensitivity analysis? It seems to me that, for a number of these issues, it would make a lot more sense to put forward a number of different scenarios so that people could test against those rather than just provide one value for inclusion in the model. Could somebody tell me which areas you are going to subject or present in a sensitivity analysis way?

Ms Quinn—We have been tasked with looking at the long-term economic implications for different trajectories and targets. We are using a range of economic models. Different economic models provide different results and they have different input assumptions. So part of using the suite of models is to take on board how they deal with different levels of technology and different types of assumptions. So, even for a single scenario or a single set of

assumptions, there is a range of results because we have a range of economic models that we are using. The different types of sensitivity analyses that we hope to explore—they relate to not only things to do with technology but also other components of modelling—are being provided to government for its report and will be in the public domain by the end of October. So exactly what will be presented et cetera is a matter for government.

Senator MILNE—Looking at your analysis, I would like to know whether Treasury assumes that an emissions trading system will reduce productivity.

Ms Quinn—When we think about the economics of introducing an emissions price or a carbon price into the models, the CGE models, as such, assume that the current world is in equilibrium and that introducing a relative price into those models moves resources from existing sectors to new sectors. Part of moving those resources from one place to another does typically result in losses of allocative efficiency, which some people commonly term as productivity losses. That is how the computation of general equilibrium models works. You have to keep in mind that they assume that the starting point is in equilibrium and that that may not be where we are now. So the analysis that we are looking at is relative to a world without climate change: what are the implications of putting a relative price into the economic models?

Senator MILNE—Why might we not assume an improvement in productivity, given that the whole world is moving to trying to achieve greater efficiencies in all sorts of ways? There are a number of analyses now about a whole wave of new green jobs with new green technologies, for example, which will lead to much more efficient resource use and greater economic activity in many areas. So why do you make that assumption necessarily that there will be a reduction in productivity?

Ms Quinn—Introducing a relative price into the economic models moves economic effort from one area of the economy to another area of the economy. As part of that shifting of effort, there may be an improvement in productivity in a sector that has an increase in demand, but there are other parts of the economy that have a reduction in demand. There is still a fixed number of people and a fixed number of resources in the economy, and moving things from one place to another does not necessarily improve the productive capacity of the world; you are just shifting things from one place to another. So, while there might be more people going to university studying issues to reduce greenhouse gases, there will be fewer people studying other things such as medical technology—as a hypothetical. So, typically, moving from one sector to another does not necessarily affect aggregate productivity assessments. There is a composition shift that happens with a relative price change.

Senator MILNE—Yes, that is true. But my view or my assumption would be that significant new investment in reducing energy use will result in an increase in productivity, as older machinery is replaced with newer machinery, and it is likely that there will be more productive machinery more rapidly. So, for a start, I would question, as an assumption, one of the central tenets about productivity. Secondly, in relation to population, I note that you assume that 150,000 people per year will immigrate to Australia between 2012-13 and 2049-50, with immigration rising each decade from 2050-51 to reach 200,000 per year in 2070-71, where it is then assumed to remain constant until the end of the century. Why do you make those assumptions? That does not seem a plausible immigration pattern to me.

Ms Quinn—The net immigration number is 150,000 people per year. These assumptions are made in relation to what has happened in history and partly reflect government policy as it exists today. The number of 150,000 people is less than the immigration numbers we have experienced in recent years and is well within the range of other estimates. The ABS, for instance, recently did an updated economic projection analysis for labour market developments and that included a range that went from 120, I think, certainly to 180, with 150 in the middle. The reason for raising the net immigration numbers through time was to keep the ratio of net migration roughly proportional to the number of people in Australia.

Senator MILNE—The assertion is that immigration levels will remain constant for the next 42 years, surge for the following 30 and then stabilise again. That might be a convenient thing for the modellers, but, in my view, it is not in any way likely to be representative of the real paths of immigration. Given everything that has been said about climate change and the fact that we already have 32 million climate refugees around the planet now, to assume that immigration growth will take that pattern does not seem plausible. So is this one of the ones that will be subject to a sensitivity analysis? It looks to me to be one of the crucial areas for which we should have a sensitivity analysis.

Ms Quinn—As I said before, precise sensitivity analyses of things like that are part of our submission to the government for it to consider. The population numbers are part of the reference scenario for building our world without climate change, so these are projections about population in the absence of climate change. The way the economic modelling is framed is to imagine a world without climate change and then to imagine a world where climate change mitigation policy is being undertaken. In that world we would not be taking account of any implications, positive or negative, of potential climate change for population, in making those underlying assumptions.

Senator MILNE—Let me try another area in your models. Your modelling says that the price of coal, oil, gas and iron ore are expected to fall dramatically in the near future. You go on to say that the terms of trade are assumed to fall by around 25 per cent in the next few years, with oil prices assumed to fall by around 40 per cent over the next seven years. How plausible is that, given our recent experience? First of all, was ABARE in any way responsible for the basis of this assumption?

Ms Quinn—As is highlighted on page 15 of the Treasury assumptions book that was released by the government, the view about global energy prices was formed partly by examining Australian evidence but also by looking at the International Energy Agency projections; they do projections out to 2030 and, in some cases, beyond. Given that oil prices are driven by world economic developments, we assessed what the International Energy Agency had to say. ABARE have been involved in the steering committee for our part of the project and obviously we canvassed other opinions and views. We had to make assumptions about oil prices; they are assumptions rather than forecasts. Most people know that forecasting oil prices beyond a week or two—or even a day—can be quite difficult. The assumption that oil prices will come down over time was based on a view from the International Energy Agency about long-run marginal costs of extraction for oil resources, and that is what is reflected in the assumptions.

Senator MILNE—Do you accept, though, that there is also a growing body of evidence that oil has peaked globally and that, in the next seven years, we are going to see oil go through to \$150 or \$200 a barrel rather than fall by 40 per cent? Do you accept that there is a body of evidence out there to that effect?

Ms Quinn—I am aware of people who hold that view and the analysis around that. We have taken the assumption from the International Energy Agency.

Senator MILNE—Let me put it to you that, if prices of energy fall by the amounts forecast in your assumptions, the introduction of an ETS will have no noticeable impact on the price of energy; in fact, it appears under your scenarios that energy will be cheaper in the future with an ETS in place. Is that correct?

Ms Quinn—The analysis we are doing is developing a reference scenario where there is no climate change and then we are looking at the implications for introducing emissions pricing in Australia and the world. So we are looking at the difference from base, in a sense: what happens with an emissions price and what happens without an emissions price. We are not necessarily forecasting for the world in absolute terms; we are looking at what are the implications of an emission price in and of itself. So, in that world, putting a price on emissions typically would be expected to raise the price of emissions-intensive goods; energy is very emissions intensive.

Senator MILNE—I appreciate that, but you also make the assumption that you have falling underlying prices. Therefore, whilst you might put a carbon price on top of that, your overall energy price is going to be cheaper, according to your analysis.

Ms Quinn—It very much depends on the trajectories and targets in the global objective and the emission prices or carbon prices that are examined.

Senator MILNE—So will there be a sensitivity analysis as far as the oil price goes?

Ms Quinn—Once again, we have been looking at and examining a range of sensitivities. The advice that we have provided to government will be released as part of the government's report by the end of October.

Senator MILNE—So you are saying that those sensitivity analyses will be published?

Ms Quinn—I cannot be definitive about what will be published; that is in the hands of the government.

Senator MILNE—But at least they will be done; whether or not they will be published is a political decision.

Ms Quinn—Yes.

Senator MILNE—I have a lot of questions and will put some on notice. Senator Xenophon asked a couple of questions about carbon capture and storage that I would like to pursue. Table 21 shows that capital costs associated with, as yet, non-existent carbon capture plans are expected to decline at three times the rate of the decline in the cost of wind and biomass. Whilst MMA is cited as the source of this assumption, I would like to know how these cost de-escalators were estimated. Why would you assume that a non-existent technology, which is way behind schedule and costing many times more than people ever

expected it to, would come down in price at three times the rate of the cost of wind and biomass, which already exist as proven technologies and are becoming cheaper all the time as they achieve critical mass?

Ms Quinn—Consistent across different consultants and different modelling in the public domain on this issue, typically it is assumed that, as new technologies go through the phase of development from scientific discovery or analysis to demonstration, to deployment, to commercialisation and to becoming an old technology, there are thoughts about a cost curve. Obviously, costs increase as people start thinking about how to build and implement these technologies. But, once they become commercially viable, costs start falling through time, as people and organisations learn by doing.

The view that has been put to us by the people who know more about this than I do is that therefore new technologies have greater de-escalations in their capital costs once they become commercial and that more mature technologies have already had those capital cost reductions, so their future de-escalation will be less. In that context, wind, as you have said, has been implemented and currently is commercially viable in various parts of the world, as is biomass. So their de-escalation costs are expected to be less in the future, although they will still have reductions as new technologies and new types of wind turbines and biomass are introduced. However, as you have said, there is no commercial operation of carbon capture and storage; so the expectation is that, if it becomes viable or commercial, once it becomes deployed at a larger scale, it will experience the reductions in capital costs that have been found in other technologies.

These de-escalated costs are examined through looking at historical analysis and precedent for different types of technological advances, not just in the electricity sector but also in general engineering and other types of capital costs analysis. It is fairly well established that there is this cost de-escalator; the range and the extent is obviously a matter for judgement, and there is great uncertainty about what might happen on that front.

Senator MILNE—Who were the consultants on carbon capture and storage?

Ms Quinn—As I have said, MMA is the consulting company that is helping us more closely. We have also already received information from other parts of the electricity generation sector and have examined other analysis that is in the public domain from various modelling organisations; so we have tried to capture a view. In addition, the International Energy Agency has done quite a lot of analysis on the cost of different technologies across the board. We also got some advice from ACIL Tasman on the international costs of various technologies in different locations as well as the range of technology options. In addition, there is quite a lot of literature out there on the various options. We have used consultants to provide the very detailed information that is required for Australia, done literature surveys across the world and across different technologies, and taken submissions from people who wanted to provide us with estimates of particular things. We have had quite a few conversations with particular people involved in technologies, particularly some of the renewables; people have wanted to approach us and talk to us about those technologies. So we have been able to take that information on board also.

Senator XENOPHON—In terms of the assumptions at table 21, you have ‘ultra supercritical coal’ at \$2,255 per kilowatt with a 0.5 de-escalator. With ‘USC’—ultra supercritical coal—‘with post-combustion capture’, it is a bit more at \$2,482 but with a 1.5 per cent de-escalator. I do not understand how an ultra supercritical coal plant with post-combustion capture will be cheaper to build than one without post-combustion capture. If you have the added extras, how can it eventually be cheaper?

Ms Quinn—According to the table, the ultra supercritical coal is \$2,255 and the one at the bottom, the ‘USC with post-combustion capture’, is \$2,482.

Senator XENOPHON—But it will be cheaper eventually, won’t it?

Ms Quinn—Eventually, over time, it will be cheaper, if these de-escalations continue. But that is partly because the de-escalation costs take account of the higher level; the 1.5 is on the \$2,400. They do not necessarily cross over the time horizon that you are looking at.

Senator XENOPHON—I do not get it. How can something with post-combustion capture be cheaper to build than something without post-combustion capture, in a few years time?

Ms Quinn—It is not clear that it is.

Senator XENOPHON—It is. With a 1.5 per cent capital cost de-escalator, by about 2018-19 it will be cheaper.

Ms Quinn—I am happy to take that on notice, but I do not think that is the case.

Senator MILNE—The International Energy Agency released a report only yesterday on carbon capture and storage, which shows that it is even further away than they thought previously and that to make it commercial will require billions of dollars, yet you assume that you will have commercial plants available in 2020. However, I would like to know particularly why you assume that the costs of constructing the pipes necessary for carbon capture and storage would be paid for by anyone else but the generator. Why did you make the assumption in the costs that somebody else was going to pay for all the pipes?

Ms Quinn—We have treated equally in the model the cost of building transmission lines for some of the renewable technologies and the cost of building potential pipelines for carbon capture and storage. We have assumed that, instead of people having to pay upfront the full capital cost of the infrastructure, that full capital cost is turned into a transaction fee for transmission or for pumping the CO₂. So, instead of being paid as a fixed cost in terms of the building of power plants, it is paid as a variable cost for every unit of carbon moved or electricity transmitted. This is an economic way of modelling and does not assume any particular ownership of the infrastructure. It is costing the infrastructure but not costing who owns the infrastructure.

In terms of the economic analysis that we have been doing, we are not looking at ownership structures—whether generator X or generator Y has to build pipelines or whether geothermal plant A or wind farm B has to pay. We are looking at the overall economic cost of the different technologies and ensuring that they are paying for the capital costs, the variable costs and the costs of infrastructure associated with that technology.

Senator MILNE—Why do you assume that the cost of CCS capital will be subsidised?

Ms Quinn—I do not think that is the case. The cost of transporting and storing carbon is being captured in our economic modelling.

Senator MILNE—But the reflection of the relative costs assumes that the generators are not paying for that.

Ms Quinn—No. The generators are paying for the variable cost of moving and transporting carbon. When they generate electricity and they incur capture costs they also have to pay for the storage of that technology. The storage and transportation costs include the cost of the capital of building the pipes. They do not pay for it upfront. There is not a billion dollars in one year that pays for the pipes. That billion dollars is spread out over the capital life of the pipes.

Senator BUSHBY—Can you confirm that the 2007-08 MYEFO was publicly released on 15 October 2007?

Mr Ray—This was a matter that was discussed in Finance estimates yesterday. I probably should have checked the date to be able to answer you. I think our Finance colleagues said yesterday that it was around that time. It is a matter of public record when it was published.

Senator BUSHBY—Can you confirm that the 2007-08 MYEFO was tabled on 2 September 2008?

Mr Ray—I do not know that I can.

Dr Gruen—Did you say 2008?

Senator BUSHBY—Yes.

Mr Ray—MYEFO would not have been tabled in September of 2008.

Senator BUSHBY—Because it is in breach of the Charter of Budget Honesty Act?

Mr Ray—I cannot confirm that. I can check it. Again, it is a matter of public record.

Senator BUSHBY—It is a matter of public record and I would like to suggest today that in fact it was tabled on 2 September 2008. Are you aware of section 14 of the Charter of Budget Honesty Act?

Mr Ray—Yes.

Senator BUSHBY—I will read the relevant section. Subsection (1) states:

The Treasurer is to publicly release and table a mid-year economic and fiscal outlook report by the end of January in each year, or within six months after the last budget, whichever is later.

Is that in accordance with your recollection?

Mr Ray—That is my understanding of the section.

Senator BUSHBY—Assuming that my assurance that it was tabled on 2 September 2008 is correct, does the fact that the government did not bother to table the 2007-08 MYEFO until nearly a year after the previous government released it constitute a breach of the act?

Mr Ray—You are asking me for a legal opinion.

Senator BUSHBY—The act states that it needs to be tabled by the end of January in each year or within six months after the last budget, the last budget in this case being the budget from 2007. Does it appear to you that it has complied with the terms of that act?

Senator Sherry—We will get some advice about that. I will take it on notice. The issue was raised with Finance.

Senator BUSHBY—Given that this government has a record of dithering or possibly even breaching of the act—

Senator Sherry—Dithering? We have been quizzed up hill and down dale about the decisive actions we have been taking over the last month or two.

Senator BUSHBY—Let me preface this question: given when it comes to MYEFO this government has a record of dithering or possibly even breaching the relevant act and the Charter of Budget Honesty, what comfort should Australians take in the government's claims that this year's MYEFO will be released within the next month?

Senator Sherry—I am familiar with the question, because Senator Brandis couched it in the same politically colourful wrapping. I did not get a chance to respond, but we will take it on notice and take some advice about the interpretation you have placed on the particular clause in the act. As for the political commentary, I will resist the temptation because I know time is pressing.

Senator BUSHBY—It is a fair concern for Australians, given that it has taken almost 12 months for that MYEFO to be tabled in apparent breach of an act, as to whether your assurance that we will have the next one within a month is a reasonable one to accept.

Senator Sherry—When you say 'it is a fair concern for Australians', I have to say that over the last couple of months I have had Australians come up to me in the streets with a lot of issues—a lot of issues—and I have not had one raise this issue. When you assert that it is a concern to Australians—I know you live in Launceston; I live on the north-west coast of Tasmania.

Senator BUSHBY—I live in Hobart.

Senator Sherry—Hobart, sorry. As I said, there have been a lot of issues raised in the context of the economy, the world financial crisis, superannuation fund returns et cetera, but not once have I had a person in the community raise the matter of your allegations around the provision of these documents. That is not to say that you do not have an issue. As I have said, we will take it on notice and we will take some advice about it.

Senator BUSHBY—I would have thought, given the portfolio responsibilities that you have, the people you interact with in the course of your portfolio responsibilities, would have a great interest in seeing the information contained in the MYEFO. I will move on to a final question. In the *Climate change mitigation policy modelling* book why has Treasury downgraded its assumptions regarding productivity growth, making them lower than the previous rate of productivity growth assumed in other reports, such as the 2007 *Intergenerational report*?

Dr Gruen—I am sorry, I missed that question.

Senator BUSHBY—In *Climate change mitigation policy modelling* book why has Treasury downgraded its assumptions regarding productivity growth—and I believe in that document they have labour productivity growing at an annual rate of 1.5 per cent—making them lower than the previous rate of productivity growth assumed in previous reports, such as the 2007 *Intergenerational report*, which had it at 1.75 per cent?

Mr Ray—Ms Quinn answered this question when she was answering questions from Senator Milne. If she has anything to add, I am sure she could do so.

Dr Gruen—I am happy to take part of that question.

Senator BUSHBY—I would appreciate an answer.

Dr Gruen—For the 2007 *Intergenerational report* what was required was an economy-wide assumption about productivity growth. The assumption that was used was the rate of productivity growth in the Australian economy over the previous 30 years. That was the basis on which the assumption was arrived at. That was the same basis that had been used in the previous *Intergenerational report*. For the purposes of the *Intergenerational report* an assumption about economy-wide productivity was all that was required. When one is talking about climate change modelling the output of different sectors of the economy can, in principle, have very different emissions intensity. Therefore, it is important to disaggregate the economy and not simply have an aggregate economy growing at a certain rate. It is important to do careful modelling of the different sectors of the economy. It is observed that there are very strong differences across the economy in the productivity growth rates of different sectors. Some sectors have traditionally—and for a very long time—had faster productivity growth than other sectors of the economy.

In the context of the *Intergenerational report*, that was a degree of complication that was unnecessary to model because there are a lot of other things that needed to be modelled, and that one was not particularly relevant. In the context of attempting to model the emissions of the whole economy, the sectoral makeup of the economy through time becomes an extremely critical thing that you need to think carefully about. Because the sectoral rate of growth of productivity differs so significantly across sectors the decision was made that it was important to take that into account in looking at how the economy would evolve over time.

As a consequence of that there are changes in the composition of the economy. Once you allow for different productivity growth by sector you get changes in the composition of the economy through time and, if you make particular assumptions about sector-specific productivity, the productivity growth of the whole economy need not stay constant.

Senator BUSHBY—Are you saying that it is a more thorough and rigorous assessment?

Dr Gruen—It is.

Senator BUSHBY—Are you also saying that the policy behind climate change mitigation is also having an effect on your prediction for productivity?

Dr Gruen—Even talking about the reference case where there is no mitigation, it is the case that the aggregate productivity growth of the economy need not stay constant at its previous 30-year history. That, indeed, would be a property of the reference case, in which there is no mitigation. I will let Ms Quinn elaborate on that if she thinks it is appropriate.

Ms Quinn—When modelling the reference case, ‘a world without climate change’, we had to look at what was happening for the world, because climate change is a global issue and not just happening in Australia. We had to look at what was happening to the reference growth rates in other countries of the world. To do that we had to think about what was happening in countries such as the United States and developing countries as well. If you assume the 30-year average growth rates for sectoral productivity and apply those in future but you take on board the long-running trend in developing and developed countries to move towards service sectors and away from capital intensive sectors as a share of their economy as they develop, moving to service sectors and away from other sectors typically lowers the long run productivity of the aggregate economy.

That development in Australia that Dr Gruen outlined is also happening in the United States and other developed countries. The long-run productivity assumption for the United States is the same as Australia’s, which is important in the context that the productivity for the whole world is being determined by the United States growth rate, with developing countries catching up to the technology frontier as they develop. We thought it was important to maintain consistency between the developed countries so that we were not skewing the development path one way or the other.

Senator BUSHBY—That gives me some degree of comfort. I commend you on this more rigorous approach. Just to clarify, the fall in productivity is not a direct result of the anticipated policies that are part of this?

Ms Quinn—No.

Dr Gruen—No, it happens in the reference case.

CHAIR—Senator Payne.

Senator PAYNE—Can you give me an indication of the time frame?

CHAIR—We are due to finish in five minutes.

Senator PAYNE—There will be a lot of fast talking and fast answering. I would like some guidance—and I hope officers will bear with me because these are representational responsibilities that have not previously been addressed—on whether I can ask questions here in relation to the first home owners grant and the first home owners boost.

Mr Ray—Certainly.

Senator PAYNE—Can you indicate to the committee in relation to the first home owners boost whether Treasury provided advice to government on the impact of increasing the first home owners grant for established properties from \$7,000 to \$14,000 on rents, on home prices or on building activity?

Mr Ray—Consistent with what we have been discussing at various time during the course of the day, we would be reluctant to go to the details of our advice in terms of—

Senator PAYNE—I did not ask for details. I said ‘did you provide advice’ on those three areas?

Senator Sherry—That in itself would indicate the detail of the advice. If your question was ‘on what date was advice first provided in respect of the announced policy’—

Senator PAYNE—Thank you, Minister. Mr Ray, on what date was advice provided in respect of the announced policy of the first home owners boost, both in relation to existing homes and homes to be constructed?

Mr Ray—That will test my memory. I would need to take that on notice.

Senator PAYNE—I hasten to add I was not here for the morning's entertainment. I was not part of that process, so I am asking these questions in good faith as policy issues about which I have a concern.

Mr Ray—This is testing my memory. Rather than talk about what was announced, when exactly there were the first discussions on the first home owners scheme—

Senator PAYNE—Can you go back and find some information on that and then come back to the committee on notice?

Mr Ray—The problem that I have is that those discussions would have been in the cabinet.

Senator PAYNE—I am acting on the minister's advice. He asked me to recast my question in those terms, which I did.

Mr Ray—I understand.

Senator PAYNE—So, you are not going to help me?

Mr Ray—I am happy to take it on notice.

Senator PAYNE—Can you advise the committee how the figure of \$1.5 billion, which is effectively the increase in the first home owners grant, was determined?

Mr Ray—In terms of the process or of the underlying assumptions?

Senator PAYNE—Both. For example, was there any economic modelling undertaken to determine that estimate?

Mr Ray—In terms of the process—again, I think this was discussed in Finance estimates yesterday—the costing was developed in the normal way. As the responsible department, we developed a costing and then worked collaboratively with our colleagues in the Department of Finance and Deregulation, and at the end of that process they agreed with the costing.

