



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## **SENATE**

ECONOMICS LEGISLATION COMMITTEE

ESTIMATES

**(Budget Estimates)**

TUESDAY, 2 JUNE 2009

CANBERRA

BY AUTHORITY OF THE SENATE

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**SENATE ECONOMICS**  
**LEGISLATION COMMITTEE**  
**Tuesday, 2 June 2009**

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

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

**Senators in attendance:** Senators Abetz, Birmingham, Bushby, Cameron, Coonan, Cormann, Eggleston, Feeney, Heffernan, Hurley, Joyce, Ludlam, O'Brien, Pratt, Ronaldson, Sterle, Williams and Xenophon

**Committee met at 9.01 am**

**RESOURCES, ENERGY AND TOURISM PORTFOLIO**

**In Attendance**

Senator Jan McLucas, Parliamentary Secretary to the Minister for Health and Ageing

Senator Nick Sherry, Minister for Superannuation and Corporate Law

**Department of Resources, Energy and Tourism**

**Executive**

Mr John Pierce Secretary

Mr Drew Clarke, Deputy Secretary

**Principal Adviser**

Mr Demus King, Manager, Energy Strategy Team, on behalf of Ms Tania Constable

**Enabling Services**

Mr Robert Towner, General Manager, Enabling Services

Ms Nicola Morris, Chief Legal Officer, Enabling Services

**Resources Division**

Ms Sue Kruse, General Manager, International, Resources Development and Taxation Branch

Mr Chris Stamford, General Manager, Minerals Branch

Ms Carolyn Barton, Acting General Manager, Fuels and Uranium Branch

Mr Michael Sheldrick, General Manager, Global CCS Initiative

Ms Margaret Sewell, General Manager, Low Emissions Coal and CO<sub>2</sub> Storage Branch

Mr Bob Pegler, General Manager, Global CCS Initiative

Mr Patrick Davoren, Manager, Fuels and Uranium Branch

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Ms Kimberley Pattinson, Manager, Fuels and Uranium Branch  
Mr Richard Niven, Manager, Fuels and Uranium Branch  
Mr Martin Squire, Manager, LNG and Petroleum Development, Offshore Resources Branch  
Mr Steve Tantala, Manager, Carbon Capture and Storage Legislation, Low Emissions Coal and CO2 Storage  
Mr Peter Livingston, Acting General Manager, Offshore Resources Branch

**Energy and Environment Division**

Mr Brendan Morling, Head of Division  
Mr John Griffiths, General Manager, Energy Security Branch  
Mr Chris Locke, General Manager, National Energy Market Branch  
Mr Geoff Stone, General Manager, Energy Futures Branch  
Mr Paul Johnson, General Manager, Industrial Energy Efficiency Branch  
Mr Bruce Wilson, General Manager, Environment Branch  
Mr Gino Grassia, Manager Greenhouse Section, Environment Branch  
Mr Rick Belt, Manager Renewable Energy Section, Environment Branch

**Tourism Division**

Ms Jane Madden, Head of Division  
Mr Wayne Calder, General Manager, Business Development Group  
Mr Peter Tucker, General Manager, Industry Sustainability Group  
Ms Karen Jacobson, Acting General Manager, Market Access Group

**Geoscience Australia**

Dr Chris Pigram, Acting Chief Executive Officer and Chief, Geospatial and Earth Monitoring Division  
Dr James Johnson, Chief, Onshore Energy and Minerals Division  
Ms Dianne Clarke, General Manager, Corporate Branch  
Mr Glenn Ashe, Chief Information Officer  
Mr Geoff McMurray, Chief Finance Officer

**Tourism Australia**

Mr Geoff Buckley, Managing Director  
Ms Rachel Crowley, General Manager, Corporate Communications

**CHAIR (Senator Hurley)**—I declare open this public hearing of the Senate Economics Legislation Committee. The Senate has referred to the committee the particulars of proposed expenditure for 2009-10 and related documents for the Innovation, Industry, Science and Research, Resources, Energy and Tourism and Treasury portfolios. The committee must report to the Senate on 25 June 2009 and has set 31 July 2009 as the date by which answers to questions on notice are to be returned.

Under standing order 26 the committee must take all evidence in public session. This includes answers to questions on notice. Officers and senators are familiar with the rules of the Senate governing estimates hearings. If you need assistance, the secretariat has copies of the rules. I particularly draw the attention of witnesses to an order of the Senate of 13 May 2009, specifying the process by which a claim of public interest immunity should be raised and which I now incorporate in *Hansard*.