Senator Sherry—There are a number of dates, named officers, time spent by officers—

Senator PAYNE—On the record already?

Senator Sherry—Yes, they are.

Senator PAYNE—Is that from this morning?

Senator Sherry—No, not from this morning; from the department of finance.

Senator PAYNE—I am doing my very best to be in more than one place at a time, but I think you understand how hard that can be. As to the \$1.5 billion announced for the increases in the first home owners grant, what is the breakdown between purchases of existing properties as opposed to purchases of new dwellings? What is the estimate on that?

Mr Ray—That estimate has not been published.

Senator PAYNE—Can you provide it to the committee?

Mr Ray—I can take it on notice.

Senator PAYNE—With an endeavour to provide it to the committee?

Mr Ray—I can take it on notice.

Senator PAYNE—Can you indicate to the committee whether there was any economic modelling undertaken to inform that estimate?

Mr Ray—I do not want to get into a long discussion about economic modelling.

Senator PAYNE—We do not have enough time for a long one; it would have to be a very brief one.

Mr Ray—The normal way that we cost these sorts of measures was adopted.

Senator PAYNE—I would like to clarify one point in relation to the grant. Can you indicate to the committee whether the increase to the grant announced by the Prime Minister on 14 October will apply to new homes built under a building contract—which I can read from the detail of the announcement—and to homes built for immediate sale, that is brand-new homes that have never been occupied? How is that going to work in practical terms?

Mr Ray—Mr Willcock might be able to help you, because this goes right into the detail.

Mr Willcock—Eligibility for the additional first home owners boost has several elements to it. The first one is that a person must be eligible for the existing first home owners scheme that the states and territories operate. The next test is that the eligible applicant must purchase a home between 14 October 2008 and 30 June 2009. For new homes this means entering into a comprehensive home building contract with a builder. There are provisions for owner-builders and people purchasing off the plan. Is that answer sufficient?

Senator PAYNE—No. For example, there is an existing home, which is a new home that has been completed by a developer on spec. If it has never been occupied and not been sold but becomes the subject of a new contract, will the purchase of that home attract the boost?

Mr Willcock—Yes, as long as the home has not ever been occupied.

Senator PAYNE—Thank you. I have some more questions for the Treasury on the National Rental Affordability Scheme and one question to clarify the audit of surplus Commonwealth land. Is that an area for which you are responsible or Finance is responsible?

Mr Willcock—The National Rental Affordability Scheme is generally an issue that is handled by FaHCSIA, but when it comes to the audit of Commonwealth land I imagine that would be an issue for the department of finance.

Senator PAYNE—With respect to the NRAS, the charitable tax status of not-for-profit organisations, including that which they receive for GST purposes, can you advise me whether that could be compromised by the involvement of not-for-profits in commercial activities that might be associated with NRAS projects? If they are putting forward a proposition for an NRAS project can that have the capacity to affect their tax status?

Mr Ray—That is a question that would be better directed to our revenue group colleagues, who are coming later.

Senator PAYNE—Thank you very much. Madam Chair, I may have other questions to place on notice in that particular area. I am trying to keep to your time frame.

CHAIR—Thank you. Senator Joyce.

Senator JOYCE—I have questions on the ETS if they want them as well.

CHAIR—I am subject to the will of the committee. I am perfectly happy to continue on with this for a little while.

Senator JOYCE—To be precise, I wanted to finish off my questions on the fiscal stimulus multiplier, where we were going back to after 5.20, but I also have questions on the ETS.

CHAIR—There are a number of senators with questions on ETS.

Senator JOYCE—Can we begin with ETS?

CHAIR—Yes, that is the plan.

Senator Sherry—Sorry, could I clarify something. I understood the latest listing I was given with times was that at 5.20 we were going back to macro.

CHAIR—Yes, that is true.

Senator Sherry—Is that where we are now?

CHAIR—We are supposed to be there now, but if the committee wishes to continue with this for another couple of minutes then that is fine.

Senator Sherry—We were expecting an influx of senators on macro and they are not here.

CHAIR—That is basically it. We have a lot of senators wanting to ask questions.

Senator JOYCE—Let us continue on ETS. Do you still stick by the evidence that you have given before that the ETS will be revenue positive?

Mr French—There will be a revenue stream associated with the auctioning of permits.

Senator JOYCE—Do you acknowledge that being revenue positive means that it will have a dampening effect on the economy and that it works ipso facto as a tax?

Mr French—The government has committed that the revenue stream would be used in assisting business and households to adjust to the scheme.

Senator JOYCE—At this point in time you will be collecting more revenue than you will be paying out, so ipso facto it will be acting as a tax.

Mr French—I am not sure that is the case.

Senator JOYCE—Can someone tell me that it is not going to be the case?

Senator Sherry—If the officer is not sure, we should take it on notice and we will get some clarification for you, unless there is anyone else who can help.

Mr Ray—That is a little like some of the questions that we were discussing earlier on; it goes to the details of the scheme design.

Senator JOYCE—It is very important. When will we see the details of that? Are you still holding to your date of 2010 as being when you want to roll this out?

Dr Gruen—These are decisions for government.

Senator JOYCE—Are you still planning for a 2010 rollout?

Mr Ray—As we discussed earlier, Senator Wong is on the public record about that.

Senator JOYCE—So you are planning that. Do you acknowledge that, if it does collect more revenue than it pays out in its initial instance, that will have a dampening effect on the economy?

Mr Ray—That is hypothetical. We do not know that that is the case.

Senator JOYCE—Do taxes work as a dampener or a stimulant in the economy?

Mr Ray—I will try to help you. In terms of the impact of the government's budget on the economy as a whole you would have to look at it in the aggregate rather than component by component.

Senator JOYCE—It is a simple question. Are taxes a dampener or a stimulant on the economy?

Mr Ray—It depends.

Senator JOYCE—Can you nominate a tax that is a stimulant on the economy and that has a multiplier effect?

Dr Gruen—It depends on the design of the scheme. If you raise a tax and return the revenue, it is not clear that it is a dampener. This question goes to the question of the detailed nature of the scheme.

Senator JOYCE—I will be even more specific. If you raise a tax without returning it into the economy does it have a dampening effect on the economy?

Dr Gruen—As a general proposition that would be true.

Senator JOYCE—Then you would say that if this actually collects more money than it pays out in its initial stage then it will have a dampening effect on the economy?

Senator Sherry—That is hypothetical.

Mr Ray—You cannot separate this from the overall fiscal stance of the government.

Senator JOYCE—Did you investigate alternative models to the ETS, such as upfront capital expense deductions, as opposed to an emission trading scheme in its current form?

Mr Ray—I am happy to take it on notice, but again that goes to details of the policy advice that we might have given.

Senator JOYCE—Did you model any other schemes?

Senator Sherry—That is just another alternative add-on to the previous question.

Senator JOYCE—I just want to know: did you model any other schemes?

Mr Ray—I think the minister has answered the question.

Senator JOYCE—Was that a yes or a no?

Senator Sherry—We will take it on notice; that is what it means. It is not yes or no.

Senator JOYCE—You are going to take it on notice?

Senator Sherry—Yes.

Senator JOYCE—Are you aware of the \$100 million global institute for carbon capture and storage package announced by the Prime Minister?

Senator Sherry—I am sorry, what was that?

Senator JOYCE—In relation to the global institute for carbon capture and storage the Prime Minister announced a \$100 million package in New York City. Are you aware of that announcement he made there?

Mr Ray—I am aware in broad terms, but we have people who know a lot more about it.

Senator JOYCE—Are you aware of it?

Mr French—We are aware of it.

Senator JOYCE—Can you tell me how the \$100 million was arrived at?

Mr French—This is a program that is managed by the Department of Resources, Energy and Tourism. It would be better to put these sorts of questions to them.

Senator JOYCE—I will pull up there. I really do have an interest in the fiscal stimulus question. I am happy to concede to somebody else on ETS, because I really want to talk about fiscal stimulus when we move back to that part of the agenda.

Senator BUSHBY—If you could get Climate Change and the Treasury together then you could guarantee each question is answered.

Senator JOYCE—Yes, because I have questions that overlap both.

Senator BUSHBY—That is right.

Senator JOYCE—I am happy to ask questions that I am going to ask—

Senator Sherry—We are still in fiscal and I understood we were going back to macro at some point.

CHAIR—Yes, Minister, we were just having a discussion about this. Apparently macro is no longer required.

Senator JOYCE—I have questions to ask of Dr Gruen before he goes.

CHAIR—No. Senator Joyce, we are just discussing this. We will just wait for Dr Henry to come in. Fortunately we have the relevant minister here. It appears that there are no longer any coalition or Liberal Party questions on the macro area.

Senator Sherry—I am glad you made the distinction.

Senator JOYCE—I definitely have questions that I was trying to finish off before.

CHAIR—Sure. We have the Australian Office of Financial Management and the ABS scheduled for after the dinner break. What I am proposing is that we will continue on with this question and any remaining questions on the macro area now and have the dinner break from six pm through to seven pm, and then we will ask the Australian Office of Financial Management to come in.

Senator BOSWELL—Senator Joyce wants to ask questions on macro.

CHAIR—Yes. I just said we will finish off those questions on macro.

Senator BOSWELL—Will we then go back to ETS?

CHAIR—We can continue on ETS. We are on ETS now. We are on outcome 2.

Senator BOSWELL—I want to ask a question.

CHAIR—I know, and I am giving you the opportunity. I am giving you the opportunity to ask questions on macro after we finish outcome 2.

Senator JOYCE—Which is ETS?

CHAIR—Yes.

Senator Sherry—Can I just have you run through time proposals and dinner proposals, because Senator Conroy and I are swapping.

CHAIR—Yes. We will go to the dinner break at six. We will return at seven.

Senator Sherry—What on?

CHAIR—I am proposing that we will finish outcome 2 at 5.50 pm and leave Senator Joyce and anyone else 10 minutes for any remaining macroeconomic questions. We will go to the dinner break at six and come back at seven with the Australian Office of Financial Management.

Senator JOYCE—Are we now back to outcome 2, which is ETS?

CHAIR—That is right. At 10 minutes to six we will go to macro and you can finish your remaining questions on that.

Senator JOYCE—Senator Boswell has questions on ETS.

CHAIR—Are there any objections to that plan? We will go ahead with that.

Senator BOSWELL—I would like to ask one of the officers a question regarding an answer given by Mr Glyde on Monday 20 October, when he said:

However, if you assumed that agriculture was in the scheme as has been proposed post 2015, then that would lead to an additional cost of 15 per cent for the livestock sector and two per cent for the cropping sector, which would give you a total cost with those assumptions in place of 18 per cent increase for livestock and six per cent for crops.

I then asked Mr Glyde to expand on that and he said, ‘Look, I can’t because the Treasury department have done the modelling. There were a couple of people seconded from ABARE to the Treasury department and they have done the modelling.’ I would like to ask about the modelling. Senator Sherry was kind enough to say that he would ask if the people could respond to that question in Treasury, because we were being flicked around. Is there anyone who can expand on this modelling?

Ms Quinn—I am the manager of the Climate Change Modelling Unit in Treasury that has secondees from across the public service that are helping in the modelling program. We are working towards providing advice to the government, and the government has stated that it will be released by the end of October.

Senator BOSWELL—If I can interrupt—I am not interested in what you are going to do. I am interested in what Mr Glyde has told you. Is Mr Glyde lying or do you not know—

Senator Sherry—Let us just reflect briefly, without reflecting on him, on what occurred. I think he indicated that ABARE had done some modelling—

Senator BOSWELL—That is right.

Senator Sherry—He gave you the results of the modelling that ABARE had done in this area and he indicated that there were two officers who had been seconded from ABARE to Treasury to provide, presumably, some input into the work that is currently being conducted by Treasury as a separate modelling exercise—different from ABARE.

Senator BOSWELL—That is not the way I recall it. Mr Glyde said they had done modelling—

Senator Sherry—Yes.

Senator BOSWELL—and that modelling had been given to the Treasury and Treasury would answer my questions. Being used to this, I asked you to make sure that the people from Treasury could answer this question. You have got on record that it is going to cost another \$180 to kill a beast. That will frighten anyone who grows cattle. In fact, it will bankrupt them if they do not pass on the cost. I want some explanation of how this works. It is on the record by an officer that it is going to cost another \$180 to kill a beast and it is going to cost farmers another six per cent. You cannot just leave it hanging there. Then I was told there would be further explanation by the Department of the Treasury.

Senator Sherry—Let's just recap, because I was at the primary industry estimates.

Senator BOSWELL—You were.

Senator Sherry—ABARE presented some results and I agreed with the figures, to the best of my recollection. They were presented by ABARE officers. That was their modelling. The Treasury is doing separate modelling. You can go to a question or questions in respect of the modelling that Treasury is doing. It was also indicated that two officers from ABARE had been seconded to the Treasury modelling area to participate and be involved in Treasury's modelling. But if in fact I understand you, you are seeking to ask a Treasury officer or officers about the ABARE modelling that Treasury did not carry out?

Senator BOSWELL—That is roughly correct, but you are forgetting that you committed yourself—inasmuch as you can give a commitment—to have people here to expand on the answers.

Senator Sherry—No.

Senator BOSWELL—Yes, you did.

Senator Sherry—I committed to ask—

Senator BOSWELL—Because I have been around this place for a long time I know that anyone who does not want to answer a question dodges it and says they will take it on notice. We have a crisis in the cattle industry. I want an explanation about whether we are going to increase the cost to the cattle producer by 18 per cent. They do not make 18 per cent profit.

Senator JOYCE—They make about four per cent.

Senator BOSWELL—And that is a good one.

Senator Sherry—I understand you are reiterating the political argument. You are entitled to do that, but you have reiterated it now some four or five times here and you did the same at the ABARE Estimates. But I did indicate—that is correct—that I would make a request. I did not give any commitment, though—

Senator BOSWELL—No. You did not.

Senator Sherry—to ensure that there would be two officers here. I said I would request it. We have the head of the modelling unit here, a person whose undoubted expertise is being well illustrated here this afternoon. But unfortunately we do not have the two officers from ABARE seconded to the unit in Treasury.

Senator JOYCE—If you have an 18 per cent increase—raw figures—on an industry that at the very best makes a four per cent profit, the industry goes broke.

Senator Sherry—We had this discussion the other night at primary industry. I do not have anything to add to the discussion that we had. In fact, I am not sure I participated in the political debate and your claims around the research that was disclosed by ABARE. I do not think I participated in that.

Senator JOYCE—Has Treasury had any discussions about how the farmers, who are price takers, are going to offset this cost? Where do they go to offset it?

CHAIR—We seem to have reached a bit of a stalemate here.

Senator BOSWELL—We have not. I am trying to hold Senator Sherry to his commitment, and to be fair to him—

Senator Sherry—I did. I understand my office phoned you.

Senator BOSWELL—You did not give a guarantee; I will accept that.

Senator Sherry—And we followed it through.

Senator BOSWELL—When one of the more senior ministers in the government makes a suggestion or even offers that there would be some people here to answer questions, I would expect that those people would appear or someone at the table would be briefed to answer a question.

Senator Sherry—I am not in cabinet so I do not consider myself senior in that sense—but thank you for the compliment!

Senator BOSWELL—You should be.

Senator Sherry—I will thank you even more. Unfortunately, the government and the Prime Minister make that call. It cannot be made from opposition, but thank you for the compliment. I did indicate there were two officers—

Senator BOSWELL—Let's not waste—

Senator Sherry—We have the head of the modelling unit who is carrying out the Treasury research, not the ABARE research.

CHAIR—I really think we have done this subject to death.

Senator BOSWELL—We have not done it at all. We have not done it one bit.

CHAIR—Senator Milne has some more questions on ETS.

Senator BOSWELL—With due respect, honestly, Madam Chair, that is a completely wrong ruling. We have not had an answer. I am trying to get to the bottom of this. I will now ask Ms Quinn: has the department done any modelling, or has ABARE given you any advice, on what the increased cost would be for farming and grazing under an ETS?

Ms Quinn—Perhaps I should start by explaining that Treasury created a unit within the department to answer questions about potential emissions trading scheme and carbon price implications for the economy. As part of that, we have accepted support from other government departments in the form of seconded staff. We have two people from ABARE, one person from the Department of Climate Change and someone from the Productivity Commission. They are working within the units to a modelling program that is being conducted within Treasury even though they are seconded officers from other departments. The Treasury modelling program is looking at the implications on the Australian economy of different trajectories and targets. As such, we are looking at implications across sectors. We are looking at aggregate sectors to the extent that we can in the models that we have on the table. One of the models that we have does split out agriculture. It is not just agriculture; it looks at beef and cattle and sheep and grains and other animals separately. In the context of that modelling we have been examining different sectoral implications. The analysis that we have been doing, and continue to undertake, is part of the advice to the government. The government has committed to releasing a modelling report by the end of October that examines the implications to the Australian economy of trajectories and targets.

Senator MILNE—As to the Treasury modelling on the ETS that we were discussing previously, I note that Treasury says that limits are placed on the rate of take-up and total take-up of renewable energy capacity, reflecting resource availability and engineering and technical constraints. Those assumptions are represented in chart 7 and they are central to this whole modelling exercise. I would like to know the assumptions on which those constraints were based, the consistency or otherwise of those constraints with the increase in the MRET to 45,000 gigawatt hours and whether or not similar engineering and technical constraints to do with the installation of carbon capture were used, particularly given that carbon capture is going to require very high-grade steel. What are your assumptions in relation to these constraints? Was there consistency with the MRET? Were the same constraints applied to CCS?

Ms Quinn—I can answer some of those; others I will have to take on notice in terms of the technical detail. As you have correctly pointed out, in chart 7 of the Treasury assumptions book, we have provided some information about cumulative renewal capacity constraints. This information was provided to us by the electricity sector bottom-up modellers MMA, and they have based that analysis on a region-by-region examination of what is feasible both technically and practically in terms of the timing. You can see, for instance, that some of the constraints ease over time as infrastructure and other developments occur. We have also examined capacity constraints around carbon capture and storage in terms of when it might be

possible for the technology to be deployed, around the cost structure of carbon capture and storage and around the implications for building infrastructure around carbon capture and storage. We have attempted as far as it has been possible within the constraints and time available for our project to treat all technologies equally. In terms of the precise details about the constraints, I would have to take that on notice. I do not have the details before me at the moment. I think there was third leg of that question, which I—

Senator MILNE—It was the CCS. I want to know why you would treat a proven renewable energy technology already in existence in exactly the same way as a technology that is unproven and not likely to be commercially viable before 2020, if ever, but certainly not before then.

Ms Quinn—As I said, making assumptions about the precise mix of technology or the precise path of the Australian or world economy is a very difficult task to undertake. We have tried to take the best advice—and have taken a very open-door approach—from people who have different views to examine the range of possibilities, and plausible people can disagree about various assumptions. We have taken the advice as provided to us by experts in the field that carbon capture and storage may well be viable. Whether or not it is commercial depends on design features of the Carbon Pollution Reduction Scheme and the possible carbon prices that are associated with that scheme.

The economic modelling takes assumptions about capital cost structures, variable cost structures and the demand for different types of electricity and then it chooses between those on the basis of that information. The economic models do not have a pejorative view about one technology over the other; it is purely based on the cost structures of the different technologies. We have tried to capture, as much as we can, the cost structures from the building of the equipment, the running of the equipment, the storage or the other infrastructure that goes with the equipment. But, as I said before, over long time horizons this can be quite a difficult exercise, and sensitivity analysis is important for looking at these questions.

Senator MILNE—What is the de-escalation rate for solar/thermal compared with carbon capture and storage?

Ms Quinn—I will take you to table 21, which looks at the de-escalation rates. A concentrated solar/thermal plant is assumed to have a capital cost de-escalate rate of 1.5 per cent per year between 2010 and 2020 for Australia. If this technology were to be chosen by the economic modelling, the assumption would be 1.5 per cent for the ultra super-critical post combustion capture black coal plant. These are capital cost de-escalators on the assumption that that technology is chosen. These are the possibilities that are provided to the economic model. Whether or not they are chosen depends on the location, the cost and the particular type of electricity that might be demanded of that region at that time. Not all of these technologies are chosen in different scenarios. It depends on the actual cost structure of the precise analysis that has or would be undertaken.

CHAIR—Last question, Senator Milne.

Senator MILNE—If it the last question, I will go to why you are assuming that the impact of the 2006-07 drought will disappear by 2012 and hydro-dam levels will be replenished.

Does that mean that future rainfall patterns have been factored into the forecast output from electricity, or are you just making an optimistic assumption that the drought is over and the dams are full by 2012? What is the basis of that assumption?

Ms Quinn—The reference case world is a world without climate change, as I mentioned before, and it is based on the typical assumptions that are made in economic analysis and in the budget forecasts. Looking out past the current forecasts and current projections, we typically assume the return to normal conditions. That is just a technical assumption that is applied—and we have applied the same approach to this. We have assumed a return to normal conditions; it is not a forecast of a return to normal conditions.

Senator MILNE—How can you assume a return to normal conditions if you accept climate change is real? That is the whole point of the ETS I would have thought. How can you make an assumption that it is going to return to past levels?

Ms Quinn—As I said, we have been asked to look at the mitigation costs of putting a price on emissions. We have not been examining a world of climate change impacts. We are looking at the economic implications of what happens if you put a price on emissions against a reference case without climate change in it.

Mr Ray—I took a couple of questions on notice from Senator Bushby on the 2007-08 MYEFO. As I said, these are matters of public record that we have checked. It is indeed the case that the 2007-08 MYEFO was released on 15 October 2007 and tabled on 2 September 2008.

CHAIR—We will now spend a short time finishing off questions on macroeconomic policy.

Senator JOYCE—The \$10.4 billion package is primarily a fiscal stimulus package. Is that correct?

Dr Henry—Yes, I think that is a reasonable technical description of it.

Senator JOYCE—Therefore, you anticipate an ongoing effect in the economy beyond just the appropriation and expenditure of the money?

Dr Henry—Well—

Senator JOYCE—I did not think that one would be hard.

Dr Henry—It is actually quite a tricky question, I assure you. We would anticipate that most of the economic impact of the package would be felt in the remainder of the 2008-09 fiscal year. In that sense, I think we would expect that most of the economic impact, the fiscal stimulus, if you like, would occur in the same year as the impact on the budget.

Senator JOYCE—After we have spent that \$10.4 billion, what do we do in the next year?

Dr Henry—I would simply make the point that there are other factors that are bearing on the performance of the Australian economy, particularly as we go through the second half of 2009, that go beyond fiscal policy. For example, the Reserve Bank at its meeting earlier this month, as you know, cut the cash rate of interest by 100 basis points, and that follows a 25-basis point cut at the start of September. Those interest rate cuts are now being passed on increasingly in full by Australia's financial institutions. Those interest rate cuts will have a

supportive impact on economic activity as 2009 unwinds. We would expect that most of the impact would come through in the second half of 2009 and going into 2010. There is also of course the fact that the currency has depreciated—

Senator JOYCE—It certainly has.

Dr Henry—as senators are aware. As you know, a currency depreciation would normally be expected to have a stimulatory effect on the economy. But, like monetary policy, exchange rate depreciations take some time to flow through, and so much of the impact of the recent currency depreciation, assuming it was sustained, would feed through into the second half of 2009 through into 2010.

Senator JOYCE—We are talking about the fiscal multiplier effect of where this money is going to be spent. What do you believe has a better fiscal multiplier effect? This is the question I was asking before, so I am trying to get a deliberate answer. Do you believe the fiscal multiplier effect is better when the money is expended in the retail sector or do you believe it is better when it is expended in capital projects?

Dr Henry—The critical issue here as far as stimulating economic activity is concerned goes to implementation lags. Provided there are infrastructure projects or investment projects that are ready to roll, so to speak—all the contracts have been signed, the workforce is in place and so on—in principle, directing the fiscal stimulus through investment or infrastructure projects is probably going to have as immediate an impact on economic activity as the alternative of directing the payments to households. But that is provided that the projects are ready to roll. If the projects are not ready to roll, I think there is a consensus among macro policy practitioners that you get a much more immediate impact by making transfer payments directly to households.

Senator JOYCE—What do you think will be the fiscal multiplier, for want of a better word, number that we will get out of direct injection into certain family households? As we know, it is not going across-the-board. What do you anticipate? Do you believe it will be—

Dr Henry—I think Dr Gruen answered this question earlier, in that, although there is no consensus among economists on the single best number here, there seems to be something of a consensus around the proposition that, if an economy is weakening, a multiplier of pretty close to one is not a bad figure to use. What that means, as Dr Gruen indicated—

Senator JOYCE—For every dollar you get another dollar—

CHAIR—I would just indicate that Senator Bushby has a question. So if you could ask one last question, Senator—

Senator JOYCE—Okay. What do you believe is going to be the path of the money that we send out? In the time frame that you have it, just prior to Christmas, in respect of the segment of the community you send it to, you must have anticipated where you think that money is going to go. If we just take a rough path, do you think it is going to go from the government to the family to Christmas presents, which are imported from overseas, so it goes overseas?

Dr Henry—No. We do not think it will be as simple as that. Some households will of course choose to spend all of the money before Christmas—others will not. As to those that do choose to spend all of the money before Christmas, obviously if what they spend is on

imports that does not make a direct contribution to Australia's GDP growth. However, even in that case, there are significant indirect effects. For example, suppose that it were the case, as it seems to be, that the Australian retail sector is weakening in the lead-up to Christmas, even if all of the goods that were purchased were imported goods, it would nevertheless be the case that, because of the fiscal stimulus, there would be retail workers who would be working overtime that they would not otherwise have been working. There would be stronger employment growth, or less weakening in employment, in the retail sector. So that is additional income for Australians that would then recirculate back through the economy. It is not as simple as saying, 'Well, if a household gets a transfer payment and spends it all on imported goods, it then has absolutely no impact on the Australian economy.' Even in that case there would be a positive stimulatory effect.

Senator BUSHBY—Is retail sales data used by Treasury a coincident or a leading indicator of economic activity?

Dr Gruen—Retail trade data, along with a lot of other data, are used by us to inform what we think is happening with the economy. I would think it is more of a coincident indicator. It does not strike me particularly as a leading indicator, though it and other things help you to inform your view of where the economy is going. So it is certainly the case that information that you are collecting about what is going on now is a crucial input into deciding what is going to happen next.

Senator BUSHBY—Were the August retail sales figures used to inform the process through which the fiscal stimulus package was developed?

Dr Gruen—To the extent that we look at all the incoming data to try to inform our view of how the economy is travelling in a general sense, that and everything else that was happening informed our view.

Mr McDonald—I guess one of the caveats on the use of the retail sales figures in recent months has been the changes to the sample sizes and the number of businesses that are getting surveyed.

Senator BUSHBY—That is where I was getting to.

Mr McDonald—That then reduces the reliability of that data, which would mean that we would place less weight on that than we might otherwise do.

Senator BUSHBY—I guess the Treasury would agree with comments from the minutes of the RBA board meeting from 7 October where they said, 'The sample size of this survey meant that the estimates were now less reliable than they had been previously'?

Dr Gruen—Yes, I think that is a factual statement.

CHAIR—Thank you.

Proceedings suspended from 6.01 pm to 7.01 pm

Australian Office of Financial Management

CHAIR—The committee will resume with the Australian Office of Financial Management. Senator Bushby.

Senator BUSHBY—What contact or consultation has the government had with the non-ADI lenders that the intervention in the RMBS market is targeted towards and what are the details of such contact?

Mr Hyden—I cannot speak for the government or for ministers in response to that question, but the Australian Office of Financial Management has had a number of consultations with a range of non-ADI market participants, primarily from when the Treasurer announced the initiative until we put out our operational notice setting out detailed arrangements for its implementation and calling for the first set of proposals.

Senator BUSHBY—Essentially they were trying to find out how it would work when they contacted you?

Mr Hyden—No. The discussions we had with them were primarily seeking their views on the practicalities of the arrangement and how it should work.

Senator BUSHBY—Have any organisations specifically asked you for such an intervention or made any request to you that such an intervention should occur prior to it being announced?

Mr Hyden—Not that I recall, but I understand that there had been representations made to the government. The AOFM, as debt management agency and investment agency, would not be the place that people would go to. They would go to the ministers or the policy department, which is the Treasury. Our role is operational.

Senator BUSHBY—To the best of your knowledge would the government be prepared to assist ADI secure funds for lending through RMBSs?

Mr Hyden—Can you repeat the question, to secure funds?

Senator BUSHBY—To secure funds for lending, basically increasing the liquidity through the RMBS's process.

Mr Hyden—Yes. The purpose of the initiative is to invest in RMBS and thereby to support the competition in the market for lending for housing. The criteria that we have adopted for assessing proposals include the use to which the funds will be put and how far they will be used for further lending for housing.

Senator BUSHBY—Does the AOFM have any evidence, particularly statistical, that shows how lending institutions were having difficulties moving RMBSs prior to the intervention?

Mr Hyden—We have certainly had a lot of advice from industry participants, I suppose following the initiative, but it is common knowledge that the activity in the issuance of RMBSs has fallen away very dramatically over the last 12 to 18 months.

Senator BUSHBY—None of your record keeping or the issues that you look into actually highlighted that in the course of what you do?

Mr Hyden—Not in the context of our other activities, which are the issuance of Treasury bonds.

Senator BUSHBY—Or anecdotal?

Mr Hyden—We are aware of it, yes.

Mr Bath—Not only were the RMBS issuers very obvious by their absence over the last 12 to 18 months, but those new issues that did occur were at pricing levels that were significantly wider than had been seen in essentially the 10 to 15 years of the market's existence.

Senator BUSHBY—Are the current market conditions or the conditions that we were talking about there for RMBSs unprecedented, or has the market had similar periods in the past? If similar periods have occurred, what action was taken then and how did the market respond?

Mr Hyden—The current situation is unprecedented. I would make the point that the RMBS market has developed over the last 20 years or so and this is the first time that we have had a disruption of this character. There is no precedent for it in the life of the RMBS market.

Senator BUSHBY—To the best of your knowledge has anyone put forward a view that there is no need for an intervention and that the current levels of trading are either sufficient now or will become so in the near future?

Mr Hyden—There is an almost unanimous view in the market that action of this sort is desirable and welcome.

Senator BUSHBY—The reason that I asked that is because of the report in the *Australian* on 15 August of this year that suggested that Reserve Bank member Ric Battelino had enunciated such a view. I was wondering whether you were aware of that.

Mr Hyden—I am not aware of any such view being expressed by Mr Battelino.

Mr Bath—I was at a presentation or a speech put on by the Commonwealth Bank about a month ago, so mid- to late-September, at which Mr Battelino was the keynote speaker at dinner. One of the questions asked of him was, 'Should the government intervene in the RMBS market?' He was by no means negative on it. He would not necessarily say that he was categorically positive on it—I would not want to misrepresent him—but he certainly did not come across as being anti the idea.

Senator BUSHBY—How many times previously has the government or a relevant agency purchased RMBSs to help out the market and what impact did that have?

Mr Hyden—I can only speak for the AOFM that we have not purchased them in the past. I am not aware of anyone else purchasing them with the intent of supporting the market.

Senator BUSHBY—The RBA accepted some last year in return for making cash loans. Are you aware of that?

Mr Bath—That is on a collateral basis. They were not outright purchases. They were through purchase agreements. They were as collateral for liquidity provision as opposed to investments.

Senator BUSHBY—What happened after that? Have you examined that at all with a view to seeing how that might impact on what you are charged with doing now?

Mr Bath—You would not expect that that action would necessarily impact the long-term borrowing costs for RMBS. It is one of many sources of collateral that the Reserve Bank made available or allowed market participants to provide for liquidity. It was targeting liquidity as opposed to long-term borrowing costs.

Senator BUSHBY—Essentially there is not a lot of experience within government—and I talk about government as officers and elected officials—as to what impacts, how this might work and what might be the appropriate level of intervention to secure the outcomes sought. Would that be a fair comment?

Mr Hyden—It is fair to say that this is new ground.

Senator BUSHBY—As I understand it, the amount is about \$4 billion in two tranches of \$2 billion to be employed.

Mr Hyden—That was the amount initially announced by the Treasurer. The Prime Minister subsequently announced in his statement of 12 October that an additional \$4 billion would be provided as an allotment to non-ADI.

Senator BUSHBY—Did you have any involvement in determining the quantum involved, or did you provide advice as to what quantum might be appropriate or not? I am not asking you to tell me what advice that might have been.

Mr Hyden—We participated in discussions with Treasury.

Senator BUSHBY—As to what might be an appropriate amount?

Mr Hyden—That is right.

Senator BUSHBY—Since announcing the first \$4 billion worth of purchases, what new evidence appeared after that announcement that led to the increase that the Prime Minister announced on 12 October that you referred to?

Mr Hyden—I am not sure that I can answer that, because I was not directly involved in the decision to increase it.

Senator BUSHBY—Did the decision for the second \$4 billion that you referred to occur without consultation with your office?

Mr Hyden—The decision to make that additional amount available was part of the package of measures that the Prime Minister announced on that occasion. It was, in part, intended to balance the other measures which were seen as assisting deposit taking institutions. There had been prior discussions about the amount, which I participated in with Treasury, so the further decision was not entirely a surprise, but I was not involved and the AOFM was not involved in the processes with cabinet that led to the Prime Minister's statement.

Senator BUSHBY—You mentioned the second \$4 billion may have some form of synergy with the other measures that were announced on the same day. Is that the extent of what you understand as being the reason why a further \$4 billion might have been required?

Mr Hyden—There was a view that the investment of \$8 billion may be more in tune with the size of the problem as it was then perceived. Clearly, there were developments in financial markets over the period between the two announcements.

Senator BUSHBY—The additional \$4 billion, which was exactly the same amount as the original amount, raises the obvious simplistic question: were the market variables for the RMBSs twice as bad as the first measure, requiring exactly twice the amount of purchasing? Where I am coming at here is why \$4 billion and then why another \$4 billion? Why was it not \$5 billion and \$3 billion? Why was it doubled? Why did they consider going from \$4 billion and deciding to double it? Was it an arbitrary thing? From your understanding, was it something that was based on some detailed modelling or consideration?

Mr Hyden—I cannot throw any real light on that for you, other than to reiterate that there had been a change in the situation and there was the additional objective of balancing the other measures that were being announced by the Prime Minister.

Senator BUSHBY—Is it correct that, through you, the government is purchasing only AAA RMBSs?

Mr Hyden—That is correct.

Senator BUSHBY—Is that a directive from the government?

Mr Hyden—Yes.

Senator BUSHBY—Are these not the safest form of RMBSs, and, if they are, does this not mean that they are therefore the easiest to trade, and if they are the easiest to trade does this mean that they are the ones that need the least assistance?

Mr Hyden—The AAA rating is the highest rating that the agencies get. Your assumption there is correct, that these are the highest quality. However, it is also normal when the RMBS securities are being structured that they are structured in several tranches, with the largest portion being the AAA rated senior securities and then the subordinate tranches being there structured in a way to provide the necessary security, if you like, the cushion to absorb any shocks to enable the large tranche to have the AAA rating. Typically, the greatest proportion of these securities have the AAA rating.

To take an example, the recent Challenger issue, which was done a couple of weeks ago, had something like 98 per cent of the securities issued in the senior AAA tranche, and that would be fairly typical of these securities. What we have indicated in our operational notice seeking proposals from issuers is that we could accept AAA securities which are subordinate to other securities. That would mean that we are not necessarily taking the highest quality, but still within the AAA range.

Senator BUSHBY—Does charging you with the responsibility to go out and only deal with AAA rated securities, and maybe those next ones down, mean that you are getting the maximum benefit in terms of the intended outcome by the intervention?

Mr Hyden—Yes.

Senator BUSHBY—Could you get more benefit by allowing you to buy ones that are rated within the new mandate that you have?

Mr Hyden—The objective of the initiative, as announced by the government, is to support competition in lending for housing. The segment of the market that this initiative is designed to support is basically providing funding through AAA rated securities.

Senator BUSHBY—When will the first purchase occur? Has it occurred yet?

Mr Hyden—We have invited participants in the market to submit proposals to us with a deadline of Friday this week. We will then have to consider those proposals and select some initial ones from them. We have been advised by market participants that we should be careful not to congest the market, because there are a limited number of other investors around and also to avoid congestion with the rating agencies, because rating one of these issues can be quite a lengthy process. We will announce some mandates in response to these proposals as quickly as we can. I am hopeful that will be a matter of days or next week.

Senator BUSHBY—Does that process that you have just outlined apply to the first \$4 billion or to the two \$4 billions?

Mr Hyden—It is not linked to a particular amount of the \$8 billion. It is a matter of what proposals we get, how large the contribution from the Commonwealth that they are proposing and their ability to proceed on a good track.

Senator BUSHBY—When do you expect to have purchased the full \$8 billion worth of RMBSs?

Mr Hyden—That is difficult to say, because it depends on a whole lot of things that we do know about as yet. We will learn by experience. I am hopeful that we would get the bulk of it out, and perhaps all of it out, by the end of the financial year.

Senator BUSHBY—Does the AOFM plan to trade the RMBSs or merely hold them?

Mr Hyden—No. We plan to hold them. Trading them would put more paper into the market when the problem at the moment is a shortage of investors wanting to take that paper. When the market improves and things go back to normal then we will have the question of how to exit from the portfolio, and it is possible we could undertake some sales to achieve that. Some of it will occur just through maturity and through the normal process by which these securities run down as the underlying mortgages are repaid progressively.

Senator BUSHBY—Do you think that the \$8 billion is sufficient to significantly increase liquidity in the RMBS market?

Mr Hyden—I am not sure the objective is to increase liquidity; it is to increase the confidence of investors and to get the market going again. It is clearly a substantial sum and we expect it will do so, but as I said earlier, this is new ground and unprecedented circumstances. Obviously it is hard for anyone to give a guarantee on that.

[7.23 pm]

Australian Bureau of Statistics

Senator ABETZ—First of all, I would like to ask about the \$22 million funding cut that the ABS has had to suffer and ask whether or not that has had any impact in relation to your survey sizes and, as a result, the robustness of your evidence-gathering exercises. Because of time constraints I will just go on to say that, for example, the ABS has had to reduce the size

of the survey of retailers used to produce the numbers by two-thirds, which will likely lead to big increases in month-to-month volatility. I think it was Treasury that said that as a result they cannot be relied upon. The Governor of the Reserve Bank has expressed concerns. We have also had Kieran Davies from ABN AMRO saying:

When you have a smaller sample then the numbers are going to be more volatile and that means you can be less sure of whether the economy is picking up or slowing down and you need to wait a bit longer to get a cleaner read on the underlying trend in the economy.

Is that a fair summary of some of the difficulties the ABS is now facing in the light of its budget cuts?

Mr Ewing—It is possibly a bit of an exaggeration of the scale of the problem. Certainly as a result of both the efficiency dividend and the other cost pressures that have led to the ABS's budget cuts, we have made some reductions in the scope and scale of our work and our survey outputs and correctly, as reported, that has had an impact on the sample size, for example, of the retail trade survey and the sample design. What that has done is to increase marginally the relative sampling error from about 0.8 per cent on the level estimate each month to about 1.1 per cent. Whilst that is, in absolute terms, a bit of an increase, when you look at it overall it is not that great.

Senator ABETZ—It is 0.8 to 1.1. That is 0.3. That would be about a 33.3 per cent increase in error.

Mr Ewing—In the error. That is true.

Senator ABETZ—That is pretty big as far as I am concerned. I hear what you are saying in relation to that, that it might be exaggerated. I would like to ask one other question about the accuracy of the ABS surveys of housing and income. I will deal with you privately in relation to a few matters that this constituent has raised, but the surveyor asked my constituents about the value of their home. They told the person, 'We have lived here for 20 years and we are unfamiliar with current values.' The ABS representative then made an estimate that was put in the form and it went off into the ether. The constituents have since found out that there was a 50 per cent error in the price that was put down. I am just wondering what training and protocols are required to be followed by your surveyors?

Mr Ewing—The normal procedure is not for the person in the field to make an estimate of the house price. The normal practice is, if the person who was interviewed cannot provide an answer to the question, then the ABS makes an estimate in the office of what a closer or more realistic estimate would be. My suspicion in this case is that if an estimate had been entered by the interviewer then that would have been overwritten in the office by a correct estimate made in the office itself.

Senator ABETZ—It would not necessarily be noted as the surveyor's opinion if it was just filled out in the form. Chair, the minister has agreed that I can talk with the officials privately so as not to delay the committee and I think that would be a very sensible way for us to be able to progress the matter. I thank the minister and ABS for agreeing to that.

CHAIR—Senator Cameron.

Senator CAMERON—I would like to ask about the statistics on executive salaries and what statistics you have available, or whether you plan to follow the American approach where there is much more detailed analysis and statistical evidence available on executive salaries? Can you tell me your position on that?

Mr Ewing—I would ask my colleague, Peter Harper, who is closer to our labour and employment statistics to clarify in more detail what we do.

Mr Harper—The most relevant collection is a survey we conduct about every two years called the survey of employee earnings and hours. The way that survey is designed is that we approach businesses and get them to choose a sample of their employees and provide a full range of salary and salary-related information for those employees. That enables us to get very good distributional analyses of salaries.

Senator CAMERON—I am talking about executives.

Mr Harper—Executives would be included as part of that survey and, as I was going to say, for particular types of employees, be it executives or other sorts of employees, information about the remuneration for those types of employees.

Senator CAMERON—Does that include bonuses and share options?

Mr Harper—It includes the full range of remuneration.

Senator CAMERON—Is your approach international best practice?

Mr Harper—I think it is.

Senator CAMERON—Can you check that for me?

Mr Harper—We can take that on notice and come back to you with what other countries do. I think the survey that we do is leading practice in the world in that regard.

[7.31 pm]

Australian Competition and Consumer Commission

CHAIR—I welcome the Australian Competition and Consumer Commissioner here tonight. Senator Joyce has some questions.

Senator JOYCE—How many complaints have you received regarding the Birdsville amendment since it came into force until now?

Mr Samuel—One hundred and three.

Senator JOYCE—How many of these have been investigated beyond merely a preliminary review?

Mr Samuel—Sixty-three. We had investigators undertake the investigation. That is above our normal average, which is around about 51 per cent.

Senator JOYCE—At what stage are these investigations? Are any of them looking like they will progress further?

Mr Samuel—There are four that are currently at the stage of more advanced investigation.

Senator JOYCE—Is it your belief that any of these four will end up in court?

Mr Samuel—It is far too early to comment at this stage. They are being investigated. We do not form conclusions on those until the investigation has been completed.

Senator JOYCE—Have the ACCC issued guidelines regarding the Birdsville amendment?

Mr Samuel—No.

Senator JOYCE—Why not?

Mr Samuel—My colleague, Mr Cassidy, has pointed out that we are waiting for the law to be finalised, but, even in respect of the current law, it is not our practice to issue guidelines to every section of the act.

Senator JOYCE—Is it not usual practice to have guidelines issued soon after a law is enacted to provide guidance to, for example, businesses?

Mr Samuel—Not that I am aware of. That might happen in certain cases but I am not aware of it occurring here. Generally there are textbooks that are written by independent authors who will provide their own analysis as to how the laws will be interpreted by the courts.

Senator JOYCE—Have you seen any positions so far on market share that have caused you undue concern as a mechanism of actually instigating a process where someone can get access to a court?

Mr Samuel—Could you just repeat that question?

Senator JOYCE—Have you had any problems in defining market share?

Mr Samuel—We are having problems hearing you.

Senator JOYCE—Have you had any problems in interpreting or defining market share?

Mr Samuel—We interpret market share in respect of a number of elements of the law as it currently stands, particularly, of course, section 50 and other areas where we have to determine whether or not there will be a substantial lessening of competition.

Senator JOYCE—That is under section 50, but under section 46 have you had any problems in ascertaining what is a substantial market share?

Mr Samuel—We are not at that stage in terms of the investigations. As I said, there are four investigations that have proceeded to an in-depth level. When they come before us we will determine if there are issues in determining whether or not a substantial market share exists.

Senator JOYCE—In your petrol report you said that section 45 of the Trade Practices Act should be amended to clarify the meaning of the term ‘understanding’. What has happened in that?

Mr Samuel—That is a matter that has been presented as part of the petrol report to government. It is now in the hands of government.

Senator JOYCE—It is with the government at this point?

Mr Samuel—That is correct.

Senator JOYCE—In your petrol report you said that there was a need for more detailed examination and ongoing monitoring of buy-sell wholesale agreements between the oil companies. What has happened, if anything, regarding that recommendation?

Mr Samuel—They are in the course of further investigation. We did indicate in the petrol report that they merited further examination—I do not think the word ‘investigation’ was used. We did not indicate that there was a high probability of those buy-sell arrangements being shown to be in breach of the law. All I can say to you at the moment is that they are in the course of being investigated further, as indeed are a whole range of other issues that are flowing from the petrol report.

Senator JOYCE—You said there is a high probability that they will be found to be in breach of the act?

Mr Samuel—No. Again, I am sorry, I am having difficulty hearing you.

Senator JOYCE—When you said there would be a high probability—

Mr Samuel—No. I think I indicated that in our petrol report we did not indicate that there would be a high probability.

Senator JOYCE—There is not a high probability that you will find that they are in breach. Have you had reason to have any other beliefs of any cartel or collusion activities between the oil companies?

Mr Samuel—I would not comment upon matters that we might or might not be investigating or any speculation in relation to it, so it is not appropriate for me to comment upon that matter.

Senator JOYCE—How is GROCERYchoice proceeding as a site? Do you feel that it is being effective in any way, shape or form in reducing grocery prices?