*The document read as follows—*

**Order of the Senate—Public interest immunity claims**

That the Senate—

- (a) notes that ministers and officers have continued to refuse to provide information to Senate committees without properly raising claims of public interest immunity as required by past resolutions of the Senate;
- (b) reaffirms the principles of past resolutions of the Senate by this order, to provide ministers and officers with guidance as to the proper process for raising public interest immunity claims and to consolidate those past resolutions of the Senate;
- (c) orders that the following operate as an order of continuing effect:
  - (1) If:
    - (a) a Senate committee, or a senator in the course of proceedings of a committee, requests information or a document from a Commonwealth department or agency; and
    - (b) an officer of the department or agency to whom the request is directed believes that it may not be in the public interest to disclose the information or document to the committee, the officer shall state to the committee the ground on which the officer believes that it may not be in the public interest to disclose the information or document to the committee, and specify the harm to the public interest that could result from the disclosure of the information or document.
  - (2) If, after receiving the officer's statement under paragraph (1), the committee or the senator requests the officer to refer the question of the disclosure of the information or document to a responsible minister, the officer shall refer that question to the minister.
  - (3) If a minister, on a reference by an officer under paragraph (2), concludes that it would not be in the public interest to disclose the information or document to the committee, the minister shall provide to the committee a statement of the ground for that conclusion, specifying the harm to the public interest that could result from the disclosure of the information or document.
  - (4) A minister, in a statement under paragraph (3), shall indicate whether the harm to the public interest that could result from the disclosure of the information or document to the committee could result only from the publication of the information or document by the committee, or could result, equally or in part, from the disclosure of the information or document to the committee as in camera evidence.
  - (5) If, after considering a statement by a minister provided under paragraph (3), the committee concludes that the statement does not sufficiently justify the withholding of the information or document from the committee, the committee shall report the matter to the Senate.
  - (6) A decision by a committee not to report a matter to the Senate under paragraph (5) does not prevent a senator from raising the matter in the Senate in accordance with other procedures of the Senate.
  - (7) A statement that information or a document is not published, or is confidential, or consists of advice to, or internal deliberations of, government, in the absence of specification of the harm to the public interest that could result from the disclosure of the information or document, is not a statement that meets the requirements of paragraph (1) or (4).
  - (8) If a minister concludes that a statement under paragraph (3) should more appropriately be made by the head of an agency, by reason of the independence of that agency from ministerial direction or control, the minister shall inform the committee of that conclusion and the reason

for that conclusion, and shall refer the matter to the head of the agency, who shall then be required to provide a statement in accordance with paragraph (3).

- (d) requires the Procedure Committee to review the operation of this order and report to the Senate by 20 August 2009.

(Agreed to 13 May 2009.)

(Extract, Journals of the Senate, 13 May 2009, p.1941-42)

**CHAIR**—Officers called upon for the first time to answer a question to state their name and position for the Hansard record and witnesses should speak clearly into the microphone. Please make sure all mobile phones are turned off.

The committee will begin today's proceedings with the resources and energy divisions of the department and will then follow the order as set on the circulated program. I welcome Senator Jan McLucas representing the Minister for Resources and Energy and officers of the department. I would particularly like to welcome Mr Pierce for his first estimates as secretary of the department. Minister or officers, would you like to make an opening statement?

**Senator McLucas**—I do not, thank you, Chair.

**Mr Pierce**—No.

**CHAIR**—We will start with questions.

**Senator JOYCE**—I note today that Richard Marles has bought up, as noted in the *Australian*, that he has concerns about the aluminium industry with the implementation of the ETS. In regard to outcome 1 where you talk about improved strength and competitiveness of the industry, have you done any research as to determine whether his concerns about an ETS in the aluminium industry are warranted?

**Mr Clarke**—The department is engaged with the Department of Climate Change in development of the CPRS. We are aware of issues that various energy-intensive sectors raise, including the aluminium sector. But no, we are not conducting separate modelling or analysis of that.

**Senator JOYCE**—You have done nothing to determine the improved strength, competitiveness or sustainability of the aluminium industry in Australia if the current emissions trading scheme, as proposed by the government, is brought forward?

**Mr Clarke**—We are working with the Department of Climate Change in the setting of the CPRS parameters in regard to energy-intensive industries.

**Senator JOYCE**—Have you done anything to determine or verify, in any way, shape or form, a position of what that industry will be? Because the ETS is not policy; it is a document, it is legislation, it is currently before the House. Where are with that?

**Mr Clarke**—The sectoral modelling to support the development of the emissions trading scheme is conducted through Treasury.

**Senator JOYCE**—Have you done anything further in regard to the agricultural resources questions that have been brought up by ABARE showing a 22 per cent reduction in the agricultural industry?



**Mr Clarke**—Again, that modelling is in regard to the resources and, indeed, the agricultural sector is done through Treasury and ABARE. We do not conduct independent or separate modelling from that done by those agencies.

**Senator JOYCE**—So, there is no modelling in any way, shape or form that you have been involved with, with the ETS?

**Mr Clarke**—Other than the modelling done by Treasury and ABARE and through Department of Climate Change, no.

**Senator JOYCE**—So you have been involved?

**Mr Clarke**—We are engaged in that work, but we are not conducting separate modelling from that work.

**Senator JOYCE**—You are engaged in that modelling?

**Mr Clarke**—Yes, we participate in the work developing the parameters for that modelling and the interpretation of it.

**Senator JOYCE**—Is that model an equilibrium based model?

**Mr Clarke**—Yes, it is GE modelling.

**Senator JOYCE**—Is one of the presumptions that it is a full employment equilibrium based model?

**Mr Clarke**—I do not feel competent to give you any more detail on the internal workings of that modelling. I would refer you to Treasury.

**Senator JOYCE**—In determining the improved strength and competitiveness of the Australian industry, have you done any studies on other industries in the mining sector throughout the globe?

**Mr Clarke**—The department monitors and keeps track of developments across the resources, energy and tourism sectors. I am not sure what more specifically I can—

**Senator JOYCE**—Let us go specifically to coal. In coal in the last year, have we been holding our markets or losing our markets?

**Mr Clarke**—I will bring the relevant officer to the table, thank you.

**Senator JOYCE**—Mr Stamford, in regard to our current position with the consumption of coal, what portion of the global market is Australian coal?

**Mr Stamford**—Australian coal contributes about 30 per cent of the global market.

**Senator JOYCE**—Thirty per cent of consumed coal?

**Mr Stamford**—Yes. That is 30 per cent of seaborne coal, so that is the export market.

**Senator JOYCE**—Of the total coal contained in the world?

**Mr Stamford**—I do not have that, but we can find it for you.

**Senator JOYCE**—Four per cent. Of seaborne coal, have other players in the market started eating into Australia's market share?

**Mr Stamford**—Yes, Senator, there have.

**Senator JOYCE**—Where are they from?

**Mr Stamford**—Principally from Indonesia.

**Senator JOYCE**—From obviously around the island of Borneo. Their coal mines are basically proximate to the coast are they not?