Mr Samuel—In respect of GROCERYchoice I can make a number of observations. This was a site that was not part of the grocery report. It preceded the grocery report in terms of being a request direction by government for the ACCC to set up a site of this nature. There are two or three observations I would make. The first is that, over the three-month period of the site having had its surveys and the results of the surveys shown on the website, there has been a change in the relative positions of Coles and Woolworths. You would recall that in the first survey, when the site was first launched, in 52 out of 61 of the regions in Australia, Coles was cheaper than Woolworths and Woolworths ranked either second or third in terms of pricing in respect of the basket of goods concerned.

In the last survey Woolworths was cheaper than Coles in 59 out of 61 sites. That suggests that there has been some movement on the part of Woolworths in its pricing practices, and we are aware from conversations that have been held—not with us, but with others—that there were certain indications given at senior management level at Woolworths that they were not happy with being priced at a higher price than Coles on the GROCERYchoice site. We have also seen a closing of the gap between the independents and Coles and Woolworths in some of the pricing differences that have been present and it has also been observed, of course, that Aldi in terms of staple products has consistently through the three survey periods been cheaper than Coles, Woolworths or the independents by some significant amounts.

Senator JOYCE—How long has it taken to collect the information to submit to the GROCERYchoice website?

Mr Samuel—The information is collected not by us but by subcontractors. They do so over the period of the one month in between each collection process. They collect the information. It is then brought into the ACCC. The ACCC then takes that information and selects the products that are the subject of comparison on the website. That is done entirely within the ACCC, rather than by the surveying company.

Senator JOYCE—It is collected over a month and then it is on the website for a month?

Mr Samuel—Correct. The moment that one survey is completed the next survey starts to be undertaken.

Senator JOYCE—So it is possible that this information that is on the website is two months old by the end of the month?

Mr Samuel—No. It is not possible that it would be two months old, because once it goes on the information is likely to be of the order of—I would need to check—about two weeks old.

Senator JOYCE—Two weeks old is the maximum?

Mr Samuel—At the time that it goes on the website it would be about two weeks old.

Senator JOYCE—It is two weeks old and then it is on the website for a month?

Mr Dimasi—You would expect about a month. If we have a month-to-month changeover, you would expect that it would be a month.

Mr Samuel—It would be a rolling one-month position. You would have the survey completed, say, on day 1 and within two weeks of that the information would go on the website. It would remain on the website for a month, but in the meantime the next survey would be undertaken and that would overtake.

Senator JOYCE—It is two weeks and then it goes on the website, but then it could be on the website for how long?

Mr Dimasi—It would be another two weeks before it is replaced by the next lot. Each month it would be replaced by the next lot. To be very specific, at the start of each month we put on the new data, so it would be about a month.

Senator JOYCE—Is it a basket of 500 goods out of approximately 30,000?

Mr Dimasi—The entire basket is around 500, out of which we construct a number of sub-baskets, and that is out of the entire range that the supermarkets carry.

Senator JOYCE—How many hits are you getting at the moment?

Mr Dimasi—I do not have the exact number.

Senator JOYCE—Is it going down or up?

Mr Dimasi—The nature of this thing is that you would expect to get a big hit when we put it on and then, of course, for the rest of the month the numbers decline.

Senator JOYCE—You must have a rough idea how many hits you are getting.

Mr Samuel—I could stand corrected, but I think there have been about 3.5 million hits since the website was started.

Senator JOYCE—Can you take on notice how many hits it had last week as opposed to how many hits it had when it first started?

Mr Samuel—Yes.

Senator BUSHBY—I would like to know how many week-by-week.

Mr Samuel—I have got some numbers here. The website hits to 8 October 2008 were 3.794 million. In August there were approximately 3.3 million hits. In September there were approximately half a million. That is the information.

Senator JOYCE—We have gone from 3.3 million hits down to half a million hits?

Mr Samuel—You would expect that from the first month. The first month was August.

Senator JOYCE—Have you found yourself a new job lately within the ACCC?

Mr Dimasi—I would not put it that way. I have been nominated for a different position, subject of course to the process in the states, which is due to happen later in the year but it has not happened yet.

Senator JOYCE—You would be stoked about that, wouldn't you, being Petrol Commissioner?

Mr Dimasi—People have questioned my sanity but I am looking forward to it, believe it or not.

Senator CAMERON—Do not worry about your sanity, just do a good job and get the public reasonable access to the information.

Senator JOYCE—What new powers have they given you?

Mr Dimasi—I have got the same powers that were there—

Senator JOYCE—The same powers that Mr Walker had?

Mr Dimasi—The powers that the ACCC has. The ACCC has quite an extensive range of tools and powers at its disposal.

Senator JOYCE—What would you say is at the pointy end of your armoury in how are you going to deal with the oil companies? What is going to scare them?

Mr Dimasi—It is not a question of scaring anybody. There are a number of responses I would give to that. First of all, my objective will be to get some transparency and get information out to the public so that people do know what is going on and we can get some clarity, because one of the things that I have noticed, even in this short period, is the amount of misinformation and incorrect information that is out there in the public space—

Senator JOYCE—In regard to transparency, what is the power within the ACCC to get transparency—

Mr Dimasi—Formal monitoring powers, part 7A. We have issued—

Senator Sherry—I am sorry, you are getting a bit garbled and overlapping.

Senator JOYCE—We are getting there.

Senator Sherry—It is still garbled and overlapping. If there is a question please let us have an answer completed and then another question.

Senator JOYCE—I will make it really easy for you, Minister. Do you have part 7A—

Senator Sherry—It is not just a matter of it being easy for me. It is a matter of courtesy to the witness and it is also courtesy to the Hansard staff who have to record this.

Senator JOYCE—I will ask the question again. Mr Dimasi, do you have part 7A formal monitoring powers that you use at the moment on the oil companies?

Mr Dimasi—Yes.

Senator JOYCE—How are you going?

Mr Dimasi—We are in the process of collecting information. We have issued notices to the companies. We have set the templates of all the data we are looking for. We are looking across their books for their profits, their costs and their prices and we are in the process of collecting all of that. We will be reporting on that later in the year.

Senator JOYCE—Do you have the capacity to look behind the terminal gate structure on the buy-sell arrangements between who they are actually purchasing from—for instance, when Chevron sells to Caltex?

Mr Dimasi—We have the capacity to look wherever we need to look as long as it relates to cost, price and profits?

Senator JOYCE—Does it allow you to go behind the terminal gate as in downstream, or the wholesale arrangements between the oil companies and their subsidiaries, such as between Chevron and Caltex?

Mr Dimasi—I can see no reason why we could not. We are not just looking at the retail end; we are looking at the whole industry in Australia.

Senator JOYCE—You will be investigating Caltex and others for the effects of transfer pricing?

Mr Dimasi—We have given a great deal of thought to the issues of trying to find the costs of each segment of the industry. We have thought about that a great deal and we are looking to get the cost components of each separate part of the industry. Yes, we are looking at those issues.

Senator XENOPHON—I would like to ask a question that flows on directly from the one by Senator Joyce. The joint media release from the Assistant Treasurer and the Prime Minister of 15 April made a number of recommendations and responses to issues raised by the ACCC. In relation to the issue of the buy-sell arrangements that Senator Joyce has referred to, my understanding is that the release refers to the fact that the ACCC will form a view on the competition effects of the buy-sell arrangements by the middle of 2008. Is that something that is publicly available now or how has that progressed?

Mr Gregson—Following the report the ACCC have given careful consideration to the buy-sell arrangements. They are complicated matters, and indeed involve complicated sets of data

to assess. But we have taken the view that those inquiries will be greatly assisted by information that will still be forthcoming from the companies through the processes that Mr Dimasi has referred to.

Senator XENOPHON—In terms of the Prime Minister's media release of 15 April, that timetable of mid-2008 has not been met?

Mr Gregson—Certainly by mid-2008 the commission formed the view that that there are further matters it wishes to consider. It will be assisted greatly by the information that Mr Dimasi has referred to.

Senator XENOPHON—Can you give us another time frame? What is the likely time frame now to receive that information?

Mr Dimasi—I anticipate that the monitoring report will be provided to the government in December. We will then assess the information that we have and, with Mr Gregson's team, we will be in a position to see how much further we can take those issues at that point.

Senator XENOPHON—Is the ACCC completely satisfied as to the level of cooperation from oil companies in relation to the information that you have sought?

Mr Dimasi—We are getting cooperation.

Senator XENOPHON—As much as you would like?

Mr Dimasi—We are getting as much cooperation as we would like. I will not say that there are not some difficulties. There are some difficulties, but those difficulties relate to where some companies are saying that they are simply not able to provide the information in the way that we are seeking it. We discuss those issues with them to see if they are genuine, but so far we are pressing ahead in getting the information.

Senator XENOPHON—Some companies can provide the information sought but others say they have difficulty providing it?

Mr Dimasi—We have one company in particular that has had some trouble in providing information in the way we have requested.

Senator XENOPHON—Do you fully accept though that those difficulties are reasonable given that other companies are able to provide the same sort of information.

Mr Dimasi—I do not fully accept anything at the moment. I am still in the process of checking out the claims and assessing them. We will pursue the issues further until we are satisfied that they are genuine.

Senator JOYCE—In relation to GroceryWatch, what is currently in your basket of grocery stores that are termed independents?

Mr Samuel—What is covered?

Senator JOYCE—Yes.

Mr Samuel—If you look at the website, you will see that we have set a general principle of not including any supermarket that is less than 1,000 square metres in size. That principle has been adopted almost without exception. I say 'almost without exception' because in some areas it may not be possible to exclude grocery stores or supermarkets that are marginally less

than 1,000 square metres, but I can say that the principle is in excess of 1,000 square metres. They have to be supermarkets within the general meaning of that word and then they are independents—that is, they are not Coles or Woolworths. Where Franklins is otherwise operating, which is in New South Wales, then Franklins is separately identified. If I were to give a more general label, it could probably be said that they are Metcash-supplied independent outlets.

Senator JOYCE—As you are aware, Woolworths have said themselves that they have up to 4,000 price changes in a week. How relevant is your GROCERYchoice website when that is the fact—when it is at a snapshot in time and when one of these organisations asserts that they can have 4,000 price changes within their basket of goods in a week?

Mr Samuel—It depends on what is sought to be achieved by the website. If you look at the changes in relative pricing that I identified before between Coles, Woolworths, the independents and Aldi then the fact that there are changes each week in respect of so-called specials and other items would not be that relevant. What this does is provide a snapshot comparison on a monthly basis of pricing across 500 products. Those products are not known to the stores concerned. It does give an indication of their relative competitive pricing levels. Pricing is of course only one element. We expressed the view in the grocery inquiry report that the independents tended not to be competitive on pricing but tended to be competitive on issues such as convenience, location and the like.

Senator JOYCE—Has the velocity of food inflation slowed since the GROCERYchoice website started?

Mr Samuel—It would be far too soon to be able to tell. The GROCERYchoice website has only had three surveys. I could not possibly tell you. Then the next question which I can presume you are going to ask is: even if we had an indication of that, how far has the GROCERYchoice website influenced it? To the extent that the GROCERYchoice website is intended to provide transparency to consumers and thus increase the competitive process, it would have a small influence. But you will recall the opening paragraphs of the grocery inquiry noted that the issue of competition was but a very small factor, like one-twentieth of the influence over grocery price increases over the past five years.

Senator JOYCE—There are 4,000 price changes a week and you admit that the data could probably be four weeks old, so there could have been 16,000 price changes since they took the survey.

Mr Dimasi—I will add that, despite that, the website provides a statistically significant indication of the comparison of the supermarkets as to who is more or less expensive.

Senator JOYCE—Do you put a disclaimer on the bottom of the website saying, ‘These prices are subject to immediate change after you’ve had a look at the website’?

Mr Samuel—No. The website has an overall page or two on it which explains how the website operates. It explains the process of surveying the products and the fact that neither the products nor the stores are identified. All that is set out there on the website, but we do not have a disclaimer at the bottom of each page as to issues that may or may not be covered.

Senator JOYCE—Do you find that your GROCERYchoice website has become more regionally relevant—that is, that you are not comparing stores that are three or four hundred kilometres away from one another in the country regions?

Mr Dimasi—Some of the regions are quite large in the sparsely populated areas. To be able to have a group of supermarkets which includes all of the chains and independents means that you do tend to have fairly large regions in some cases—that is right.

Senator JOYCE—I have two questions, and 51AC is coming up. Have you been involved with discussions, have you had any development of a pro forma or are you looking at the market share tests in 51AC or any other sections of the Trade Practices Act?

Mr Cassidy—What do you mean by ‘51AC is coming up’?

Senator JOYCE—Isn’t there a discussion paper coming up on section 51AC of the Trade Practices Act? Is that right?

Mr Samuel—Section 51AC deals with unconscionable conduct.

Mr Cassidy—No, there is a reference, in fact, to this committee on 51AC, but I am not aware of any discussion paper that is being prepared.

Mr Samuel—But the issue of substantial market share is not relevant to section 51AC.

Senator JOYCE—My question actually goes to discussion, full stop. Mr Samuel, you have had some very strong opinions on the market share tests which you have been publicly putting through the media. Where do you believe the line is between your independence and your role as a political public commentator?

Mr Samuel—I am not sorry that you have raised that subject, because it does give me a chance to make a few comments on that particular issue. It is my role as chairman of the ACCC to provide advice and guidance as to how the ACCC will interpret various provisions of the act. I do so in respect of the merger provisions. I do so consistently in respect of 51AC and unconscionable conduct and I do so and will continue to do so in respect of the so-called Birdsville amendment. What I have observed in respect of the Birdsville amendment, because it has become somewhat political—not least, I might say, because of some of your own comments that have been made, Senator, some of which I have to say have been personally a little bit offensive to the ACCC and to myself, but we have to take that as things proceed; but let me say to you—

Senator JOYCE—You are not a sook, though, are you?

Mr Samuel—No, I am no sook, but I do take objection to the integrity of the organisation that I lead being questioned in the public arena. You are obviously entitled to do it in parliament but you need to be a bit more cautious in doing it through the media—to question the integrity of the ACCC in administering the law. We administer the law as it is presented to us by parliament. We are administering the provisions of the Birdsville amendments as they are presented to us by parliament, but by the same token it is incumbent on me to point out some of the difficulties that will arise. I will point out the difficulties to you, because you have asked the question. If we have a small greengrocer operating in a regional town and that greengrocer has a 25 per cent market share, in our view that greengrocer has a substantial market share. If the greengrocer senses that there is another party down the road that is going

to open up another greengrocer, he decides he is going to do everything he can to prevent it and what he does is to go into a sustained period of selling products below cost to prevent the other greengrocer opening up then, believe me, we will need to prosecute that small greengrocer for predatory pricing. I would have to say to you, Senator, that that is a consequence that you did not intend in promoting the Birdsville amendment, and I am sure that parliament itself did not intend that to be the case. It is incumbent on me to point that out so that small business is aware that there are things that it cannot do because it will fall foul of the Trade Practices Act. Whether we prosecute—

Senator HEFFERNAN—Does the same thing apply to Aldi?

Mr Samuel—The same thing would apply to Aldi. The same thing will apply to any party that has a substantial market share.

Senator HEFFERNAN—Aldi is trying to get into the market. So you believe—

CHAIR—Senator Heffernan, please—

Senator HEFFERNAN—I am out of order?

CHAIR—Yes, you are, and Senator Joyce is running dangerously close, too.

Senator JOYCE—There are two issues. You believe that it is your role to publicly comment and have a position on a piece of legislation of the parliament, even though the parliament has voted for it?

Mr Samuel—In the same way as we have expressed a view on section 45 of the Trade Practices Act in the inquiry on petrol.

Senator HEFFERNAN—Four years ago did you have an active campaign—

Mr Cassidy—I would just like to add that four years ago this committee had a major inquiry into section 46 of the Trade Practices Act and small business. We came along as the regulator with a substantial submission for the inquiry. If we took the view that we cannot comment on legislation passed by parliament, it would mean that we never comment on the legislation we administer.

Senator JOYCE—Did you curtail the progression of any section 46 cases since the passage of the Birdsville amendment?

Mr Samuel—No, I did not. I have to say to you that I will register now my strongest objection to public comments you have made in the media suggesting that I have done that or that the ACCC has done that. By making those comments you are impugning the integrity of the organisation I lead and you are impugning the integrity of me personally, and I regard those sorts of comments that you have made publicly through the media as, frankly, offensive.

Senator JOYCE—You go out in public and publicly attack us or publicly attack the legislation of the parliament, so it is our right to defend that legislation—

Mr Samuel—No, I am sorry. It is incumbent on me to explain the impact of legislation and I have explained it just now to you—

Senator JOYCE—Which I totally disagree with. Your belief is that the interpretation of the court under your greengrocer example is that it would be upheld?

Mr Samuel—With respect, we have been trained to interpret the law according to the courts. I have to say to you—

Senator JOYCE—What is your precedent for making that—

CHAIR—I do not want any more conversation, Senator Joyce, because it is mostly your colleagues whom we have waiting to ask questions.

Mr Samuel—Let me also say that I am not on my own in being critical of the law as it currently stands. I have Professor Fels, my predecessor, who describes it by saying, ‘It is bad law.’ I have his predecessor, Professor Robert Baxt, who says:

In one foul swoop, apparently as a result of a few drinks at a pub, and critical comments made by a certain radio commentator, the Government has weakened its resolve and introduced amendments that will significantly make consumers worse off. I am not unhappy to say that lawyers will benefit from the extra work which will be generated as a result of these amendments.

They are two former chairmen of the ACCC or the Trade Practices Commission. They are joined by virtually every legal commentator in this country, with two exceptions only. The only two commentators who join you in supporting these amendments are John Cummings of NARGA and Associate Professor Zumbo.

Senator JOYCE—They are the only two? So there was not support by COSBOA the other day?

Mr Samuel—COSBOA have reflected their comments through NARGA.

CHAIR—I really hate to interrupt this entertaining argument, but I think we need to go on to other questions.

Senator BOSWELL—My questions do follow somewhat from Senator Joyce’s. Has the GROCERYchoice website, in your opinion, provided vital information to consumers?

Mr Samuel—I think it has provided some limited information to consumers. It is but a first step. Whether the GROCERYchoice website goes any further is, of course, entirely a matter for government; it is not a matter for the ACCC. We have taken it as far as we were requested to by government and as far as we have been budgeted to by government. Whether it goes any further is entirely a matter of policy for government and that is in their hands.

Senator BOSWELL—On 2 September COSBOA called for GroceryWatch to be closed down because it favoured Coles and Woolworths and does not provide information about independent supermarkets such as IGA. Does GROCERYchoice place shops of all shapes and sizes in one group and ignore the convenience, quality and non-dollar service that many of them provide? I heard you say to Senator Joyce that you mainly went in for stores that were 1,000 square metres. That is contested by some people. Can you guarantee that you are not favouring Aldi or any other store?

Mr Samuel—I can guarantee that the survey process is a process that is bound by protocols of integrity and that there is no favouring or disfavouring of particular groups. It does not leave certain groups of supermarkets in a state of comfort. In fact, it can cause them considerable discomfort because of their pricing parameters, whether it is in respect of goods that are comparable to those that are sold by Aldi—that is, what I would call staple products—or whether it is in respect of the various specific baskets of goods that are part of

the upper levels of the website, which I have not got in front of me to show you. But there are certain groups that do not fare well in the comparison. The fact that they do not fare well means that they object to the website.

As I said when the website was first launched, there are likely to be three reactions. One is to say, 'We're not faring well with this website and we will simply ignore it.' That probably does not go down too well with consumers. The other reaction is to adjust the price to become more competitive and that appears—underline the word 'appears'—to be what Woolworths has done over the past three months. It has shifted from having Coles cheaper than Woolworths in 52 out of 61 regions to Woolworths now being cheaper than Coles in 59 out of 61 regions. The third, and you would say almost the most obvious, course of action for those who are not faring well with the website is to denigrate it in every possible way. It has been pretty clear where the denigration has been coming from, but that is part of the process.

CHAIR—We are running very short of time.

Senator BOSWELL—We have been all day. We have had six hours for Dr Henry. It is important for small business to have their day in court—

CHAIR—Yes. I think others on the committee are also keen to ask questions.

Senator BOSWELL—I do not mind yielding to Senator Nash but—

CHAIR—I will come back to you if I can.

Senator NASH—Being mindful of that, I will place most of the questions on notice. In relation to the Water Act and the water market rules, is it correct to say that the ACCC have been interpreting the requirements placed on the development of a model where the irrigation companies are transport companies rather than water companies? Would that be correct?

Mr Dimasi—No, I do not think that is correct. The ACCC is meeting the requirements of the legislation and the minister, and that is to develop rules for the minister with regard to transformation rights, with regard to infrastructure services and to provide advice to the new commission. That is what we will be doing.

Senator NASH—As to the changes in the statutory water rights, is the ACCC going to insist that all the customers be allowed to hold statutory water rights while still insisting on the continued service delivery from an irrigation corporation?

Mr Dimasi—The transformation rules are about transforming those collectively held rights into individual rights. Those rules will be about allowing individuals to transform those rights. That is what those rules will be about. They will be able to do that. In terms of insisting on whether they continue to have delivery rights, they will continue to have delivery rights but they will have to pay for that.

Senator NASH—But will the requirement be that that company will have to provide that same service through its infrastructure to be the holder under the statutory rights as they would have to a previous member of their company with no ability to negotiate? Will that be an ACCC requirement? Is that your view at this stage?

Mr Dimasi—I am sorry, with no ability to?

Senator NASH—With no ability to perhaps negotiate with the holder once it is under the statutory right on their own account, that there will be a requirement for them to provide that delivery as they do under the current arrangements.

Mr Roberts—Our proposal is to allow negotiation between the irrigation operator and the individual irrigator. Where they end up is a matter for the parties.

Senator NASH—In relation to the exit fees, has consideration been given to the differential between those irrigation companies who have been very efficient in what they have done and the resulting lower costs and charges and the 15-times arrangements, if you like, whose methodology you enforce in terms of those exit fees and the perverse outcomes we are actually seeing here across different irrigation companies? Has the ACCC given that some consideration?

Mr Dimasi—We have given thought to all those arguments. We have listened to the arguments that have been put to us. The initial proposal was for a 15-times exit fee which we have reviewed as a result of those arguments put to us.

Senator NASH—Because there could be some very perverse outcomes here in terms of efficiencies and those being hardest hit with these arrangements?

Mr Dimasi—I can assure you we have thought a great deal about the incentives that we create as a result of the level of the exit fee and the differences in terms of efficiency. We are ensuring that the rules that we are providing will provide as little distortion as possible.

Senator NASH—I am happy to place the rest on notice. Thank you for your indulgence.

Senator XENOPHON—Going back to the issue of fuel, the media release of 15 April of the Assistant Treasurer and the Prime Minister in recommendation 5 said that the government supported the ACCC's recommendation that the appropriateness of the arrangements of the terminal gate price publication be reviewed as part of a review of the Oilcode and that a report outlining the outcomes of the review will be provided to the government by September 2008. What is your understanding? Has that been provided?

Mr Samuel—That is not a matter being handled by us. I think it would be handled by one of the departments of government.

Mr Dimasi—That is correct.

Senator XENOPHON—Have you been involved in relation to that review?

Mr Dimasi—We have been involved. We have been consulted by the department and we are providing our input into their advice.

Senator XENOPHON—You have no idea as to how long it will be before that report is supposed to be out?

Mr Dimasi—I do not know when it is due, but I know it is underway.

Senator XENOPHON—Recommendation 3 was about the government supporting the ACCC's recommendation that there be a comprehensive audit of terminals suitable for importing refined petrol in Australia conducted and that there be a report to the government by the end of 2008 in consultation with the ACCC. Firstly, what is the status of the progress of that report? Secondly, what can the commission tell us about the mothballing of the Port

Stanvac inquiry and the impact that would have on competition in South Australia in terms of the wholesale fuel market?

Mr Samuel—I will give you three answers to two questions, if I may. The first is that our understanding is that the audit is being conducted at the moment. It is not being conducted by us; it is being conducted by the Department of Resources, Energy—

Senator XENOPHON—In consultation?

Mr Samuel—Yes. We anticipate that it will be completed by the end of this year. I should rephrase that. We have no reason to anticipate that it will not be completed by the end of this year. That is as much information as I can give you on that one.

In terms of Port Stanvac, it is perhaps not appropriate to go into too much detail on that other than to indicate that it is but one of a number of possible—underline the word ‘possible’—facilities that might be available, in whole or in part, for the importation and storage of fuel into this country.

The third answer I was going to give you which relates to each of the questions you have asked is that each of those recommendations, you will recall, if you look at the buy-sells, the audit of terminals, the terminal gate pricing and what is happening behind terminal gate pricing, go to the heart of the issue that Mr Dimasi has been discussing over recent days. The fundamental issue that we are dealing with in a global sense—that is, in a total sense within the commission and with other departments—is the issue of wholesaling of petrol, the wholesaling by the four major oil companies: BP, Shell, Caltex and Mobil. We think that, if there is an area where competition can be improved and where there is potentially some movement for the benefit of consumers in the ultimate retail price of petrol, it is at that wholesale level. But there are a whole range of factors that we are dealing with in that context.

Senator XENOPHON—Sure, but in South Australia, the South Australian government’s deal with Mobil locks up those facilities for a number of years. Is that something that the ACCC could look into? And do you consider that the lack of an alternative storage facility at Port Stanvac does put an upward pressure on prices in South Australia?

Mr Samuel—I would not go so far as to say all that but suffice to say that, if you have been noting some of my own public comments over the past few months, the issue of Port Stanvac has not gone unnoticed by us and has not gone unnoticed by the South Australian government.

Senator XENOPHON—So there is more news to come?

Mr Samuel—I am not saying anything. All I am saying is that it has not gone unnoticed.

Senator ABETZ—But the smile says a lot.

Mr Samuel—I was smiling in response to Senator Xenophon’s smile, Senator Abetz. That was just showing friendship.

Senator ABETZ—That is lovely.

Senator HEFFERNAN—Can I just say that the modelling that you are using on the water is fundamentally flawed because the science on the future of available water is that there will be zero allocation for general purpose water.

Mr Samuel—Are you asking the question whether we believe that our modelling is fundamentally flawed?

Senator HEFFERNAN—No, I will come and have a yarn to you about it. Can you confirm whether the ACCC is investigating Genetic Technologies Ltd, otherwise known as GTG?

Mr Samuel—I would not confirm or deny. As you know, it is not our practice to comment upon any matters that we may or may not be investigating or any speculation in relation to it.

Senator HEFFERNAN—And if so, why?

Mr Samuel—If so, why will we not comment?

Senator HEFFERNAN—Why will you not confirm it?

Mr Samuel—Because, as I have said, it is our standard practice and has been for the past five years and two months that we do not comment upon any matters that may or may not be the subject—

Senator HEFFERNAN—Myriad filed for a patent in the US.

Mr Samuel—Sorry?

Senator HEFFERNAN—Myriad filed for the patent and got it in 1994 or 1995 for the BRCA 1 and 2 genes. You understand what I am talking about?

Mr Samuel—Yes.

Senator HEFFERNAN—Effectively this will give them a perpetual monopoly on the biological formula and of the gene mutation with no competition in the marketplace. Obviously that would mean that there is a monopoly. We are going to have a Senate inquiry into this.

Mr Cassidy—You are making a statement rather than asking a question.

Senator HEFFERNAN—No. I am asking you: is it a fact that that would be a monopoly?

Mr Cassidy—In that particular set of circumstances?

Senator HEFFERNAN—That particular set of circumstances.

Mr Cassidy—That would be a monopoly.

Senator HEFFERNAN—It would have to be a monopoly.

Mr Cassidy—With the set of facts that you have outlined.

Senator HEFFERNAN—Thank you.

CHAIR—Any further questions, Senator Heffernan?

Senator HEFFERNAN—I have. We are going to have a Senate inquiry into that.

CHAIR—Senator Heffernan, you are—

Senator HEFFERNAN—They will not do anything unless you make them. Why did the ACCC undertake—

Mr Samuel—Sorry, what was that?

CHAIR—No, please. We are short of time, Senator Heffernan. Please ask him a question. Otherwise we will move on.

Senator HEFFERNAN—Why did the ACCC undertake an investigation into fertiliser prices?

Mr Cassidy—Because we were asked to by the government.

Senator HEFFERNAN—Who sat on the ACCC inquiry?

Mr Cassidy—It was undertaken by the ACCC.

Senator HEFFERNAN—But who were the people?

Mr Cassidy—It was done—

Mr Samuel—The whole commission is involved in that.

Senator HEFFERNAN—You can take it on notice if you want to.

Mr Samuel—Sorry? No. The whole commission was involved in the—

Senator HEFFERNAN—Where did you advertise?

Mr Cassidy—We will have to take that on notice.

Mr Samuel—Let me take that one on notice.

Senator HEFFERNAN—How many submissions did you receive?

Mr Cassidy—We are going to take that one on notice. We are actually appearing before your committee on this in a couple of weeks time, but if you want to use the time tonight so be it.

Senator HEFFERNAN—I do.

CHAIR—Senator Heffernan, we have about two minutes left and Senator Abetz kindly ceded his time.

Senator HEFFERNAN—I will put the ones that I do not get to on notice. How many farmers put in submissions?

Mr Cassidy—We will have to take that on notice.

CHAIR—Senator Abetz.

Senator ABETZ—Thank you. This does not follow on from the South Australian fuel situation but it does deal with the report the ACCC did for a former senior minister, Minister McGauran, in relation to the prices paid to farmers for livestock and the prices paid by Australian consumers for red meat. If I and somebody else wanted to discuss that with the ACCC, would there be anything stopping us from making an appointment with an appropriate person? Does that have to go through the minister or can we do that independently?

Mr Cassidy—I would think that is something that is quite in order. That is a public report that we did. It is out there for—

Senator ABETZ—That is excellent. Thank you.

Mr Samuel—You will find us a very accessible bunch of people.

Senator ABETZ—That is excellent, because I may well follow you up on that and, if need be, quote the *Hansard* back to you. Very briefly, Woolworths Ltd on 15 April 2008 issued a press release saying, ‘Woolworths only purchases beef from grain-fed, British breed steers.’ Now, I have been led to believe that in my home state of Tasmania—and Senator Sherry might know about this as well—a lot of cattle are in fact grown and prepared for market without being grain fed. Also in Queensland there is cattle—the Brahman breed, I understand—that would not be considered to be British origin and that Woolworths, in their abattoirs, do not only deal with steers but also with heifers. So a number of the issues being asserted in recent times following on from this report do not seem to be as credible as one may have hoped, and there are a whole number of issues. The ACCC relied heavily on what it was told by Coles and Woolworths in its report and was not necessarily able to independently follow up and inquire into certain of the matters. I think you acknowledge that in the report.

Mr Cassidy—Yes and no. We are quite happy, as I said, to discuss this separately, but we did say in the report that a lot of cattle were being grain fed as a result of the drought, and that proportion has certainly gone up. That sort of information we initially got from Coles and Woolworths and then we crosschecked it with the Australian Lot Feeders Association. In other words, we asked both sides of the industry to crosscheck the information we were being given.

Senator ABETZ—But these people who grow cattle without any involvement with the grain sector would not have been canvassed by the ACCC inquiry.

Mr Cassidy—But they are really not involved. I said that perhaps—

Senator ABETZ—No.

CHAIR—I remind senators that we can put questions on notice and that you have until Friday to do that. I thank the ACCC for coming in again this evening and I will call the Australian Securities and Investment Commission.

Senator BOSWELL—Chair—

CHAIR—Are you taking a point of order?

Senator BOSWELL—Yes, I am taking a point of order. I am finding this committee totally unsatisfactory. In fact, I have never experienced it before where you are allocated about five minutes and some people like Senator Brandis have been allocated zero minutes. No-one can get a cohesive answer to any questions. It is just slam, bam and you have got to take a punt. If we do not have time to give this committee enough time to question the witnesses, then we have got to come back on another day. It might inconvenience you, but that is part of the process of the Senate. These people interact very heavily and strongly with small business. I do not know how much time Senator Joyce had, but I would be flat out having two minutes. What I am proposing is if we cannot get enough time—and you did allocate six or seven hours to Dr Henry—then I suggest we come back on Friday.

CHAIR—Senator Boswell, that is a decision for the committee. What is also a decision for the committee is this program. It was a—

Senator BRANDIS—I would like to speak to the point of order before you rule on it, Madam Chair. Madam Chair, before we rose at 6 pm—and you will remember this, but let me put it on the public record—I said to you, ‘Will the ACCC be starting at 8 pm?’, and you said to me, without qualification, ‘Yes.’ That was your word, ‘yes’, without qualification. I returned here shortly after 8 pm in the expectation that there would be an hour after 8 pm. Now you are not at liberty, Madam Chair, in good faith, to act at variance from your assurance to me.

Senator CAMERON—Cut it out.

CHAIR—That is ridiculous.

Senator BRANDIS—Unless you are a dishonest person, you are not at liberty to act at variance from your unqualified assurance from you to me.

CHAIR—Excuse me. Senator Cameron?

Senator BRANDIS—You do not dispute what I say, do you, Madam Chair?

CHAIR—Excuse me, can I have some order here? Can I have some order, please, while I answer this point of order? The committee has agreed to the schedule. It was the committee that asked for Dr Henry and the macroeconomic policy to be extended. This was not my decision; it was the decision of the committee. And it was a decision of—

Senator BRANDIS—Chair—

CHAIR—Senator Brandis.

Senator CAMERON—Your days of being a bully are over.

CHAIR—Senator Cameron, I am continuing on ruling on that point of order. This schedule of the committee was also agreed by the committee. Senator Boswell, it was your colleagues in your party who took up most of the time for the session that you indicated. You need to go back and talk to them and make informal arrangements if you want to next time, but people from your party had by far the lion’s share of that period.

Senator JOYCE—I am quite willing to come back on Friday. There are a lot more questions I would like to ask.

CHAIR—That is the decision of the committee and we will have a private meeting about that later. In the meantime—

Senator Sherry—I am sorry. If there is going to be consideration of coming back on Friday there had better be some consultation, please, with the witnesses and the minister because I will not be here on Friday. I make that very clear now.

CHAIR—I think a number of people will not be here on Friday and I think I do not need intervention from witnesses.

Mr Samuel—I am attending a small business summit up in Queensland, so I will be dealing with the Small Business Council.

CHAIR—I call the Australian Securities and Investments Commission.

Senator BRANDIS—You have not ruled on the point of order, Madam Chair.

CHAIR—I have. We are—

Senator BRANDIS—It follows from your ruling that what you said to me at 6.00 pm was a lie.

Senator CAMERON—Cut it out. You are hopeless.

Senator BRANDIS—You gave me your personal assurance that this would commence at 8.00 pm and would go for at least an hour.

CHAIR—Senator Brandis, you overstate the matter. I call witnesses from the Australian Securities and Investments Commission.

Senator JOYCE—On a point of order, could we extend the ACCC now and bring some of the others back on Friday?

CHAIR—Are you calling a private meeting, Senator Joyce?

Senator JOYCE—Yes. Call a private meeting.

CHAIR—Senator Joyce, might I point out that we are eating further into time for questions and that—

Senator JOYCE—Yes. Private meeting now.

Senator BRANDIS—We are proposing to extend the time, Madam Chair, because you have misled members of this committee—namely me—as to the availability of the—

Senator CAMERON—That is pure nonsense.

[8.34 pm]

Australian Securities and Investments Commission

CHAIR—Welcome. Do you have an opening statement?

Mr D'Aloisio—As has been the case with ASIC in previous appearances, I would like to begin by briefly giving you a bit of an update on what has been happening on our patch since we last met on 5 June.

CHAIR—Is it a brief update?

Mr D'Aloisio—I will try to be brief. There are some key points I would like to cover. Then I would like to talk about short selling, which has been a major issue since we last met, and then take questions.

Senator BRANDIS—I wonder if you might try to confine your remarks as briefly as you reasonably can, given that we have had extraordinary constraints imposed upon us by the chair as to the amount of time available to ask questions of you.

Mr D'Aloisio—I will start with the key points. ASIC's strategic review has now been completed. You will recall that when we last met we talked about ASIC being restructured, with new arrangements coming into play from 1 September. That has happened. We have completed the restructure of our management by collapsing two layers of management into one and we have appointed our 25 new senior leaders from internal and external recruitment, eight from external and 16 promoted internally. ASIC has now been restructured as an organisation and commenced with the new arrangements on 1 September.

Looking at major matters that have occurred since we last met, clearly a lot of our work has been around the market turmoil. We have extended investigations into insider trading market manipulation and those sorts of issues. In addition, the James Hardie case has commenced in the Supreme Court of New South Wales. This is an important case in terms of corporate governance. The action looks at the conduct of both executive officers and non-executive directors and will focus on the scope and content of directors' duties. That is a major case that we are running at the moment.

In the retail investor area, we have spent considerable time in improving the knowledge and understanding for retail investors in areas such as the unlisted property trusts and mortgage schemes. We have initiated a number of programs on investor education. We have taken over the Financial Literacy Foundation work and we are working to complete the school curriculum parts of that agenda. Importantly for retail investors, we commenced action against the auditors of Westpoint to recover some \$200 million for the investors in Westpoint. We have commenced in the order of 16 or 17 actions for the retail investors in Westpoint and we are claiming a total of \$549 million against losses of \$329 million for those investors. The action against the auditors is for \$200 million.

We have also completed a number of important exercises in facilitating capital flows with the US-Australia mutual recognition. We have completed arrangements with China to improve investment into Australia, and similarly with Hong Kong and New Zealand.

That is to give you a feel of the sorts of issues we have been talking about. Obviously I have kept it as short as I can, but I will be happy to go back over those issues in more detail.

I would like to say something about short selling, which will take a few minutes because it is an important matter in our markets. ASIC's view on short selling has been that, when you look at the current regulatory framework that we are operating in, there is a role for short selling and, as such, any intervention that we may make in the market needs to be limited. Our view is that as long as markets are orderly, where buyers and sellers can freely transact with confidence, short selling that is coupled with disclosure to the market and proper compliance processes by market participants to handle false rumours can add to price discovery and liquidity in our markets. When we looked at the markets in mid-September, whether we had an orderly market or not was questionable. You will recall at that stage we were in the midst of a financial crisis. We had the issues overseas with Lehman Brothers, Merrill Lynch, HBOS and so on, and in Australia in that week we saw some very heavy short selling and, based on complaints to us, that was coupled with false rumours.

International regulators in that week moved to ban naked short selling in relation to financials and covered short selling, particularly in the UK and later in the US. These were the sorts of responses we were seeing to short selling more globally. Initially in that week ASIC moved to once again warn the market of the offences relating to false rumours when coupled with short selling, but it became clear to us by the end of that week that more was needed and, in line with other regulators, we moved to place bans on both naked and covered short selling. We placed those bans both on financial and non-financial stocks. We felt that the Australian market was not large enough in its structure and different to other markets, so it warranted us imposing the bans across the market. At the time we felt that we would review the bans, that they would act as a circuit breaker for about 30 days and then we would review them.

With the benefit of looking back, was that decision correct? We feel that as events have unfolded that decision was correct. ASIC's actions were necessary and a proper response. By way of example on that, at the same time as ASIC imposed its bans, other countries did as well. Italy, for example, placed its bans only on naked short sales. Shortly after, its second largest bank was said to be the subject of heavy short sales and was attacked by the hedge funds, leading it to impose a ban on covered short selling for financials, and then it extended that to a full ban on covered short sales as well. Since the bans were put in place complaints to ASIC concerning false rumours and anecdotally from the market have significantly reduced, which is in contrast to the week leading up to those bans being put in place. We believe that the decision to impose the bans was correct.

Why retain the ban? We retained the ban and announced yesterday that we would keep it for another 28 days for the nonfinancials and on the financials until January, in line with other overseas markets, notably the UK. Our decision to continue it and to give that road map was really based on the fact that, while the government actions and packages, both in Australia and overseas, are positive developments, they are yet to work through the system and we feel that financial markets are still fragile and capital raisings for corporations operating in the real economy remain dampened.

Internationally the picture is not clear. The UK has retained the bans, as have a number of other markets in Europe and elsewhere, and there are now some countries that are also imposing total bans. The US itself reopened the market on its ban, but it is a much larger market and there has also been talk in the United States about reintroducing an up-tick rule and looking at other ways to put the brakes on stocks which are falling rapidly and could be the subject of short selling.

ASIC's view is that caution is needed and that is why it outlined the four-step approach. As I said, that is to: continue the current ban on nonfinancials for 28 days; reopen the market on 19 November; keep the ban on financials until January in line with FSA, the UK authority, and other authorities; and keep the ban on naked short selling indefinitely.

We have differentiated between the ban on financials and nonfinancials. We feel the market confidence issue around the financials is difficult and maintaining the ban on financials seems to us to be compelling. The definition of 'excluded financials' is influenced by the market conditions. The potential systemic impact of a financial is subject, for example, to short selling that may be coupled with false rumours. The definition of a financial is not easy and, as we said in our release, we have opted for the ASX S&P 200 financials index, which also includes property trusts and certain other APRA regulated entities.

We have imposed a shorter ban on nonfinancials. We feel that the nonfinancials could be reopened earlier and our expectation is that that would happen on 18 November. In reaching that view we have also balanced the fact that we do not want to leave the ban on for the minimum amount of time because you start to run risks of liquidity or issues where turnover drops off—because, as I said earlier, in a proper running market there is a role for short selling in our regulatory regime as we now have it.

In balancing those considerations, the road map that we have outlined is that our expectation is that we will reopen the non-financials on 18-19 November but keep it on for

the financials until January. My final point is that when the financials and certainly the non-financials are reopened a new reporting and disclosure regime will apply, so the non-financials short selling will be the subject of a disclosure regime to the market, which will provide transparency. ASX and ourselves will say more about that in the coming days. That is my opening statement outlining what ASIC has been doing and what our approach has been to short selling. I will stop there and take your questions.

Senator BRANDIS—I want to address the issue of the ban on short selling. Was this a ban announced in ASIC's release of 23 September 2008?

Mr D'Aloisio—21 September. There were two.

Senator BRANDIS—The document I have is an update. The ban came into effect as of 22 September 2008?

Mr D'Aloisio—Yes.

Senator BRANDIS—By reference to both date and time, when was the decision made by ASIC to impose the ban?

Mr D'Aloisio—The decision to impose the ban that we put in place on Friday, 19 September, was made at around 4.30 to 5 o'clock on Friday.

Senator BRANDIS—Was it 4.30 on 19 September?

Mr D'Aloisio—Yes. The decision to then extend the ban on covered short sales was made around 4.30 to 5 o'clock. We met by phone and in person in Melbourne and the Gold Coast on Sunday, 21 September, for them to operate from the opening of the market on Monday morning.

Senator BRANDIS—Was the decision taken by the commissioners?

Mr D'Aloisio—Yes, the three of us. Mr Cooper and I were in Melbourne and Ms Gibson was interstate at a conference, so we had a telephone conference meeting.

Senator BRANDIS—Would it be fair for me to assume that from the time the decision was made on the afternoon of Friday, 19 September, it was pretty much inevitable that it would be extended by a subsequent decision of the board shortly thereafter; in other words, the operative decision was on 19 September?

Mr D'Aloisio—Things were moving at a fairly rapid rate. When we made our decisions on the Friday and were moving towards more of a disclosure regime than a complete banning, we were factoring what was happening in our market and also what the FSA had done. Also at that time a number of other jurisdictions were looking at it. At around the time we were making our decision it was about 3 am in Washington or New York, and we thought that the SEC would move, but it was not clear. In fact, the decision of the SEC came through a bit later, after we had made our decision.

Senator BRANDIS—You are not saying they followed you?

Mr D'Aloisio—No. Our thinking, as it developed over the weekend and things were moving and we talked about it, we started to get the feeling that perhaps we had not gone far enough, so we met again on the Sunday and we made the decision to then extend the ban.

Senator BRANDIS—In the meantime the SEC had made their decision?

Mr D'Aloisio—Yes. They had announced it. It came up on their website. As I said, it would have been late Friday. We can get those times. We were moving, they were moving and then you had Switzerland and other countries that were moving. Of course, at that point we did not have the full trading day for New York, which happened overnight on the Saturday, and the European markets moved. Information was coming through during that weekend.

Senator BRANDIS—Would it be a fair characterisation that the decision that was made initially on 19 September was made in anticipation of what we expected the SEC and perhaps other markets to do, and that when you became aware of what in fact had happened in the northern hemisphere over that weekend you confirmed and extended the effect of the decision?

Mr D'Aloisio—It is hard to say how the process went. Factually what happened was we were moving. It is hard to remember. That is how the events unfolded.

Senator BRANDIS—From the sequences you described we can get a reasonably clear feel for the way this went.

Mr D'Aloisio—As I said, we spent a lot of time on the issue of whether we would ban the lot or some and, as events proved, there was some criticism of us having moved with the lot on the Monday morning, but we feel that as events unfolded that was the right call and the extension that we have now made we feel is the right call. These are judgement issues, but that is where we got to.

Senator BRANDIS—That is fine. I understand that. Before you made either the decision on 19 September or the further decision on 21 September, did you discuss the matter, verbally or by email or other communication, with your equivalent bodies in other markets?

Mr D'Aloisio—At that point I did not personally do that.

Senator BRANDIS—Did the officers of ASIC?

Mr D'Aloisio—I cannot remember. Certainly, we were aware in the sense of what was happening. There was a hook-up on the Sunday morning. What happened very quickly as these bans came in, IOSCO, the body of regulators, came together and through the chairman of the technical committee, which is Chairman Cox in Washington, with the SEC—

Senator BRANDIS—I am sorry to interrupt, but IOSCO is the international or global body of equivalent agencies?

Mr D'Aloisio—Of agencies, yes. Through the chairman of the technical committee or the main committee, which is Chairman Cox, we then had a series of hook-ups. There were chairman meetings of the regulators on the technical committee, which includes us, and then our officers had meetings. Those meetings, from memory, occurred on the Monday, Monday night, Tuesday and that week of 22 September; there were a number of meetings and we stayed in touch right through until the SEC made its decision on extending and waiting for that safety legislation that they were waiting on. Remember in that week it did not get passed and then it did get passed.