**Mr Stamford**—Yes, they are mostly within 50 to 120 kilometres of the coast.

**Senator JOYCE**—Do they have any strategic cost advantages over Australian coal?

**Mr Stamford**—Yes, they do in regards to shipping.

**Senator JOYCE**—Is that because of their proximity to the market?

**Mr Stamford**—Yes, Senator.

**Senator JOYCE**—What is the volume of coal that they could bring online if they need to?

**Mr Stamford**—I could not answer that.

**Senator JOYCE**—But they have been taking market share off Australia?

**Mr Stamford**—Yes, they have.

**Senator JOYCE**—How much market share have they taken off Australia?

**Mr Stamford**—I do not have the figures for the growth of the Indonesian coal industry with me, but they are certainly now the world's largest exporter of thermal coal.

**Senator JOYCE**—They took about a 15 per cent share I think off the Australian market. Could we exacerbate that position by internal government policies that make our coal less competitive and therefore give more of an entree to Indonesia in taking further advances into our coal market?

**Mr Clarke**—The general proposition that government policy settings affect the competitiveness of the industry is self-evidently true, but you would have to be more specific I think before we could answer.

**Senator JOYCE**—With the current position of a tax or a charge on fugitive emissions, will this have the capacity to increase the price of coal, taking away our competitiveness; therefore losing our position in the market to Indonesia vis-a-vis Australian jobs going and Indonesian jobs growing?

**Mr Clarke**—Senator, we can only answer the question in the hypothetical. Does any change to the cost structure of any sector affect its competitiveness? Clearly, yes.

**Senator JOYCE**—I will be very specific then. Does the ETS affect the cost structure and our competitiveness?

**Mr Clarke**—The impact of the ETS on that sector, is of course a function of the detailed design, and as you have already mentioned, it is still a policy, it is not yet legislated. It remains to be seen exactly the way in which the package for the emissions-intensive trade-exposed sectors plays through.

**Senator JOYCE**—Do you think that the effect on the Australian coal industry is beyond the hypothetical with the legislation as you currently see it? Because it is no longer policy; it is legislation that is currently before this parliament.

**Mr Clarke**—Sorry, do I think?

**Senator JOYCE**—It is beyond the hypothetical—that is, it will definitely affect the cost structure, it will definitely put up costs, it will definitely reduce our competitiveness; we will definitely lose market share to somewhere else.

**Mr Clarke**—That sounds like a statement, Senator, rather than a question.

**Senator JOYCE**—Do you agree with the statement?

**Mr Clarke**—I do not have the analysis in front of me. I make the observation that any change to the cost structure of an industry will have an impact on its competitiveness. The details of all the impacts of the CPRS are still being worked through.

**Senator JOYCE**—They are still being worked through?

**Mr Clarke**—Yes.

**Senator JOYCE**—What is still to be worked through?

**CHAIR**—The Senate, Senator Joyce. It has to pass.

**Senator JOYCE**—Do you have knowledge of other schemes and policies around the globe that might affect competitiveness of coal or resources elsewhere?

**Mr Stamford**—Not specifically, no, Senator. However, the coal market is driven also by the internal dynamics of the country that mines it. What you see in most coal market exports is a product which is consumed domestically first and then the remnant is sent overseas. I cannot tell you what the likelihood is of Indonesia continuing to grow as a coal exporter; that would depend entirely on their internal capacity, their growth and how that drives the coal market internally.

**Senator JOYCE**—We have currently obviously got a recession on, and obviously it is global. Do you see the capacity for coal stockpiles to increase or decrease?

**Mr Stamford**—Sorry, as a result of the global economic crisis?

**Senator JOYCE**—Yes.

**Mr Stamford**—It depends on where you are holding your stockpile, Senator. If you are saying, ‘Are they going to continue to mine at the current rate and stockpile, on a global sense?’ I could not say. That would be a matter for individual companies and individual countries.

**Senator JOYCE**—Do you think they will mine at the current rate in Australia, our nation?

**Mr Stamford**—We have already seen a number of mines go on care and maintenance in Australia. We have also seen a drop in the level of production in Australia over the last six months and we have also seen recent price declines in the benchmark price of coal. So under those circumstances you would say overall production would not continue to grow at the current rate.

**Senator JOYCE**—So they are reacting to market factors—that is, price?

**Mr Stamford**—Yes.

**Senator JOYCE**—And they are reacting to profitability factors also?

**Mr Stamford**—That would be a matter for the individual companies, but I would imagine so, yes.

**Senator JOYCE**—So anything that reduces the profitability will put more and more mines into a position of basically going into mothballs?

**Mr Clarke**—Market impact, Senator. I do not see how we can answer you other than from first principles.

**Senator JOYCE**—Are you aware of any government policies at the moment that will decrease the competitiveness of the mining sector in Australia?

**Mr Clarke**—Senator, that is a very open-ended question; I really do not know how to respond to that.

**Senator JOYCE**—Are you aware of any government policies that are before this parliament at the moment that will decrease the competitiveness of the coal industry and the agricultural industry, in fact everything that is noted in outcome 1, the improved strength and competitiveness of the resources, energy and tourism industries?

**CHAIR**—Senator, that is a very broad question and covers a range of government policies.

**Senator JOYCE**—It is a very obvious question with a very obvious answer that people do not want to give.

**CHAIR**—I would ask, Senator Joyce, that you make it a bit more specific to the responsibilities of the department.

**Senator JOYCE**—The major issue that is before our parliament at the moment is the emissions trading scheme, which is a subset of a whole range of possible carbon pollution reduction schemes. Would you agree that an ETS is not the only carbon pollution reduction scheme; it is a subset of a whole range of possible carbon pollution reduction schemes?

**Mr Clarke**—Yes, there are a broad range of measures designed to transform the emissions intensity of the Australian economy.

**Senator JOYCE**—But for a tradeable entity, as proposed by the emissions trading scheme that is before our parliament at the moment, this will definitely, definitively, without a shadow of a doubt, increase the cost in our major exports, such as coal. In fact, coal is our major export, isn't it?

**Mr Clarke**—Yes.

**Senator JOYCE**—By what factor?

**Mr Stamford**—Coal, coke and briquette exports in 2008-09 were \$54 billion. Iron ore was considerably less than that. So, as individual commodities, it was considerably in advance.

**Senator JOYCE**—Mr Stamford, I know you do not want to say the word ETS, but it is the major thing and it is going to reduce competitiveness. Do you have any knowledge of any industry in Australia that could possibly take the position of coal?

**CHAIR**—Senator, that is very broad and hypothetical.

**Senator JOYCE**—No, I do not think it is hypothetical.

**CHAIR**—None of these departmental officers have responsibility for other—

**Senator JOYCE**—It is. It says ‘improved strength, competitiveness and sustainability’ of resources and I am talking about a major resource. I am asking a specific question: do you know of any export that could possibly take the position—

**CHAIR**—Are you talking about resource exports, Senator Joyce, or any?

**Senator JOYCE**—They are resources. Coal is a resource. It is certainly an energy.

**CHAIR**—Yes, but you have asked an open-ended question about any other export and I do not think the officer—

**Senator JOYCE**—I do not think it has got much to do with tourism, but it has got a lot to do with resources and a lot to do with energy. The question I ask is: is there any industry that you know that could possibly take the position of coal as our major export in the short term, because that is when the ETS is coming in?

**Senator McLucas**—Senator, I think you are asking the officer for an opinion. If you asked some direct questions about the work that the department has undertaken, I think we can be of assistance.

**Senator JOYCE**—Is there the capacity for iron ore to be increased to the extent that it will take the position of coal? Is there the capacity in the globe and the capacity in the Australian domestic economy for us to translate from iron ore to coal in the short term?

**Senator McLucas**—Senator, I do not know that we would have undertaken that work.

**Senator JOYCE**—You would not have undertaken that work?

**Senator McLucas**—To try and speculate about one resource commodity being able to overtake another resource commodity. I mean, why didn’t we pick gold? Why would the department spend work trying to ascertain what other commodity might take over the benefit of coal to our country?

**Senator JOYCE**—The verb ‘to be’, to speculate, because speculating is exactly what the emissions trading scheme is based on—speculation.

**Senator PRATT**—It is environmental; it is the wrong portfolio.

**Senator JOYCE**—We are talking about resources here. Is there any industry that you know that lately has been growing at an exponential rate that would put it proximate to the coal industry in the near future?

**Mr Clarke**—Perhaps the best way of answering your specific question, and I will ask Mr Stamford to respond, is on which are the high-growth areas in the resources sector. We will come back to that, but if I could respond to the broader theme in your questioning first before going to that specific. First of all, the emissions trading and the climate policy response is, of course, the responsibility of the Department of Climate Change, not this department, so specific questions about the design of that we would refer to the Department of Climate Change. Second, the sectoral impact of the policy that is currently before the parliament has been modelled by Treasury. Again, that is on the public record, and this department has not undertaken separate modelling. We are quite happy to rely on the Treasury modelling of the forecast impact on those sectors.

**Senator JOYCE**—You have been across that modelling, haven't you?

**Mr Clarke**—We have been engaged in the process of developing that modelling.

**Senator JOYCE**—You have been engaged in that modelling, therefore the questions I ask are quite relevant and you do have the expertise to answer them.

**Mr Clarke**—The answer is in the published modelling. There is no additional data or forecast that I can bring to the table.

**Senator JOYCE**—Mr Clarke, let us go back to the question you suggested. Tell me about any industry that has an exponential growth factor in it at the moment, that is roaring ahead?

**Mr Clarke**—Without going into the mathematics of exponential, what are the high-growth sectors currently—would that be an appropriate framing?

**Senator JOYCE**—And what is their portion of the actual resources growth, giving a factor?

**Mr Stamford**—Iron ore and coal are by far the two largest sectors in the mineral sector. The export value for coal, as we mentioned before, is forecast in 2008-09 to be at least \$54,679,000,000. In the case of iron ore, in 2008-09 you are looking at exports of iron ore and pellets of about \$34 billion. Beneath that, while there are sectors that grow very rapidly from time to time, particularly gold at the current time—

**Senator JOYCE**—What is gold?

**Mr Stamford**—In the case of gold, normal exports for 2008-09, as a forecast, is about \$17.337 billion.

**Senator JOYCE**—I am referring this to energy then I will hand over to my colleague Senator Abetz. Can you tell me the growth in the photovoltaic cell industry?

**Mr Clarke**—I will need to bring a different officer to the table, if you will bear with us, Senator. By growth in PV, you are talking about installation of photovoltaic cells rather than manufacturing?

**Senator JOYCE**—What is the size of the domestic manufacturing industry in Australia of photovoltaic cells?

**Mr Morling**—I do not have any figures on the size of the manufacturing sector in Australia.

**Senator JOYCE**—Is there a manufacturing industry in Australia for photovoltaic cells?

**Mr Morling**—Apart from the BP facility that recently—

**Senator JOYCE**—They are closing down, aren't they?

**Mr Morling**—That is my understanding.

**Senator JOYCE**—So there was one, but it closed down. The size of the photovoltaic cell manufacturing industry in Australia is zero?