Senator BRANDIS—In advance of the decision of 19 September or in advance of the decision on 21 September, did you or your officers discuss this matter with other agencies or with Treasury?

Mr D'Aloisio—We would, in the normal course, discuss matters such as this with Treasury.

Senator BRANDIS—Is the answer to my question yes?

Mr D'Aloisio—Yes.

Senator BRANDIS—Did you seek their guidance or their views, or did you merely indicate to them what the commissioners were proposing to do?

Mr D'Aloisio—In these decisions you get input from various areas, and indeed we would have sought input from Treasury in terms of discussions about what was happening in the market and so on. Again, you are assembling information in real time, so in the normal course of that you would have had discussions with Treasury.

Senator BRANDIS—Who was the senior officer at Treasury with whom these discussions occurred? Was it Dr Henry, the general manager of the markets group or someone else?

Mr D'Aloisio—I am not sure.

Senator BRANDIS—Perhaps you could take that on notice for me.

Mr D'Aloisio—It would have been with the Council of Financial Regulators on the Friday afternoon.

Senator BRANDIS—Who sits on that council?

Mr D'Aloisio—That is APRA, the Reserve Bank, Treasury and ASIC. I think I had discussions with Dr Henry.

Senator BRANDIS—Did you discuss it with Mr Stevens of the Reserve Bank?

Mr D'Aloisio—No.

Senator BRANDIS—Who was the officer of the Reserve Bank that participated in the Council of Financial Regulators?

Mr D'Aloisio—Ric Battelino.

Senator BRANDIS—I am obviously not going to ask you about the detailed discussions of that body because it would not be appropriate, but would it be fair to say that the consensus view of that body was that the prohibition on short selling should come into effect pretty much immediately?

Mr D'Aloisio—I do not think I can go into what advice that body may have given me.

Senator BRANDIS—I am not asking you about the advice they gave you.

Mr D'Aloisio—I do not think I can distil a consensus in the sense—

Senator BRANDIS—Was there a decision or a position arising from that meeting?

Mr D'Aloisio—No. From memory, it was not an issue for decision. It was an issue for input, because the decision to impose the ban was an ASIC decision.

Senator BRANDIS—I understand that. Presumably, the purpose for which this meeting of the Council of Financial Regulators was convened was to consult them in relation to this issue?

Mr D'Aloisio—From memory, there were other issues on the agenda.

Senator BRANDIS—Was that one of the issues?

Mr D'Aloisio—That was one.

Senator BRANDIS—I may boldly suggest to you that that was one of the more pressing issues on the agenda?

Mr D'Aloisio—I cannot comment on that. It depends how you view the agenda.

Senator BRANDIS—I am sure the answer to that question is yes. When the ASIC commissioners met and made that decision, did you have any doubt that you had the support of other regulators in the course you were about to take?

Mr D'Aloisio—The decisions about what we were doing, in the sense of systemic issues from short selling—issues of market integrity and confidence—which we were weighing up, clearly, you would have had a feel where APRA stood on those issues. I think we would have had a feeling that there was support for what we were doing, but it was not in a sense of asking and getting it. It was just a feeling.

Senator BRANDIS—No, you did not need their permission but, given the urgency of these circumstances and this was a significant step, it is perfectly understandable that you would have consulted your partner regulators. I understand that. Did you also consult government?

Mr D'Aloisio—There were discussions with the relevant minister and the Treasurer.

Senator BRANDIS—The relevant minister being?

Mr D'Aloisio—Minister Sherry.

Senator BRANDIS—When were those discussions?

Mr D'Aloisio—They would have been on the Friday and over the weekend.

Senator BRANDIS—The discussions with relevant ministers, that is Senator Sherry and Mr Swan, were initially on the Friday in advance of the Friday decision and again on the weekend in advance of the Sunday decision. Is that correct?

Mr D'Aloisio—That is correct.

Senator BRANDIS—Without asking you to go into the substance of those discussions, may I take it that you advised ministers about what ASIC's thinking was?

Mr D'Aloisio—The advice was about the thinking at that point, in a sense, because it was an evolving thing. That is as far as it went.

Senator BRANDIS—You did not need the minister's approval to make the decisions that you made, did you?

Mr D'Aloisio—No.

Senator BRANDIS—Nevertheless, in making the decisions on 19 September and again on 21 September, did ASIC feel that, were it to make those decisions, it would have the support of government?

Mr D'Aloisio—In the sense that there was an issue and it needed to be dealt with, you would have had that feel, yes. As to the specific decision itself, the minister and the Treasurer really made it clear that it was an ASIC decision and they were inputting and assisting. It was not as clear-cut as being able to walk away and say, 'If we do this then that has got government support.' Certainly, in my mind, we had a tough decision to make and, while we had had that input and I had spoken to my colleagues, we really made that decision as a commission on what we felt was right for the market on the Sunday afternoon and then announced that and told government.

CHAIR—Senator Brandis, do you have many questions? It is 9 o'clock and you need to wind up.

Senator BRANDIS—Yes, I have a few more.

Senator Sherry—Could I indicate, Senator Brandis, that I put out a press release both welcoming and supporting the decision on both occasions.

Senator BRANDIS—Mr D'Aloisio, did the minister seek to influence ASIC's decision or did they merely helpfully contribute to the discussion?

Mr D'Aloisio—The minister and the Treasurer made it clear on each occasion that they spoke that it was an ASIC decision.

Senator BRANDIS—They did not seek to guide the outcome of that decision?

Mr D'Aloisio—No. They were discussions.

CHAIR—As it is 9 o'clock, we are due to change over to the Treasury, outcome 3.
[9.04 pm]

Treasury

CHAIR—We have questions for the revenue group and ATO. I am a little unclear as to whether we are asking questions of the ATO with and without retirement and superannuation issues, or are we doing them all together?

Senator Sherry—I do not think it really matters now, because normally Senator Conroy does the ATO revenue and I do the ATO retirement incomes. As I am here and Senator Conroy is not, it is really up to senators.

Senator ABETZ—With the same officials?

Senator Sherry—Yes.

CHAIR—We will put that together, so we are going through to the tea break at 9.50 pm.

Senator BOSWELL—My questions are on managed investment schemes and carbon sinks. Do we have the right people at the table?

Mr D'Ascenzo—I can certainly cover managed investment schemes.

Senator BOSWELL—The tax law amendment act 2008 introduced a tax deduction to establish carbon sinks. This legislation precluded managed investment schemes from being able to receive the deduction. I now have in front of me a prospectus from Great Southern Ltd. If a managed investment scheme restructures their operations whereby they exchange the interest of project investments for new shares by way of contractual schemes of arrangement with an issued price per share above the share price of MIS, would this organisation still be regarded as a managed investment scheme or a carbon sink?

Mr D'Ascenzo—The answer really depends on the final form of the legislation. I do not think the legislation has been passed.

Senator BOSWELL—The carbon sink legislation has been passed. It was hooked onto a tax bill that no-one took any notice of, and then we tried to retrieve it, but it has been passed, and Senator Sherry will tell you that.

Senator Sherry—Sorry, just for my information, what was hooked onto what bill that no-one knew they were voting for?

Senator BOSWELL—The carbon sink bill was hooked onto a tax bill that went through the parliament with no-one realising it, and then we had to try to debate it after that. I am asking if a managed investment scheme can be restructured into a carbon sink scheme.

Mr D'Ascenzo—I do not know whether or not that is possible. I do not know whether my colleague can answer further.

Mr Konza—I am afraid we will have to examine the circumstances of that and take it on notice.

Senator BOSWELL—Has the Treasury been asked to make a ruling on whether an identity like Great Southern Ltd is still regarded as an MIS, or can it be changed into a carbon sink? Can you get a double dip here?

Mr Konza—Under the legislation, managed investment schemes would not be eligible for the carbon sink arrangements, but whether it can be restructured so it is no longer a managed investment scheme would depend on the circumstances. We would need to look at the individual case.

Senator BOSWELL—Have you been asked to make a ruling on it? It says in this prospectus that—well, I will not put words into its mouth, but—

Mr Konza—No, I am not aware of any individual applications in any case, so we would have to take that question on notice.

Senator BOSWELL—I do not see much point in continuing this line of questioning, because you are obviously not across it, which is understandable. It is urgent, because these managed investment schemes are just eating up all the primary agriculture land in Queensland, and they are just diminishing the prospect of the sugar industry. It is a pity Senator Cameron is not here, because a lot of his union constituents are very concerned about their jobs, to the point that they made appearances at senate committees. It would seem to me that, if we get managed investment schemes that can restructure themselves and end up as carbon sinks, or managed investment schemes, and whichever pays the most money, whether it is timber or carbon, they can switch between the two. I direct you to the Great Southern Ltd

Stronger Together share prospectus, I think you would call it. I am surprised that you have not been made aware of this.

Mr Konza—I have only a pretty rudimentary understanding of the schemes, but my understanding is that the operational requirements of managed investment schemes and the operational requirements of carbon sink schemes are quite different in terms of how long forests must be allowed to stand and so forth.

Senator BOSWELL—That is correct.

Mr Konza—Not only would they need to change their financial arrangements, but also they would need to change their operational arrangements.

Senator BOSWELL—That is correct. What I believe is happening is that they will have two bob each way. If carbon is a better earner they will go that way, but if timber is a better earner they will go that way. I will put all of these questions on notice and I will table this Great Southern Ltd prospectus. It is a matter of some urgency given the way we are heading with this MIS. If they can be reformed into a carbon sink, as Senator Joyce often says, this will be a supercharged MIS. We in Queensland and those in many other states are very worried about the trees just eating into prime agricultural land. I see that Senator Cameron has returned. The unionists who work in the milk factories and the sugar industry, along with any other union members who work in processing in primary industry, are very fearful as to their jobs.

Mr Konza—We will only be able to apply the laws that apply to MIS and apply to carbon sinks, but ordinarily organisations such as Great Southern Ltd will ask for a class ruling, so it should be pretty transparent as to the way the law would apply to those schemes if they were restructured.

Senator BOSWELL—Can they restructure? That is what I am asking.

Mr Konza—That is what I am saying: it is likely, seeing they are looking for class rulings which are made public, that will be transparent.

Senator BOSWELL—Have they asked for a class ruling?

Mr Konza—I am not aware of that.

Senator PAYNE—My questions are in relation to first home saver accounts—I was advised that this is the area in which to ask those—and the National Rental Affordability Scheme. Starting with the first home saver accounts, Mr Parker, can you advise the committee how many authorised deposit-taking institutions are currently formally participating in the first home saver accounts scheme?

Mr Parker—Yes, we can provide that advice. I will ask Ms Sue Vroombout to give you the details.

Ms Vroombout—Listed on the APRA website are 25 ADIs. The APRA website indicates that two of those 25 will not be offering until next year some time.

Senator PAYNE—Until next year's—

Ms Vroombout—Until early next year; one of them in January, the other one in March.

Senator PAYNE—In the development of the financial estimates for the package for the accounts, what were the assumptions made about take-up of the deposit accounts?

Ms Vroombout—As in the number of providers?

Senator PAYNE—The number of providers, the number of accounts and what expectations were attached to the financial estimates.

Ms Vroombout—We did not actually have estimates of the potential number of providers.

Senator PAYNE—So you do not have an idea of how many you expect to be offered and how many you expect to be taken up?

Ms Vroombout—There were estimates of take-up of accounts but of account providers—

Senator PAYNE—What are those?

Mr Gallagher—The modelling of take-up was done on the basis of the number of people that were estimated to be saving for their first home and the number of people who obtained a first home owner's grant in a given year. Because of the lock-in rules, where you had to have an account for four years, we had a very gradual take-up before having a fully mature system. As I recall, it was about 750,000. I can certainly provide you with an outline of the take-up assumptions as we provided it to the parliament before. But it was in terms of the number of people and the number of savers, not providers, and it had a gradual take-up rather than an immediate take-up. The costing that is in the budget allows for the deferred start date of 1 October, and there was a particular change put in to reflect that.

Senator PAYNE—Did the process of putting that together include advice that was received from the ADIs themselves about what their expectations were?

Mr Gallagher—No, the costing was a budget costing and was subsequently revised for the consultation process and announced following that. It was not based on advice from the ADIs directly.

Senator PAYNE—You mentioned the four-year saving period. What is the basis for that requirement?

Ms Vroombout—The government indicated, in announcing this as part of its election package, that it was about ensuring that people were committed to saving and enabling funds to be invested for a slightly longer period of time as well as enabling the supply side of the housing market to respond.

Senator PAYNE—Since 1 October, how many accounts do we know have been taken up and opened?

Ms Vroombout—We do not have any data on that.

Senator PAYNE—Are you collecting it?

Ms Vroombout—APRA is collecting data on a quarterly basis and the ATO on an annual basis, but we do not have any data in at this stage.

Senator PAYNE—So we do not know if it is a good news story or not at this stage. I have a couple of questions on the National Rental Affordability Scheme. I tried to ask them earlier and was advised to try to ask them under this outcome. Some concerns have been raised about

the charitable tax status of not-for-profit organisations, including in relation to their GST position being compromised by their potential involvement in commercial activities that might be associated with NRAS projects. Can the department comment on that matter, and can you provide an assurance that their charitable tax status will not be affected?

Mr Parker—Yes, we are aware of that issue. The question of whether the charitable tax status is at risk in respect of the participation of a particular charity in the NRAS process on the basis of the legislation essentially depends on the form of their participation. Ultimately, it becomes a question of interpretation and hence a question for my colleague from the tax office.

Senator PAYNE—Strangely, I was planning to ask him about that.

Mr Parker—At the level of principle, the view is that, if the participation of the charity in the NRAS project is incidental to their charitable purpose, then the tax status is not at risk. However, it is possible for arrangements to be structured in a way where there is, in effect, a tax benefit transfer; that is, the use of a charity's tax concessions to the benefit of someone in a joint venture with the charity—effectively a tax benefit transfer to a taxable entity.

There are discussions going on between the tax office, the Treasury and FaHCSIA about looking at ways in which charities can participate in the NRAS without putting their tax status at risk. Those discussions are ongoing at the moment. Once they have reached an appropriate stage, advice may be put to government about whether or not there is a need to clarify or provide certainty around those arrangements, and then obviously it will be a matter for the government to decide at that point in time.

Senator PAYNE—I will ask Mr D'Ascenzo to comment, but do you have any idea of the time frame of those discussions and when you expect them to reach an outcome?

Mr Parker—Not at this stage.

Ms Vroombout—Yesterday we had a meeting with some representatives from the charitable sector involving the tax office, Treasury, FaHCSIA and those industry representatives. As Mr Parker said, those discussions are ongoing and have not yet reached a conclusion.

Senator PAYNE—Mr D'Ascenzo, can you shed any light on this from the ATO's perspective?

Mr D'Ascenzo—As Mr Parker has indicated, it really depends on the form of the arrangement. Charities have to have a dominant purpose of being charitable to fall within that definition. The question is: if it is structured in a way that this aspect of their work becomes more than incidental, there is a possibility it would affect their charitable status. They are the sorts of issues of whether or not that can be clarified, if the government wishes to do so.

Senator PAYNE—Thank you very much for that. I might come back with a couple of questions on notice.

Senator LUDLAM—Thanks to a couple of other senators who have allowed me to jump the queue. I would like to follow on the line of questioning that Senator Payne has begun. Have you been contacted by community housing organisations raising concerns that they would potentially be excluded from participation in the NRAS?

Ms Vroombout—Not that they would be excluded from it, but we have had discussions with them around the impact of their involvement in the scheme on their charitable status.

Senator LUDLAM—And raising concerns that potentially the way that the department and/or the tax office are reading the definition of ‘community housing’ or ‘charitable status’, that they might not be able to participate in the scheme?

Ms Vroombout—I guess, as we said, they have raised concerns that their participation in the schemes may put at risk their charitable status, and we have had ongoing discussions with them around those issues.

Senator LUDLAM—It was put to me this afternoon that Federation Housing, which is WA’s largest community housing provider, would not feel able to participate in the NRAS should the conversation continue down the track that it is. Is that a concern to you? Perhaps I will put that to the ATO?

Mr D’Ascenzo—From the ATO’s perspective, our role is to apply whatever the law is in accordance with due principles of statutory interpretation. It is really a policy question as to how wide or how narrow the ambit of a particular law is.

Senator LUDLAM—Have Federation Housing been in touch with your office?

Mr D’Ascenzo—Without wanting to talk about individual cases, maybe Mr Konza might be able to provide more background.

Mr Konza—This is a Treasury matter, so those groups would be talking to Treasury, and our role is to participate in those discussions. As the committee has heard, we have been participating. As the commissioner said, the effect that involvement in a commercial scheme like that might have on a charity’s status depends on the nature, but it is not unknown for people to be involved in commercial activities, and it has not affected their charitable status where that involvement has been really in furtherance of their charitable activities. That is not unknown under existing law. We would try to participate and help clarify how that might work under the existing law. The second thing I might usefully add is that the law in this area is actually under review at the High Court. It was decided in the full Federal Court that a charity which was pursuing purely commercial aims—a charity called Word Investments—retained its charitable status because the entirety of its profits went to a charitable purpose. That was a significant change in the law as we understood it, and we appealed it to the High Court to get clarification of the law. That appeal has been heard and we are expecting a decision on that in the next few months. It is not for us to say when a High Court will hand down a decision. But, under existing law, it is possible, if structured properly. Whether they can do it will be a matter for the circumstances of their case. Also this court case will help guide us as to how the law should be applied now.

Senator LUDLAM—I put to you that there is a legislative process that is afoot at the moment and tenders have been let. Legislation is set to be brought before us before too much longer, and the way the ATO is interpreting the role of community housing organisations in this case is creating a great deal of uncertainty. Can I take from your comments that it is not the ATO’s intention to prevent legitimate charitable organisations or community housing organisations from participating in the NRAS?

Mr Konza—The ATO simply applies the law which says that charities have to pursue charitable aims. We have had these discussions in this committee over the years. It is a question of degree. It is not really possible to give a blanket answer, but it is our role to assist Treasury in clarifying the law as it stands at the moment and how it might apply in the circumstances of the new legislation.

Mr D'Ascenzo—If I read the comment correctly, I can assure the committee that we are not pushing any policy agenda; we are just trying to apply the law as best we understand it. One of the reasons that we are keen to see the outcome of the Word Investment case is to guide the sort of response that we can give to these sorts of matters.

Senator BUSHBY—Can I ask how much revenue is the government forecast to receive from the range of additional tax measures introduced by the government since 24 November 2007?

Mr Parker—You can ask, obviously, and we will take each question at face value and answer if we can.

Senator BUSHBY—A number of tax measures have been implemented. The big ticket ones are like the alcopops, condensate and luxury car tax. Do you have an aggregate of the total value of all new tax measures that have been introduced since the government came in on 24 November?

Mr Parker—I do not have that figure in front of me or in my head, so I would have to take it on notice.

Senator BUSHBY—You have some of your officers moving forward. I do not know whether they have the answer.

Mr Parker—They may be able to provide you with a partial number. I am not sure if we can in a sense add up a long list which is implicit in your question.

Senator BUSHBY—Do you have the answer? Is Ms Mrakovcic able to assist?

Ms Mrakovcic—Not specifically, Senator. I can just note that the budget would have provided information on revenue measures up to that point in time, and the Mid-Year Economic and Fiscal Outlook will of course provide an update of any additional measures since the budget.

Senator BUSHBY—When we get it. Are you able to take on notice and supply an aggregate figure for all new tax measures?

Ms Mrakovcic—We can take it on notice.

Senator BUSHBY—Do you expect that these measures would increase the overall tax base, taking into account other decisions made by the government?

Ms Mrakovcic—Relating back to 24 November 2007?

Senator BUSHBY—Yes?

Ms Mrakovcic—I would have to take that on notice.

Senator BUSHBY—The government has argued that the extent of the current financial crisis was not foreseeable when the 2008 budget was delivered. What effect will the financial crisis have on the taxation revenue forecasts?

Senator Sherry—I think that has been indicated on quite a number of occasions both here and in Finance. The media forecasts when they are issued next month will provide an answer to that.

Senator BUSHBY—The mid-year economic forecast is a normal release from Treasury which comes out, theoretically mid-year, but we have before us today officials from the revenue group of Treasury, and I am asking specifically today what they consider will be the effect of the current financial crisis on taxation revenue forecast. I am not necessarily asking for an exact dollar figure but what do you think the impact will be in general?

Senator Sherry—You will have that when the mid-year forecast comes out. That will take into account circumstances up to the preparation of the forecast.

Senator ABETZ—Are there any reasons mitigating against that question being answered?

Senator BUSHBY—Is there an area of public interest or immunity you are claiming?

Senator Sherry—No, I do not know whether there has been any data published since the budget publicly. If there is, the officers can draw it to your attention; otherwise we will be waiting for the publication of the mid-year economic forecasts. As I can recall in my 12 years coming to this committee, when I did sometimes ask for a revenue update—

Senator BUSHBY—I am not asking for a revenue update. I have made it quite clear I am not looking for a specific dollar figure. I am talking about what the general impact will be on the anticipated revenue. Is it going to go up, is it going to go down, will it remain the same? Do they expect it to be changed as a result of the current financial crisis?

Senator Sherry—We will know the answer to that when the MYEFO is produced.

Senator BUSHBY—Are you seriously suggesting to me that they do not have that knowledge today to be able to answer that question?

Mr Parker—I think there was an extensive discussion of the effects, risks and uncertainty of the global financial crisis on the Australian economy. It is very clear that the risks have increased as a result of that. It is quite clear that, as a result of that, the economy has been slowing. There was an extensive discussion of that this morning. As a result of that, we would expect that tax revenue will fall compared with the budget numbers because of the slowing economy and because of what has been going on in financial markets. The direction of that is clearly down; I do not think that is at all controversial. As the minister has indicated, when MYEFO is released that will contain an update on those numbers.

Senator BUSHBY—In the next month?

Mr Parker—Yes.

Senator BUSHBY—Okay, so you expect that taxation revenue as a proportion of GDP will fall as a result, on the basis of what you have just said?

Mr Parker—Whether it falls as a proportion of GDP is a finer level question.

Senator BUSHBY—Are you able to answer that finer level question?

Mr Parker—I would prefer at this stage, since we are in the process of updating those numbers for the MYEFO exercise, not to venture an opinion on that particular finer level of detail. As I said, we expect revenue to be lower as a result of the financial crisis and the slowing of the economy.

Senator BUSHBY—We have had a lot of comment from Treasury officials today suggesting they are not going to answer for various reasons. We did take a point of order with Dr Henry this morning, noting that officials before us are not entitled to decide not to answer questions. They can refer them to the minister, who can then seek an exemption to answering the question based on public interest immunity. If you are saying that you cannot answer it because you do not have the information or it is not finalised, then I could accept that and maybe take it on notice. But if you are saying that you are refusing to answer it for some other reason then I would like to hear from the minister as to what public interest immunity ground that might fall under.