**Mr Morling**—I am not aware of another manufacturing facility in Australia.

**Senator JOYCE**—Because you are not aware of any other manufacturing industry in photovoltaic cells, we would have to say the size of the photovoltaic cell industry in Australia is zero.

**Mr Clarke**—No, Senator, we cannot give you that definitive statement as we do not have the data.

**Senator JOYCE**—Mr Clarke, do you want to tell me where there is a photovoltaic cell industry in Australia?

**Mr Clarke**—I am not suggesting there is; I am just not willing for the inference to be made that we have given you a definitive statement, because we do not have the data.

**Senator JOYCE**—Let us go to the wind industry. Can you tell me where the technology to develop wind power is manufactured in Australia?

**Mr Belt**—Certainly, most of the turbine components to make up the wind turbine are imported.

**Senator JOYCE**—From? Denmark?

**Mr Belt**—A range of places, I would say; certainly India and Europe are the main sources.

**Senator JOYCE**—Do we make any in Australia?

**Mr Belt**—I think there is a manufacturer, very small, of turbines in the west of Australia and certainly there are companies in Australia which participate in the manufacture of the steel for the towers and the footings for the wind turbine projects.

**Senator JOYCE**—Away from the footings, for all intents and purposes, apart from very minor participation in Western Australia, Australia is not of any real consequence; it is really an indiscernible participant in the manufacturing of wind power.

**Mr Belt**—I do not think we would be considered to be contributing a lot to the manufacturing side of the turbines, no.

**Senator JOYCE**—Can you suggest to me, and this is my last question, anywhere in the renewable resources industry which has shown exponential growth for Australia as a major competitor in global markets in the manufacture of alternative energy sources?

**Mr Clarke**—Technology manufacturing is your specific question, Senator?

**Senator JOYCE**—Whatever suits you.

**CHAIR**—I think the point was—

**Senator JOYCE**—No, let them get to an answer, Madam Chair.

**CHAIR**—I am saying the relevance of a manufacturing question to this department is debatable.

**Senator JOYCE**—No, it is energy. It is energy. It is about how we deal with energy.

**CHAIR**—That is a different question.

**Senator JOYCE**—Is there any capacity domestically in Australia currently exhibited that is in the manufacture of alternative energy sources?

**Mr Clarke**—Senator, would you allow me to answer the question in the broad? Is the question of the nature of: where are the growth prospects in resources, energy and technology sectors in Australia?

**Senator JOYCE**—I want to know where they are right now.

**Mr Clarke**—I would suggest to you that there is enormous potential in our—

**Senator JOYCE**—No, not potential—where it actually is, just like it actually is on the ground in Denmark and it is on the ground in India and it is on the ground in a range of European countries and it is on the ground in Germany. I want to know where it is on the ground in Australia.

**Senator CAMERON**—For 11½ years you did nothing about it.

**Senator JOYCE**—Hang on—

**CHAIR**—Thank you. We are trying to work through this questioning.

**Senator JOYCE**—Ignore the interjection and answer the question, Mr Clarke.

**Mr Clarke**—Two sectors I would point to, Senator, are LNG and geothermal energy.

**Senator JOYCE**—LNG and geothermal? LNG will have an emissions trading scheme. That will be covered by the ETS will it not; it will have a tax on it?

**Mr Clarke**—To the extent that it emits greenhouse gases, yes.

**Senator JOYCE**—So the only renewable sector that we have or new sector we have is actually going to be taxed by the ETS? Thank you very much!

**CHAIR**—Senator Cameron.

**Senator CAMERON**—Thank you. I am not sure if this question is for Mr Pierce or Mr Clarke. You indicated that Indonesia's capacity to export depends on its domestic economy. There is also another factor, isn't there, that the quality of Indonesian coal is not as good as Australia's? Is that correct?

**Senator JOYCE**—That is not right, actually.

**Senator CAMERON**—I am not asking you. Why would I ask you for any expert opinion? Give us a break!

**CHAIR**—Thank you. We do not need to have an exchange among senators.

**Senator CAMERON**—Why would I ask Barnaby for an expert opinion on anything?

**Senator JOYCE**—Different to you, we have actually done our research.

**CHAIR**—Senator Joyce, Senator Cameron.

**Mr Stamford**—Sorry, Senator, your question?

**Senator CAMERON**—I understand that Indonesian coal has got some disadvantages in terms of moisture content and quality compared to Australian coal.

**Mr Stamford**—That is my understanding, Senator, but I am not a technical expert on Indonesian coal.



**Senator CAMERON**—Okay. Regarding the global economic recession, the worst recession since the Great Depression, what implications has it had for the minerals industry worldwide?

**Mr Stamford**—Senator, the principal implication is that minerals underpin manufacturing and industrialisation across the world. To the extent that the global economic crisis has slowed both manufacturing and industrialisation, the minerals sector has been hit directly.

**Senator CAMERON**—Both in Australia and in our export competing countries?

**Mr Stamford**—Particularly in our exporting countries, yes, Senator.

**Senator CAMERON**—In relation to the global economic crisis, Mr Hillman from the Australian Coal Association gave a *Lateline* interview indicating that growth in the use of coal would continue by about two per cent per annum for the foreseeable future; is that the analysis of your department?

**Mr Stamford**—We have not done any specific analysis on the long-term use of coal, but there is a general expectation that fossil fuels will continue to underpin both manufacturing and power for some considerable time to come. It is one of the reasons why low-emissions coal technology is important, Senator.

**Senator CAMERON**—Do you agree with the Treasury estimates that there will continue to be robust growth in the Australian economy?

**Mr Clarke**—We have no reason to diverge from Treasury forecasts in that area, Senator.

**Senator CAMERON**—Do you agree then that there will continue to be growth in the Australian coal industry?

**Mr Clarke**—Yes, we are comfortable to rely on Treasury's forecast in that area.

**Senator CAMERON**—Are you aware of a report by the Minerals Council of Australia and Dr Brian Fisher?

**Mr Clarke**—Yes, Senator.

**Senator CAMERON**—That report is saying that 23,510 fewer people will be employed in the industry by 2020. But what has not been reported in the media is that this is the number of jobs lost compared with what would otherwise have occurred. Is that your understanding of that report?

**Mr Clarke**—It is, Senator.

**Senator CAMERON**—Have you got any comment about how this report has been reported by the media around the country?

**Mr Clarke**—No. My understanding, though, is that your characterisation is a more complete description of the report, but I have no other comment to make on it.

**Senator CAMERON**—So the coal industry will continue to grow and jobs will continue to be created in the coal industry for the foreseeable future?

**Mr Clarke**—That was the forecast presented there and that is consistent with other forecasts, yes.

**Senator CAMERON**—Are you aware of the Clive Palmer coal development with China, in Rockhampton?

**Mr Stamford**—No, Senator, I am not.

**Senator CAMERON**—You are not? You are not aware of a report about tens of thousands of jobs being created in Queensland in the coal industry?

**Mr Stamford**—Not in relation to—

**Senator JOYCE**—I will help him out. He is getting the pronunciation wrong. It is actually the Clive Palmer Galilee Basin and the 498 kilometres that goes from the Galilee Basin up—a wonderful idea; let us not hold our breath waiting for it.

**CHAIR**—Thank you, Senator Joyce! Mr Stamford.

**Mr Stamford**—The Galilee Basin development, Senator, I am aware of.

**Senator CAMERON**—Clive Palmer indicates that tens of thousands of jobs will be created nationally from that. Have you had a look at the projections on this project?

**Mr Stamford**—Senator, I have been present at discussions with both Waratah and Alpha Coal in relation to those discussions and I have seen those companies' projections, but the department itself has done no further work on it.

**Senator JOYCE**—Are you aware that the Labor government never built the railway line for it to be moved up?

**Senator CAMERON**—Clive Palmer has indicated that the ETS would not have a significant effect on his decision to invest in that project; are you aware of that?

**Mr Stamford**—No, Senator, I am not aware of that view.

**Senator JOYCE**—How long would it take to get the Galilee Basin online—500 kilometres of railway line?

**CHAIR**—Thank you. Senator Cameron is asking the questions. Go ahead, Senator Cameron.

**Senator CAMERON**—I am sure they were well aware what I was going to ask! It is quite clear, I think. In terms of the Fisher analysis, are you aware of what reference case was used in that modelling? Have you had a look at the modelling at all?

**Mr Clarke**—No, Senator. I am not sure if we have an officer present who has gone through it to that depth.

**Senator CAMERON**—Does your department engage in modelling at all?

**Mr Clarke**—No, we do not undertake independent modelling. We do not have modelling capacity inside this department.

**Senator CAMERON**—Do you commission modelling?

**Mr Clarke**—We commission modelling from ABARE and we rely on Treasury for the broader modelling context.

**Senator CAMERON**—You would understand about reference cases?

**Mr Clarke**—Absolutely. I understand the nature of your question. I do not have a specific answer as to what was the reference case or the business as usual that Mr Fisher assumed in that report.

**Senator CAMERON**—Would your department be looking at that, do you think?

**Mr Clarke**—I am sure there is an officer in the department that has studied the Fisher report and briefed on it; I am just not sure if I can bring them to the table immediately.

**Senator CAMERON**—That is fine. Could you take on notice the reference case in the Fisher report?

**Mr Clarke**—I am happy to do that.

**Senator CAMERON**—Could you also comment in relation to the Fisher report on the department's view about the capacity to accurately engage in regional analysis? I am advised that in most modelling you do not go into regional or subregional levels. It is highly unusual and inaccurate.

**Mr Clarke**—It is certainly the case that very few of these models have the capacity to forecast impacts at a regional level; they tend to operate on a whole of economy basis.

**Senator CAMERON**—Your experience in this model is it is unusual to go into this sort of depth of analysis?

**Mr Clarke**—There are some models available to government and industry that do work at a regional level, but I acknowledge the point that you are making that regional level forecasting is much more complex and perhaps inherently less reliable than macro level.

**Senator CAMERON**—Could you also take on notice as to whether the department is of the view that this Fisher analysis has effectively dealt with the issue of carbon capture and storage and other abatement measures when it has come to its projections?

**Mr Clarke**—Yes, I am happy to incorporate that in our response.

**Senator CAMERON**—Could you also give us some idea as to the input and output tables in that modelling and how they have rebalanced the input and output tables?

**Mr Clarke**—You are talking about the IO tables that Mr Fisher's report relied on?

**Senator CAMERON**—Yes.

**Mr Clarke**—And how they changed through the course of the analysis? I am happy to provide that, Senator.

**Senator CAMERON**—Thanks. I think that will do me on that.

**Senator EGGLESTON**—One thing we heard was that there would be an equivalent number of green jobs created to offset jobs in industries like the coalmining industry. Is that your opinion as well?

**Senator McLucas**—Sorry, Senator, where did you hear that?

**Senator EGGLESTON**—This was evidence given last week at an inquiry into the amendments to the CPRS when the Minerals Council of Australia appeared before the committee. That, in fact, is some of the evidence to which Senator Cameron was referring.

**Senator McLucas**—That was from the Minerals Council, was it?

**Senator EGGLESTON**—It was given during the inquiry.

**Senator PRATT**—It was from the Climate Institute and I do not think you need to worry about—

**Senator EGGLESTON**—It was from the Climate Institute, but they were referring to the Minerals Council of Australia's evidence in which that report, which has just been referred to, was a component.