Mr Parker—As I said, the process to update those estimates is currently underway and so it is not finalised.

Senator BUSHBY—Which revenue heads would you anticipate would be most affected by the current financial crisis?

Mr Parker—I would expect that that would have an effect across a broad range of revenue heads. The direct effects of the financial crisis are most likely to affect capital gains tax revenue. There is considerable uncertainty about that, given that it is impossible to forecast the future direction of financial markets given the present circumstances, and the future direction of financial markets would have an effect on that. Capital gains tax revenue tends to flow through into the company income tax base, the superannuation fund tax base and the other individuals tax base.

Senator BUSHBY—Thank you. That is very helpful. What effect will the changes to financial activity have on the GST revenue forecasts?

Mr Parker—That is a question which is not able to be answered in as direct a way as that. To pick up the point where I left off, the financial crisis directly affects asset prices and hence capital gains tax revenue. The feed through into GST depends very much more on the feed through into the general economy, into consumption expenditure in particular.

Senator BUSHBY—Do you have an opinion on what effect the crisis is likely to have on the general economy and consumption?

Mr Parker—I do not really have anything to add compared to the comments made by my colleagues this morning.

Senator BUSHBY—I find that slightly frustrating. Certainly we have got MYEFO coming out in a month's time, so we are told, and that will be very illuminating and give us a lot of information. But the fact that is going to come out in a month's time is not an excuse to hide behind and refuse to answer the questions.

Mr Parker—I am not hiding behind it; I am simply making the point that it is not my responsibility within the Treasury to forecast—

Senator BUSHBY—Is there somebody at the table who is able to answer the question of what effect will the changes to financial activity have on GST revenue forecast?

Mr Parker—Because we are in the process of working through both forecasting in the economy and the consequences of that for GST, if you wish we will take that on notice but at this stage the process is still running.

Senator BUSHBY—Do you have any initial indications or preliminary findings that might assist the committee?

Mr Parker—No, I do not, and I am happy to take that on notice.

Senator BUSHBY—You will take it on notice, okay. What effect will a slowing of consumer confidence, as we are currently experiencing, have on GST revenue forecasts?

Mr Parker—If there is a reduction in consumer confidence as we have seen, and to the extent that that feeds through into consumption expenditure by consumers, then, other things being equal in terms of the pattern of consumption, that would tend to reduce GST revenue.

Senator BUSHBY—At least in that respect you anticipate that there could be a fall in GST revenue as a result of the lowering of consumer confidence?

Mr Parker—As I said in response to your first question, there would be likely to be a fall in revenue across a broad range of revenue heads. You asked me which ones were particularly related to the financial crisis and I pointed to—

CHAIR—We are due to take a tea break. Are you nearly finished?

Senator BUSHBY—I have got a few more questions, so I might resume after, if that is what you would like to do.

Senator BOSWELL—I have a question that is very close to this. In relation to the general interest charged by the ATO, am I correct in saying that the present interest rate is 14.31 per cent for small business liabilities? I think that rate is pretty excessive. How do you derive that rate? You can do better on bank card than the tax office is offering. Can you give me a reason why the interest rate is so high?

Mr D'Ascenzo—Regarding the first question, the law prescribes a rate of 14.31 per cent and my colleague, Ms Raelene Vivian, can provide some background.

Senator BOSWELL—How does the law prescribe an interest rate? Is there a table?

Mr D'Ascenzo—It is actually in the law.

Senator BOSWELL—So the law says: if you are over 60 days it is 14.31 per cent.

Mr D'Ascenzo—I think it is made up of a number of components.

Senator BOSWELL—Maybe you can explain it to us.

Ms Vivian—Quite simply, you talked about the rate of the general interest charge (GIC) and why it is so high. It has basically been set to encourage prompt payment of amounts owed to the commission. The GIC rate was set quite higher than the cost of commercial finance, but it was also set to reflect the fluctuations in the market.

Senator BOSWELL—It seems excessive when someone is struggling to pay their bills, instead of encouraging them you put a huge penalty on them.

Ms Vivian—One of the things we do is encourage businesses to come and talk to us. There are areas where we can look at remission of GIC; there is a whole range of things that we do to try and encourage businesses to remain viable and get on a front footing with paying their debts.

Senator BOSWELL—If someone had an interest rate of 14.3 per cent and they came to you and said, ‘I’m struggling to meet my payments,’ you would consider a lesser interest rate?

Ms Vivian—We would certainly look at it. There are some reasons for remission that we have a look at. One of the key things we look at is how can we put them on some sort of instalment arrangement to help address their tax debt.

Mr D’Ascenzo—If I could just add to that, over recent years we actually have changed the application of the policy with the proposition of trying to help genuine people get over the line and not have an interest rate as a disincentive for people to reconnect with the system. So, as Ms Vivian has said, we have actually made it much easier for people to enter into payment arrangements. If people come in early and they have got a genuine position and they can trade out of their difficulties, we then consider reductions of interest rates and allow payment arrangements. In other words, we do try to get them over the line where we can.

Senator BOSWELL—Can I table these questions?

CHAIR—Yes, certainly. Do you want to put them on notice?

Senator BOSWELL—Yes.

CHAIR—We will break now until 9.55 pm and resume with Treasury outcome 3 until 10.20 pm.

Proceedings suspended from 9.43 pm to 9.55 pm

CHAIR—I think Senator Bushby was continuing his line of questioning.

Senator BUSHBY—Prior to the break we were discussing the effect of some of the current affairs on GST revenue and we had looked at the effect of the changes to financial activity and the slowing of consumer confidence, and we discussed to some extent what impact that may have. In an overall sense, would you expect a fall in the total GST revenue from the factors currently facing the Australian economy?

Mr Parker—Yes, I think that is right.

Senator BUSHBY—If so, are you able to quantify how much at this stage?

Mr Parker—Essentially, my answer is the same as previously: we are in the process of updating those estimates currently, and the new estimates will be released in MYEFO.

Senator BUSHBY—Would you be able to take that question on notice until such a point in time when you are able to advise the extent to which you believe it will fall?

Mr Parker—Sure.

Senator BUSHBY—Thank you. Is Treasury considering options to compensate the states for the loss in GST?

Mr Parker—Well, I am not personally aware that that issue has been raised. The arrangement under the GST is that all revenue from the GST is paid to the states under the sharing arrangements, and that includes both an upside and a downside for the states.

CHAIR—Thank you. The budget predicted an increase in unemployment, and the current world circumstances may well impact on employment in Australia as well. Do you have any opinions on where we may be heading in terms of the decrease in average income tax revenue for every 100,000 people as a result of those factors?

Mr Parker—Going back to my previous answers, I will have to take that on notice.

Senator BUSHBY—You do not have any preliminary or early indications? This has not been examined and looked at?

Mr Parker—Well, it drops out as a natural consequence of the forecasting and revenue estimation process. That process is presently underway, so I will take the question on notice.

Senator BUSHBY—So you have all these processes presently underway; you do not have anything that has any preliminary results or indications? MYEFO is not a protected document. You are here before us today to answer questions about revenue and the impacts of events on revenue. It is a committee of the parliament. We have an entitlement to answers. The fact that you have got MYEFO coming in the next month or so is not a reason for not assisting the committee when questions are asked as to what impacts we are going to have on revenue.

Mr Parker—We endeavour to assist the committee wherever we can, but in respect of your specific question, I will take that on notice.

Senator BUSHBY—You will take it on notice. Okay. Would you inform the committee which revenue heads are most sensitive to a downturn in the Australian economy, say, in a general sense?

Mr Parker—Is that the question which you asked—

Senator BUSHBY—No, that was a specific question as to the likely impact of the current international crisis on the Australian economy. I am interested in what revenue heads are, in a general sense, most sensitive to a downturn in the Australian economy.

Mr Parker—Well, that will depend very much on the nature of the downturn and whether that downturn is felt and where it comes from. If that downturn were driven, for example, by a fall in commodity prices, then that would tend to feed through—and here we are talking hypothetically, obviously—into the company income tax base in the first instance.

Senator BUSHBY—Mr Parker, I am sorry, I cannot hear you absolutely clearly. I have got a bit of a cold and my ears are a bit blocked. So if you could speak up, I would be appreciative. Thank you.

Mr Parker—As I understood your question, it was: which revenue heads are most sensitive to a general downturn in the economy? My answer was to the effect that that would depend very much on the precise nature of the downturn: whether it was a downturn which affected the corporate sector in particular and in the first instance or whether it was spread more broadly and came from the household sector or consumers or whatever.

Senator BUSHBY—Thank you. What is the likely effect of a downturn in the Australian economy on state and territory revenue, including the GST?

Mr White—We actually have a sensitivity analysis in the budget, in statement 3, which provides two scenarios—the changes in the economy versus the baseline case—and that shows actual sensitivity of the individual revenue heads to the specific circumstances that were in those two scenarios.

Senator BUSHBY—That is very useful. It is very helpful. And where is that?

Mr White—It is in budget paper No. 1 in statement 3.

Senator BUSHBY—Thank you. I am running out of time and I need to ask my last question, so I need to pick which one I am going to ask. Would you confirm that over the 11½ years of the coalition government it took policy decisions that reduced taxes and other revenues by a net \$214 billion, and, if not, what would be Treasury's estimate?

Senator SHERRY—I think we will take that on notice.

Senator BUSHBY—Thank you.

CHAIR—Senator Eggleston.

Senator EGGLESTON—I would like to ask some questions about superannuation, if I could. I think that we are told that there has been something like a 40 per cent fall in the stock market since the beginning of the year, and that has obviously had flow-on effects to superannuation. I presume we can assume that the value of superannuation funds in general has dropped by a similar kind of percentage. Would that be a fair comment?

Senator Sherry—The officers might like to make some comment. I am happy to make a comment but—

Senator EGGLESTON—I do not mind if you do or the officers. It is a genuine question.

Senator Sherry—It might be both. I do not think it is right to assume that if the fall in the stock market, say, since the beginning of the year has been 40 per cent—I am not quite sure that is accurate, but if it was 40 per cent—then there is a 40 per cent fall in the value of superannuation. It does not work that way, because superannuation investments are diversified in law—prudent person—and they are not solely invested in the stock market. Superannuation funds—and it will vary depending on the nature of the default fund and the actively selected options in a fund—are invested in property, cash and bonds. So it does not automatically correlate that a fall in the markets means there will be a fall in the fund return by the same quantum.

Senator EGGLESTON—I do know of somebody who has had a 30 per cent drop in the value of their superannuation. Would that be a more typical sort of figure?

Senator Sherry—No; the average for the last financial year was minus 6.4. That was the average. Now, obviously there will be a range. I do know of negatives.

Senator EGGLESTON—That is quite a dramatic difference, though.

Senator Sherry—I would agree, but the average is 6.4. We do know that. There will be a range. What you have reported does not shock me, because I do know of individuals who

have had similar falls; but, conversely, I do know of individuals who had positives in the last year. So there is a range, but the average is 6.4.

Senator EGGLESTON—What level of increase do you expect of self-funded retirees now seeking to come onto the government pension?

Senator Sherry—Well, there is an impact. One of the officers may be able to help us. I do not know, firstly, whether there has been a calculation that has occurred to date of an impact, but one of the officers can assist us. Mr Gallagher is the model expert. He might be able to provide some indication to you.

Senator EGGLESTON—Thank you very much.

Mr Gallagher—I am not aware of any calculation of that nature which has been done in the short term. Such a calculation would probably be done more by Families, Housing, Community Services and Indigenous Affairs as part of their estimates process rather than by the Treasury. We expected that there would be some movement. However, there are a significant number of nonpensioners who, on the basis of their assets, could qualify for a pension but choose not to do so. There is an element of individual pride in terms of claiming the pension, and there will still, I suspect, be some resistance amongst self-funded retirees to claiming a pension unless they need to do so.

Senator EGGLESTON—Thank you. I suppose this question might also fall under the auspices of other departments, but does Treasury expect or can you quantify the number, perhaps, or the percentage of people who might postpone their retirement? Do we expect to see a large number of people remaining in the workforce who might have retired in the next few years?

Mr Gallagher—In my unit we have not quantified it. I do, however, note there are a set of consistent messages from financial advisers saying that the most important thing you should do in these times is maintain your current employment rather than retiring at this stage. So there are certainly a significant number of messages. On the other hand, as the financial crisis moves into the general economy, there may be some pressure on employment, and it is often the case that older workers are more likely to feel the pressure when there is pressure on employment.

Senator EGGLESTON—Indeed, that is true. I agree with that. Have you got any figures on early superannuation withdrawals? Is there an increased rate of withdrawal from funds by people?

Mr Gallagher—Not since the crisis. This is all happening in the September quarter. We will not see the September quarter APRA data until about December. So we will not have much of a feel there. There is also Centrelink information in terms of financial hardship. I would not expect to see that for some months as yet, and Centrelink do not tend to publish their information, so we would have to go looking.

Senator Sherry—Could I just clarify: are you referring here to the early access provisions, because there is an early access definition with a number of early access—

Senator EGGLESTON—Yes, there is.

Senator Sherry—Hardship is one, as Mr Gallagher has mentioned, but there are some others.

Senator EGGLESTON—There are various levels of access, aren't there, related to age?

Senator Sherry—There are different definitions for early access. One is hardship. I think it is 26 weeks continuous social security, unemployment. Then I know there is one in respect of threatened foreclosure, mortgage interest—

Senator EGGLESTON—Yes, that is right.

Senator Sherry—I think for a year, and I think there are a couple of others. I have not seen any recent data, but I am happy to take it on notice and see.

Senator EGGLESTON—I would be very interested if you could, because, of course, there has been talk of the subprime mortgage crisis affecting our economy for a while, so one would have thought that some people might have felt the need to withdraw, and also interest rates have gone up and so on.

Senator Sherry—I think APRA has some data, and it has published some statistics fairly recently that I recall received some media reports. But APRA, which is appearing tomorrow, may have some later figures.

Senator EGGLESTON—We can ask them. That is a good point. And the Reserve Bank has released figures which show that household net worth fell by 4.9 per cent in the first six months of 2008. What implications does Treasury expect from this for retirement incomes over the next decade?

Mr Gallagher—In modelling retirement incomes we normally have assumed an average return to assets in the long term, which factors in downturns. What has traditionally happened to modelling is that before a market adjustment everyone says that our projections are too low and after the adjustment everyone says the projections now look about right. We are returning to the period where they look about right in terms of the conservative way we project assets.

Senator EGGLESTON—So what are those projections?

Mr Gallagher—Our most recent set of asset projections were published in a paper for the July Colloquium of Superannuation Researchers. I am very happy to provide a copy of that paper to the committee

Senator EGGLESTON—Thank you very much. I think I have asked you, Senator Sherry, about self-managed funds, and I know you are, I believe, working on amending or changing the regulation of self-managed funds. Do you wish to make any comment about the progress of that?

Senator Sherry—Yes. There has been a consultation and submissions were received, and I can indicate the process is coming to a conclusion, but beyond that I cannot provide any indication of any details of proposed changes this evening.

Senator EGGLESTON—No, I accept that. Thank you very much.

Senator ABETZ—I have got a grab bag of questions. First of all, does the carbon sink legislation specifically exclude MIS? If you do not know about it straightaway, take it on notice.

Mr Konza—We will take it on notice.

Senator ABETZ—Thank you. Can you give me a brief update—on notice, given that time is so short—in relation to the test case for the non-forestry MIS? I understand that is progressing.

Mr D'Ascenzo—I think it has been heard.

Senator ABETZ—Oh, it has been heard?

Mr D'Ascenzo—It has been heard, and we are waiting for the court's decision.

Senator ABETZ—Right. So that is how far it has got now: it has been fully heard and we are awaiting a decision?

Mr D'Ascenzo—That is right.

Senator ABETZ—All right. Thank you for that. I have a question in relation to the administration of the tax system—and, so that nobody thinks I am trying to score political points, I think it may well have been a fault of our legislation at the time. Under the business activity statements, for a small business when it has to report quarterly I have a real-life situation in Tasmania. Somebody who has reported faithfully and paid up at all times wants to go on a trip around Australia for a few months. He rings the tax office and asks, 'Can I pay even double my average quarterly in advance so I do not have to put my BAS in or can I pay it later?' He was told, 'No, no, no,' and that if he did not put it in his business activity statement at the appropriate time a penalty would apply et cetera. So a fair bit of expense had to be gone into to get somebody to put that return in for him whilst he was travelling around Australia—and I think he is somewhere in Perth at the moment. But is that the case: that you have got to file, even if you are going to be away or overseas and you want to pay in advance even double what your normal amount might be?

Mr D'Ascenzo—I will ask Ms Vivian to answer that. I hope that we are flexible enough to cater to those sorts of situations. I will have to wait and see what the answer is.

Senator ABETZ—I think the answer is no. But, if that is the case, Minister, I would ask you to consider some change to the legislation which would allow for flexibility for genuine people to even pay what is anticipated in advance so that they can go travelling with peace of mind. But, Ms Vivian, what can you tell me?

Ms Vivian—I will take it on notice and have a look at what sort of arrangements we have in place for situations like that.

Senator Sherry—Can I suggest, Senator Abetz, that perhaps it would be of assistance if you want to make a written representation on behalf of the constituent. That might be useful.

Senator ABETZ—Thank you. That is also a good idea. Could I move to the luxury car tax proposal. First of all, who in Treasury, if anybody, is working on the definition of 'tourist activity' for the regulations?

Ms Barron—That would be me.

Senator ABETZ—Lucky you! Were you consulted at all as to the terminology 'tourist activity' prior to its being introduced by the government as an amendment?

Ms Barron—No, that was, as you would be aware, part of the outcome of negotiations between the government and the—

Senator ABETZ—Well, it was a government amendment, so I am just wondering whether there was any consultation between the government and the department in relation to this issue.

Ms Barron—Sorry, that amendment was proposed by Senator Fielding. Are you talking about the—

Senator ABETZ—My apologies. You are right. Yes, it was a Senator Fielding amendment. The others I am getting to are government amendments. You are quite right. Thanks for correcting me. So there was no consultation prior to—

Ms Barron—As I say, Senator Fielding's amendment was the outcome of negotiation.

Senator ABETZ—Yes, albeit the government voted for it—

Ms Barron—Yes.

Senator ABETZ—I thought the government may have availed itself of the opportunity to get some advice as to the ease with which one might be able to define 'tourist activity' for the purposes of tax legislation, but clearly not.

Ms Barron—Not that I am aware.

Senator ABETZ—No. All right. Thank you very much. Can I then ask: does the financial impact of—I do not know what to call this—the diesel amendment, the one that exempts the 25 imported diesel variants of vehicles amounting to \$38.8 million in forgone revenue, and that is what we were told, take into account the complete removal of the luxury car tax for these imported vehicles and only for those 25 models?

Ms Barron—I might seek some assistance, perhaps, from another part of the group which actually put the data together, but the way that proposal is intended to work, Senator, is to increase the threshold to \$75,000, so you pay no luxury car tax up to \$75,000, but beyond \$75,000 the luxury car tax rate does apply.

Senator ABETZ—That is right. But the \$38.8 million that I was told was the forgone revenue, did that only take into account the 25 models or makes of car?

Mr Brown—The costing of that took account of specific makes of cars that met the criterion, which was seven litres per 100 kilometres an hour tested fuel efficiency.

Senator ABETZ—Yes, we know all that.

Mr Brown—I do not recall how many specific models that was, but it did take account of an assessment of the sales of vehicles that met that specific criterion.

Senator ABETZ—Did it take into account the forgone revenue of the vehicles above \$75,000 that did not have to pay the luxury car tax up to that threshold of \$75,000?

Mr Brown—Yes, it did, Senator. That is a threshold at which the luxury car tax will start for cars that meet the criterion. So, yes, it did.

Senator ABETZ—So it took that into account as well. All right. Now, Minister, can I ask you: why did the government propose this amendment? Was it designed to help change people's attitude and behaviour and, therefore, the buying pattern?

Senator Sherry—I would have to take that on notice, Senator.

Senator ABETZ—Well, one would have thought to exempt it, and given all the discussion in the Senate, that was the purpose of it, because the Treasury has told me in answer to a question, 'Did the Treasury modelling of the luxury car tax take into account—I said, 'the huge impact' but we can leave out the word 'huge'—the impact this measure would have on car sales and on revenue streams?' And I was told, 'The Treasury costing assumes no behavioural responses.'

So if the costing assumed no behavioural responses, and increased taxes have no behavioural responses, one wonders why you would then bother to provide a tax exemption for certain vehicles if it did not engender behavioural responses. So possibly, Minister, you could take that on notice as well.

Senator Sherry—I will.

Senator ABETZ—Even my basic economics 50.5—I will not even say 101—tells me that the higher the price the less likely it is that people will buy, and, therefore, it impacts on behavioural responses. I would have thought.

Senator Sherry—There is an interesting—

Senator ABETZ—I would have thought that was basic, but you have taken it on notice, and I thank you.

Senator Sherry—From my basic economics 101 there are some exceptions: so-called snob buying—the higher the price the greater the purchase. Perfume is a classic example. I can only speculate that you may have that effect in respect of luxury cars.

Senator ABETZ—Possibly with a Porsche or a Lamborghini, but not when you are talking of a Land Cruiser.

Senator Sherry—I would be suspicious if I bought a Porsche with a price, say, of \$50,000, even if I were intending to buy that sort of vehicle.

Senator ABETZ—Well, can I ask whether Treasury is still standing by its budget forecast that the increase in the luxury car tax will yield an extra \$130 million in 2008-09?

Mr Parker—There were various amendments to the luxury car tax made in the Senate, and the impact on revenue of each of those amendments will be laid out in the Mid-Year Economic and Fiscal Outlook in the measures statement, which is in there.

Senator ABETZ—All right. In relation to the amendments that were passed, and—so I do not confuse myself again—they were the Fielding amendments, there was a requirement that the person purchase the vehicle. So if I were a farmer or a tourist operator and leased the vehicle, the leasing company, not being a tourist operator or a registered primary producer, would not get the benefit of the exemption. Is that correct?

Ms Barron—That issue has been brought to our attention, Senator. As I understand it, industry raised the issue with the Taxation Office, which has some preliminary advice.

Senator ABETZ—Which is?

Ms Barron—Well, I would not like to talk on behalf of the tax office, sorry, Senator.

Senator ABETZ—But the tax office is here, so let us do a hospital pass.

Mr Konza—Senator, our advice to Treasury was that the legislation requires that the luxury car tax be borne by the taxpayer who is seeking to have it refunded.

Senator ABETZ—That is what I was just saying.

Mr Konza—So it is arguable that there could be a problem with the leasing arrangement. We have been discussing that with Treasury to see what their response is.

Senator ABETZ—That, of course, is in the primary legislation and it will not be able to be overcome by regulation.

Ms Barron—That is correct, as I understand it, Senator.

Senator ABETZ—Oh, what tangled webs we weave when we make amendments through the Senate with government support, Senator Sherry.