**Senator PRATT**—I do not think you need to worry about it. It is not appropriate to ask the witnesses about evidence given in an inquiry that they have not—

**Senator McLucas**—I do not know if the officers have a comment.

**Senator EGGLESTON**—My question was whether the departmental officials believe that losses in the minerals industries will be offset by the creation of new green jobs.

**Mr Clarke**—We do not have separate modelling on that question, Senator. I have no data on which I can respond.

**Senator EGGLESTON**—Perhaps you could take that on notice.

**CHAIR**—I think it is a question for the climate change department actually, Senator Eggleston.

**Mr Pierce**—The effect of the introduction of the CPRS on the economic aggregate such as employment was really the work done by Treasury with their modelling. Whether that modelling identifies specifically what people understand to be green jobs or not, I am not aware, but they would certainly have the effect on employment growth in total. I refer the senator to that piece of Treasury work.

**Senator EGGLESTON**—The other question of interest in relation to that is whether or not alternative jobs replace the economic benefit of the jobs lost in the mining industry. Are you able to make any comment on that?

**Senator McLucas**—Once again, I think you should address that to Treasury.

**Senator EGGLESTON**—There is a view that the only way you can match the jobs lost in the minerals industry is by paying lower wages in other jobs. Do you have a comment on that?

**Senator McLucas**—My answer stands the same.

**Senator EGGLESTON**—Thank you.

**Senator ABETZ**—First of all, Mr Pierce, welcome and all the best in your new role.

**Mr Pierce**—Thank you, Senator.

**Senator ABETZ**—I trust it goes well both for you and of course for the people of Australia. My first question is in relation to the coal industry. Currently would you agree that the coal industry is experiencing a loss of jobs?

**Mr Stamford**—Yes, Senator.

**Senator ABETZ**—And a loss of production?

**Mr Stamford**—Yes, Senator.

**Senator ABETZ**—When somebody asks you questions about the ongoing rate of growth in the coal sector, one might presume that they are talking about the negative growth that is being experienced. That is just an observation I make, and I do not expect you to comment on that. That was a response to Senator Cameron's questioning about the future growth and projections. How many of the department's stakeholders have indicated concern directly with the department about the government's proposed Carbon Pollution Reduction Scheme?

**Mr Clarke**—Senator, I cannot give you a quantitative answer of X stakeholders, but perhaps the more—

**Senator ABETZ**—Some? Many? A significant number?

**Mr Clarke**—We have been engaged with emissions and energy-intensive industries over the life of the development of these policies for many years. All of these sectors—

**Senator ABETZ**—For how many years?

**Mr Clarke**—Five or 10 years.

**Senator ABETZ**—During the Howard era as well! That is interesting for the record, thank you.

**Mr Clarke**—As long as climate change has been an issue and as long as the response to climate change has been a first order issue, emissions-intensive and energy-intensive industries have continued to engage with the resources department of the day.

**Senator ABETZ**—Since it has been a primary issue and that has been for the last five to 10 years. Thank you, that neatly puts it into the Howard government era and, of course, once again contradicts Senator Cameron's assertions. Thank you for that. The question was how many. Whilst I accept you cannot put a number on it, would you describe it as being significant concern? If only one person who ran a very small mine were to ring up and say, 'Look, we've got problems about the CPRS,' I imagine you would tell me that there has not been much concern expressed.

**Mr Clarke**—Senator, I am sorry, I am not clear whether you are asking me about the volume of concern or the depth of concern. I will assume that your question is both.

**Senator ABETZ**—Both, yes.

**Mr Clarke**—I think the primary evidence about that is in the public submissions that the energy-intensive and emissions-intensive industries have made over the course of these policies.

**Senator ABETZ**—And there is genuine and deep concern?

**Mr Clarke**—They are on the record. Their submissions are published. All energy- and emission-intensive industries are naturally first order stakeholders in these policies.

**Senator ABETZ**—Those concerns have not only been expressed publicly but also directly to the department?

**Mr Clarke**—Yes.

**Senator ABETZ**—Are you aware of the modelling released by the Minerals Council about the cost of future jobs?

**Senator CAMERON**—You must have been sleeping five minutes ago.

**Senator ABETZ**—I did even understand your questions, Senator Cameron, on this. But, just because you asked questions on it, does not mean that other people might not want to ask questions on it. Are you aware of that modelling?

**Senator CAMERON**—Stupid questions like that.

**CHAIR**—Senator Cameron!

**Mr Clarke**—Senator, we observe that many stakeholder groups, including the Minerals Council, from time to time publish analyses and forecasts in this area, yes.

**Senator ABETZ**—Thank you. That is all I was asking, whether you are aware of that. Has the coal industry raised directly with you its concern about the potential of coalmine closures as a result of the ETS?

**Mr Clarke**—All of the potential impacts and worked through details of the climate change response are routinely discussed between this department and its stakeholder industries, including the coal industry.

**Senator ABETZ**—If that is routinely discussed, you can tell us then whether the coal industry has raised directly with you or the department its concerns about the potential closure of mines as a result of the ETS.

**Mr Clarke**—Yes.

**Senator ABETZ**—What is the number of mines they have nominated for closure?

**Mr Clarke**—I have no number for that, Senator.

**Senator ABETZ**—If I suggest to you it would be 16, would that ring a bell?

**Mr Clarke**—No. I cannot recall any specific numbers in there. It has been part of the general consultation and advocacy by that sector in this area and I think it simply reflects the reports that they have already put on the public record.

**Senator ABETZ**—Yes, but whilst I accept your reliance on what is on the public record, this is in fact questions of your department about representations made to your department, and that is what I am seeking to explore. Albeit your media monitoring service is appreciated, I am more interested in the representations to the department. Has the department examined the impact on jobs and production capacity in the sector in the wake of the latest figures on the state of the economy?