Senator Sherry—I can remember the infamous surcharge tax.

Senator ABETZ—You have been very—

Senator Sherry—We went uphill and downhill about that.

Senator ABETZ—kind and generous, Chair. So thank you for allowing me to go over time.

Senator CAMERON—We are not going to go out and defend the luxury car industry, are we?

CHAIR—Thank you to Treasury officials from output group 3 and various other output groups, and we will ask officials from outcome 4, Well-functioning markets to come to the table.

Senator EGGLESTON—I am interested in foreign investment in resources. I just have a few fairly short questions about that and, in particular, Chinese investment and the iron ore industry. As I understand it, the government put some sort of ban or moratorium on Chinese investment in the iron ore industry some little while ago. I just wondered where that was at and whether you can tell us anything about where you are with that.

Mr Colmer—There is no ban on foreign investment in—

Senator EGGLESTON—Or moratorium?

Mr Colmer—Or moratorium. There have been reports in recent months about delays in some of those foreign investment approvals but they are not particularly out of the ordinary. I think it is fair to say that there have been, up until recently, a fair number of proposals to invest in iron ore in particular and some of those were particularly complex cases. We have, under the Foreign Acquisitions and Takeovers Act 1975, a general requirement to deal with cases within 30 days. However, in more complex cases, it is not unusual to extend that period by another 90 days. That is quite normal and routine for the bigger and more complicated cases.

Senator EGGLESTON—When you say ‘quite a number’, are we talking up to 10, up to 50 or that sort of thing? Can you quantify that in any way?

Mr Colmer—Off the top of my head, I could not give you a specific number in the iron ore industry, but we have probably had something in the order of up to 10 fairly significant ones from China.

Senator EGGLESTON—Does that mean in resource industries other than iron ore as well?

Mr Colmer—Since November we have approved 36 Chinese investment proposals. They have been predominantly in the resource sector and a fair number of those are in the iron ore industry.

Senator EGGLESTON—When you say ‘complex’, what does that imply? What is complex about these Chinese investments as against, Japanese, American, Swiss or British?

Mr Colmer—Nothing is complex in terms of China investment versus other forms of investment. Complexity relates to the particular proposal and it does not go to the nationality of the proposer.

Senator EGGLESTON—So it is not specifically related to Chinese investment; it could apply to any other foreign investment in a resource industry in general?

Mr Colmer—Not only in the resource industry. We have had over the recent past a number of significant and complex cases. I am sure you would remember, for example, the Qantas case last year. We had the Rio buy of Alcan last year. They are complex cases. As you would be aware, there is the BHP Rio proposal. I guess one thing that I would say is that the Chinese are relatively newcomers to Australia and are probably not as used to the arrangements. For example when we deal with big complicated cases, we typically have discussions with the companies involved long before the formalisation of an application, and we have found that, in some cases, some of the applications have not been as well developed as we would like them to be to facilitate their progress.

Senator EGGLESTON—I was particularly interested in the story of a ban on Chinese investment, and obviously that is not really the case.

Mr Colmer—No, there is definitely no ban on Chinese investment.

Senator EGGLESTON—Or a suspension of progress on some, rather than a ban.

Mr Colmer—Absolutely not.

Senator EGGLESTON—It is a poor choice of words on my part. Thank you for those clarifications.

Senator BUSHBY—Thank you, Chair. Sorry to keep you waiting.

Senator Sherry—The markets group are very used to it. I used to keep them waiting.

Senator BUSHBY—With respect to residential mortgage backed securities, the Treasurer claimed he made the announcement at 4.00 pm on 26 September this year following advice from the regulators. Which regulators provided the advice he refers to?

Mr Murphy—The regulators would probably be the RBA. It would be the economic regulators. I will have to take it on notice to give you the exact answer but it would be out of the group of the RBA, ASIC and APRA.

Senator BUSHBY—Treasury?

Mr Murphy—And the AOFM, which is the Australian Office of Financial Management, which is part of the Treasury.

Senator BUSHBY—We had them here earlier tonight. Was the advice from the regulators provided in a written or an oral form?

Senator Sherry—To the Treasurer?

Senator BUSHBY—Yes.

Mr Murphy—We would have to take that on notice. We would not have that.

Senator BUSHBY—On what date was the decision to implement the \$4 billion package made?

Mr Murphy—The decision would have been around 26 September 2008.

Senator BUSHBY—So the decision to implement the package was made on the same date that it was announced?

Mr Murphy—Yes.

Senator BUSHBY—What is the purpose of the residential mortgage backed securities, RMBS, intervention?

Mr Murphy—The purpose is to seek to stimulate the market. We have reached a stage where there has been a lack of interest and risk averseness in the market in terms of mortgage backed securities. Traditionally, we have a very low default rate in terms of mortgages. So mortgage backed securities are a sound investment vehicle. However, because of what people saw or the impact or the implications of the failure of the real estate mortgage backed securities market in the US, that left in some ways a stigma on these securities in Australia. The purpose of the AOFM entering the market was to, through the initial \$4 billion and then there has been another \$4 billion facility announced, try to restart that market and get it going again, to stimulate it.

Senator BUSHBY—What would the consequences for any aspect of the Australian economy have been if the intervention had not occurred and the stimulation that we are trying to achieve did not happen?

Mr Murphy—It is what you are seeing in most credit markets around the world and I suppose it is related to other government initiatives. If people cannot get credit and we cannot have these instruments being used within the market, you are just going to have the freezing of liquidity. Then you will have, in effect, businesses not being able to get credit or to be provided with funds by banks or other institutions.

Senator BUSHBY—You mentioned liquidity. Is that one of the aims of the intervention, to increase the liquidity in the market?

Mr Murphy—Yes, Senator.

Senator BUSHBY—As you mentioned, there was another \$4 billion announced later. Do you think that \$8 billion is sufficient to achieve the outcomes that you just referred to?

Mr Murphy—I think so, but we will have to see. It is an intervention whereby the government is seeking to be the stimulus. We are hoping, as we are in other areas, that the market is starting to come back, and there have been a few reports of that today; I think the governor said that in his speech yesterday. I think what you have seen is these major interventions by foreign governments and foreign regulators into their credit markets to try to start the ball rolling again. That is what the government did with the initiative on the residential mortgage backed securities.

Senator BUSHBY—We heard from the AOFM tonight that as yet they have not actually bought anything but that the process is underway to do so.

Mr Murphy—Yes.

Senator BUSHBY—Once they have entered the market, how quickly do you think the results will become apparent?

Mr Murphy—It is hard to say, but it is a signal that these securities are worth buying and that they are a good investment. It is very difficult to say, but as the markets start to unfreeze—and, as I said in my earlier comment, that is what is starting to happen—I think you will start to see benefits as soon as the AOFM starts buying.

Senator BUSHBY—I will change the subject to the wholesale funding guarantee. What will be the conditions of producing a guarantee of this kind?

Mr Murphy—This is in terms of the government's announcement on the—

Senator BUSHBY—The wholesale funding guarantee for bank deposits.

Mr Murphy—I would prefer not to go back on to that area. The secretary answered a number of questions this morning.

Senator BUSHBY—But this is directly relevant to the banking market, which I presume comes under your area.

Mr Murphy—It does, and I was here with the secretary this morning.

Senator BUSHBY—I have a number of questions that flow from this that are more about the market itself rather than the tack that was taken this morning, which was, I think, more directed at big picture stuff. This is more about how it might work and what it might apply to.

Mr Murphy—As I think the secretary commented this morning, Treasury is still finalising the design of the scheme and will be giving advice to the government within the next few days. It is very difficult for me to comment on design features when it has not left Treasury yet and gone to the government.

Senator BUSHBY—So have any of the design features been settled?

Mr Murphy—No, other than those that have been announced.

Senator BUSHBY—So, if I were to ask you whether it would be available for short-term programs or whether it would apply to transfers from Australian banks to their subsidiaries overseas, would you give me the same answer—and everything in between?

Mr Murphy—No, Senator, I would direct you to the press releases and the information that is on the Treasury website, which seeks to put out as much information there as the government has finalised at this stage.

Senator BUSHBY—All right. I appreciate you directing me to those, but I guess what I am interested in is that, if it is settled and agreed, you pass on to me tonight whether it will apply to these things.

Senator Sherry—Senator, that goes to advice that is being prepared for government.

Senator BUSHBY—That is why I am saying ‘if it has been agreed’, not whether it is advice.

Senator Sherry—The witness has indicated that it has not been agreed. When it has it will be passed onto the government and there will be an announcement in due course.

Senator BUSHBY—I might put a range of those questions on notice, then, until such time as you are able to answer it.

Mr Murphy—Yes, okay.

Senator BUSHBY—Do you think that it would have been more likely that an Australian building society or credit union would have failed in the current crisis had regulation for them not been transferred from the state and territory governments to the Commonwealth through APRA?

Mr Murphy—It is just a personal view, but I would say no. I think the transfer of the function of the building societies and the credit unions into a purpose-built institution like APRA has been of significant benefit to the Australian financial system. Under APRA’s leadership and jurisdiction—

Senator BUSHBY—Oversight?

Mr Murphy—and oversight, I think you have a much more sustainable regulatory framework for the smaller deposit-taking institutions.

Senator BUSHBY—I am not sure I understand you, Mr Murphy. You said no in answer to my question, but the comments you made afterwards sounded as if you were saying that APRA actually may have minimised that risk.

Mr Murphy—Yes, sorry. I took it the wrong way. I thought you were asking if it was a bad thing that they were transferred.

Senator BUSHBY—No, I was asking if it was a good thing.

Mr Murphy—I think it is a very good thing. As governments in the last 20 or 30 years in Australia have realised, these are national markets and they should be regulated on a national basis; they have moved towards having national regulation, and Treasury is very strong on this.

Senator Sherry—I think that is reflected in the announcement of the transfer of the remaining state and territory responsibilities for financial regulation and supervision from those eight jurisdictions to single-standard national regulation in the Commonwealth.

Senator BUSHBY—I have to admit that I am a federalist and so I do like the idea of the states, but in this particular instance I tend to agree.

Senator Sherry—You would be agreeing with the vast majority, in fact; I cannot recall one objection when we announced the transfer.

Senator BUSHBY—Delving into that a little bit further, what would have been the implications for the Australian financial sector had a couple of building societies failed because the prudential regulation for them had remained with the states—hypothetically? If something like that did happen, what would the repercussion be?

Mr Murphy—What we worry about in terms of financial system regulation is the contagion, and it is not hypothetical now—for example, what you saw with Northern Rock in the UK. The failure of any institution in the financial sector can have wide-ranging effects, and that is why under APRA there is much more intense regulation than there is under ASIC. It is APRA's job to know how the financial institutions under it are tracking, what their solvency is and what their lending practices are. The reason that we have prudential regulation as a much more intense regulation is to ensure that these institutions do not fail. That is in APRA's charter; they are not supposed to fail. So what happens is that APRA can step in and merge those institutions with a good bank or a good institution. That is the whole *raison d'être* for the system. If you had had a failure under the old regime, it would have been different. I do not want to be critical of the state cooperative system. It used to be called the Australian financial institutions system, and that was based up in Queensland, I think. It regulated building societies and credit unions up to before the Wallis report in 1996. I do not want to be critical of that system, but I think—and the states agree; they handed over the function to the Commonwealth—there is much stronger regulation under APRA..

Senator BUSHBY—Just taking a step back to where you started, it is very good to hear all of that, but if something such as I mentioned happened—if there had been a building society managed under the old state law and it had fallen over; you used Northern Rock as an example—it would have undermined confidence and potentially could have led to a flow-on effect?

Mr Murphy—The one I can remember—you probably all can—is the Pyramid Building Society in Victoria. That ended up with the Treasurer of the Victorian government at the time having to say that the government underwrote it. I cannot remember the figure now, but the taxpayer in Victoria paid for that for years.

Senator BUSHBY—You said it is not hypothetical given the current world financial circumstances. If we had not had these institutions being run through APRA, then the risk would have been significantly higher that something like that could have happened?

Mr Murphy—I think what we have seen out of the financial crisis is that we have a very sound regulatory system. It is reflected in the fact that we have not had failures up to now, and I do not think there will be. We have not had to have equity injections into any of the financial institutions, which is occurring in a lot of overseas countries. They are injecting equity into them because of solvency issues and because of lending practices. I think at the moment that all this financial crisis seems to show that the Australian regulatory framework is working well and that we have got good regulators, as the Prime Minister has said. Also, I would

suggest that the Australian business community has been reasonably prudent—more prudent in their operations than their counterparts in the US or the UK.

Senator BUSHBY—Thank you for that. Would you then agree that the Financial Sector Reform (Amendments and Transitional Provisions) Act (No. 1) 1999, which was introduced by the coalition and which affected the regulatory transfer to APRA, is actually quite a key measure in terms of providing some of the stability that we currently enjoy vis a vis other nations?

Mr Murphy—Yes.

Senator Sherry—And I would concur with that. Notwithstanding all of this, there are areas where we have identified that more work needs to be done. We have discussed one—credit rating agencies and research houses. That is an area where Treasury and ASIC have concluded their examination and there will be some announcements, for example, in that area. We have the issue relating to the disclosure regime and the gap, the disclosure of covered short selling, in the Corporations Act 2001. So there are still issues and lessons but, as Mr Murphy says and as the Treasurer and the Prime Minister have said, we do have a strong regulatory framework. If we can make it stronger, by learning some lessons from current events, the government will do that.

Senator BUSHBY—I have no doubt in what you are saying. There is always work to be done, otherwise the business of parliament would come to a halt because everything would be done; it would be finished and we could all go home.

Mr Murphy—That is not a bad idea.

CHAIR—At this time of night, absolutely!

Senator CAMERON—It is called job and finish.

Senator Sherry—In the current circumstances I can tell you that the work rate and the dedication—

Senator BUSHBY—There is always a need to look at new things and revise and plug holes. Would you please compare and contrast in a general sense the deposit guarantee schemes recently introduced in other major countries? What have they introduced, how do they differ and what are the key features of each for the major OECD countries?

Mr Murphy—In general terms I will talk about the government's legislation recently introduced. Up to the government's introduction of this new piece of legislation, Australia was one of two countries in the OECD which did not have a deposit insurance regime. It is common practice in OECD countries—28 out of 30—to have deposit insurance. In lots of countries there are different caps as to what—

Senator BUSHBY—Is that a recent thing or is it an ongoing thing?

Mr Murphy—No, historically there has been deposit insurance.

Senator BUSHBY—There has always been one in place?

Mr Murphy—Yes, except for Australia and New Zealand. What you found in this current turmoil is that lots of overseas countries have increased the amount that is initially paid out or

the amount that in effect the government will guarantee to be paid out. This is in overseas countries.

Senator BUSHBY—If they had existing deposit guarantee schemes, why did something like Northern Rock happen?

Mr Murphy—I cannot give you the exact number; I have probably got it here somewhere, but the UK did not pay out enough soon enough. The level of payment out initially was too small compared to what people's accounts were. Kerstin may be able to explain.

Ms Wijeyewardene—I think there are probably a couple of reasons why the UK scheme proved deficient in relation to Northern Rock. One reason was that it was an application process and depositors had to wait between three and six months before they would get their deposits. There was also complexity in terms of how the entitlement worked. So it was 90 per cent of the first £35,000 I think it was—I do not have the precise figures in front of me. I think those complexities created anxiety for the depositors and that is basically what led to the run on Northern Rock.

Senator BUSHBY—So effectively you are saying that in some circumstances you may need 100 per cent guarantee to avoid this?

Ms Wijeyewardene—I think what is important for depositors is that they can be assured that they get their money in a timely way. For many of these depositors it is a liquidity issue—they need the money to live on and pay their day-to-day expenses. I think they are quite keen to have their money as quickly as possible and that is what you did not get in relation to the UK scheme. There was complexity around the actual entitlement. So there was uncertainty for them which I guess created a lack of confidence.

Senator BUSHBY—All right. Thank you.

Senator Sherry—If I could just quickly indicate, Senator, that I was in the UK in January. I went to visit my aunt, who had £15,000 deposited with Northern Rock, and when I sat down to breakfast it was the first thing she raised with me. She had no certainty that she was going to get her £15,000. Whatever the details of the deposit protection schemes were, she had no certainty. She lost great confidence. There was another issue in the UK and obviously, for personal reasons, I followed this case in a little more detail than I normally would. There was a significant and lengthy ongoing public debate about whether to, effectively, nationalise Northern Rock. The government spent some considerable time, a number of weeks, attempting to secure rescue packages for Northern Rock rather than nationalise it. At the same time under their equivalent of our corporations act, you had a range of actions being taken by the shareholders and the company directors having to act in accordance with the responsibilities to the shareholders. You effectively had two strong cross currents at times working against each other. Ultimately the government decided to act decisively and nationalise the institution. While that debate went on for a number of weeks you had a gradual erosion of confidence, not just in Northern Rock but in the general system amongst the community, more generally in the banking system.

Senator BUSHBY—Have you told your aunt to withdraw the £15,000 and deposit it in Australia and she would be covered?

Senator Sherry—Well at that stage if she had done it she would not have been covered because we did not have a deposit scheme. But she did obtain her money. In fact, the irony of it, as I understand it, is that at that time of course people were withdrawing money very quickly from Northern Rock, and once the government effectively nationalised it, they had the reverse problem—people withdrawing money from other banks and putting it into Northern Rock because at that time it was the only government-owned bank.

Senator BUSHBY—Yes, it gave them some confidence. I have a slightly different question. If you have a bank that is rated BBB and another rated AA, it would be normal for the BBB bank to offer a higher interest rate on its deposits. Is that a fair statement?

Mr Murphy—It may be. What the rating means is that the cost of getting funds for a lower rated A down to B will be more expensive.

Senator BUSHBY—So to maintain margins, generally—

Mr Murphy—Well, it may be. It does not have to follow that way.

Senator BUSHBY—But in general that is what is usually observed in the market?

Mr Murphy—Yes, probably.

Senator BUSHBY—With a 100 per cent deposit guarantee, both banks from the perspective of the investor are effectively AAA rated. What are the likely implications for term deposit interest rates under those circumstances? Have you had any consideration of what sort of impact that might have in the market?

Mr Murphy—That goes to the design of the current scheme, so I really do not want to comment on that.

Senator BUSHBY—That is fine. But am I to take it then that as part of the consideration for the design, factors such as that are being considered, and how that might be dealt with?

Mr Murphy—Yes.

Senator BUSHBY—Can you please discuss the moral hazard issues relating to the deposit guarantee measure in general? I will not ask you the next part of that question which was how will the banks be prevented from abusing the guarantee because that will obviously be part of the design. But in terms of the moral hazard issue, how does that play out? What might be the consequences that may need to be considered?

Mr Murphy—I think the secretary talked about moral hazard this morning and to quote him, he said that they are rewriting the text books on the impact or the effect of moral hazard or the proposed effect of moral hazard. Yes, that has always been linked with government guaranteeing anything. All I could say is that issues such as that have to be factored into people's thinking in the design of the scheme which the government is looking at.

Senator BUSHBY—Has Treasury considered what the likely contingent liability to be borne by the taxpayer will be from the 100 per cent guarantee?

Mr Murphy—Again, that was raised this morning. I thought we took that as far as we could this morning.

Senator CAMERON—You have done the circle now.

Senator BUSHBY—They are all intertwined; there is no doubt about that.

Senator CAMERON—It is getting late, we are all—

Senator BUSHBY—We are talking about measures to address macroeconomic issues but they affect markets.

Mr Murphy—They do.

Senator BUSHBY—So that is why we are discussing them again tonight. What are the likely effects on non-authorised deposit-taking institution debenture issuers, for example, corporate and finance companies, from the 100 per cent government guarantee?

Mr Murphy—Again, there has been some speculation in the press. I have not got any hard information which I can elaborate on, other than to say the implications of the guarantee on the financial sector non-ADIs, is being examined.

Senator BUSHBY—All right. I think most of my further questions on this particular issue are probably going to get a similar response.

Mr Murphy—Yes I think so.

Senator BUSHBY—So, I will move onto a different subject. How many staff have left the Foreign Investment Review Board area of Treasury this year?

Mr Colmer—I suspect, Senator, that you are referring to the Crikey comment, but I may be wrong. The number of staff has reduced—I do not have exact numbers, but I think it has gone from something in the order of about 34 about 12 months ago to about 27 at the moment.

Senator BUSHBY—What was the average length of service of the staff who left the FIRB area in the last 12 months?

Mr Colmer—I do not know off the top of my head, but I would point out that the Crikey report which suggested that senior staff were leaving because of dissatisfaction is totally incorrect.

Senator CAMERON—Well, that is a surprise!

Mr Colmer—Well, it is not a surprise at all. I have been in the area for two years. The two managers in the FIRB have been there for about 3½ years. There have not been any departures as a result of dissatisfaction in the system. There have been some reductions in numbers as a result of improvements in the screening system and the reduction in staff requirements. In terms of the staff turnover, it is a very difficult question because we have a fairly large number of contract staff who do typically stay a reasonably short time but they are at the junior levels doing the basic processing.

Senator BUSHBY—Alright, I will move beyond the staff turnover issue. How many hours on average would FIRB area staff work?

Mr Colmer—I think the average is 35½ hours.

Senator BUSHBY—So has there been no noticeable increase in the number of hours that FIRB area staff work in the last 12 months?

Mr Colmer—No.

Senator BUSHBY—Has the FIRB area picked up any new duties under the new government?

Mr Colmer—No.

Senator BUSHBY—No. Alright, that is fine.

Senator Sherry—If I could just make a general observation about the markets group as a whole, with which I obviously have a great deal to do. They are all working extraordinarily hard and extraordinarily well under extraordinary pressure given the times we are in and the issues the markets group are considering at the present time.

Senator BUSHBY—I have no doubt they are. I note we have only got about one minute 10 seconds to go. Is this the appropriate area for bank switching?

Mr Murphy—Yes.

Senator BUSHBY—I might try and get a couple of questions in on that then. What measures has the government put in place to ensure that bank—

Senator Sherry—Can I appeal for just some tolerance? Please, a minute or two?

Senator BUSHBY—What are the anticipated costs to banks for compliance with the bank-switching package? Has any analysis been conducted of that?

Ms Wijeyewardene—We will take that on notice.

Senator BUSHBY—Alright. That leaves me 35 seconds. Has Treasury modelled the regulatory changes and their impact on bank product interest rates?

Ms Wijeyewardene—Of the switching package?

Senator BUSHBY—Yes.

Ms Wijeyewardene—I would have to take that on notice.

Senator BUSHBY—I think I might leave it there.

CHAIR—Thank you, Senator Bushby, and thank you to the markets group.

Mr Colmer—Just one clarification. I did say 35½ hours but 37½ hours is the standard week.

CHAIR—Thank you to the markets group for coming here.

Senator Sherry—Thank you, Chair and committee and senators.

CHAIR—Thank you, Minister, to the secretariat, Hansard and broadcasting.

Senator Sherry—And to our staff and Hansard.

CHAIR—Thank you, the committee is adjourned.

Committee adjourned at 11 pm