**Mr Clarke**—We are now going to the general state of the resources sector?

**Senator ABETZ**—Yes, the resources sector, not only coal.

**Mr Clarke**—I will ask Mr Stamford to return, thank you.

**Mr Stamford**—Your specific question, Senator?

**Senator ABETZ**—Have you examined the impact on jobs and production capacity in the resources sector in the wake of the latest figures on the state of the economy?

**Mr Stamford**—Yes, Senator, we have but in a very rudimentary form.

**Senator ABETZ**—Do you have a state-by-state breakdown on the impact on the mining sector—

**Mr Stamford**—Yes, we do.

**Senator ABETZ**—or does your rudimentary analysis not drill down that far?

**Mr Stamford**—No, Senator, the rudimentary analysis does drill down that far. In fact, we obtain that information directly from the ABS.

**Senator ABETZ**—You get that information from the Australian Bureau of Statistics?

**Mr Stamford**—Yes, Senator.

**Senator ABETZ**—Are you aware whether they have maintained their robustness of these surveys given the substantial budget cuts they have suffered in recent times?

**Mr Stamford**—Senator, you will have to take that up with the Australian Bureau of Statistics.

**Senator ABETZ**—Wait a minute, you are telling us that you rely on ABS data. Do you check to analyse the robustness of the ABS data or whether the methodology employed by ABS may have changed, or do you just take it as face value and do not bother to look behind it?

**Mr Clarke**—Senator, we are aware of the debate and the issue regarding robustness and the methodology that the bureau applies to its statistics and the economy generally. We do not have an independent capacity to assess that. We are as aware of that debate as you are and any other interested party. We cannot give you any more information about that though.

**Senator ABETZ**—Has the department expressed its concern to the Department of Climate Change about the potential impact of the emissions trading scheme on production and jobs?

**Mr Clarke**—We are in constant engagement with our colleagues in the Department of Climate Change. I cannot answer your question in a simple yes/no manner because it implies a simple ‘we are concerned’. The relationship and the engagement are much deeper than that. We talk about the impacts and issues across all energy- and emissions-intensive sectors.

**Senator ABETZ**—Given the deep relationship and the deep discussions you have with the Department of Climate Change, has the topic of production ever come up and has the topic of jobs numbers ever come up?

**Mr Clarke**—Again, I refer to an earlier answer I gave that in terms of those large-scale sectoral impacts we, as with the Department of Climate Change, have relied on the Treasury modelling that has been published in that area.

**Senator ABETZ**—Have you taken the views of your stakeholders to the meetings, these deep and meaningful that you have with the Department of Climate Change, to the table?

**Mr Clarke**—Of course. The discussions we have with all parties are informed by our relationships with our stakeholders.

**Senator ABETZ**—Have your stakeholders told you about their concern about production and jobs as a result of the proposed ETS?

**Mr Clarke**—Again, Senator, I refer to my previous answer. We are in constant dialogue with our stakeholders. They tell us, they brief us, on the submissions they make publicly and we are aware of their views.

**Senator ABETZ**—Have they told you about production and jobs concerns in relation to the proposed ETS?

**Mr Clarke**—Undoubtedly.

**Senator ABETZ**—Right, thank you. Given that you know that, you have been told that, have you taken those concerns of your stakeholders to the table when you have these deep and meaningful discussions with the Department of Climate Change?

**Mr Clarke**—Senator, your question is suggesting that we have called a meeting with Climate Change in order to discuss—

**Senator ABETZ**—No, not at all, do not be so defensive. All I am asking is whether in these deep and meaningful, ongoing, regular discussions that you have all the time, you bring the concerns of your stakeholders to those meetings?

**Mr Clarke**—Of course.

**Senator ABETZ**—Thank you very much.

**Senator McLucas**—Senator, I think that the officers will bring the concerns of stakeholders but also the potential opportunities for stakeholders. I think you are couching your questions in the negative. We are in a very volatile economic situation. On top of that we have to deal globally with climate change. There are a lot of issues on the table and I think simply to focus on one element and try and make a political point by speaking with an officer of the department is not beneficial to the discussion.

**Senator ABETZ**—Asking questions whether key stakeholders have expressed concerns—

**Senator McLucas**—It is self-evident. It is in the newspaper.

**Senator ABETZ**—Do you know what? The minister in this portfolio area actually called a roundtable, Minister, to deal with these concerns.

**Senator McLucas**—Yes, but if you know that, it is probably not useful here.

**Senator ABETZ**—You should have a chat with Mr Ferguson and tell him that—

**CHAIR**—Order! Order!

**Senator ABETZ**—that was unhelpful, was very unhelpful.

**Senator JOYCE**—The member for Corio has got a concern about it.

**Senator ABETZ**—I think you might start falling into this category of denier, Senator McLucas, if we do not watch it. I think we have got to be very careful.

**CHAIR**—Order!

**Senator ABETZ**—Was any official from the department present at the minerals industry conference where Mr Combet made certain statements suggesting that industry assistance was at risk if the CPRS package was not supported?



**Mr Clarke**—Senator, the senior officers at the table before you were not there. It is possible that an officer from the department was present but no-one that we can bring to the table today was there.

**Senator ABETZ**—Are you saying that we did not have a representative? Can you take on notice to see whether the department had a representative at the annual Minerals Week conference at what I understand was either a keynote or opening address by Parliamentary Secretary for Climate Change, Greg Combet?

**Senator McLucas**—We will take that on notice.

**Mr Clarke**—Yes, Senator, we will. It is certainly the case, as it is every year, that the department participates in industry conferences such as that. To your specific question as to who might have been present during Mr Combet's remarks, we would need to take that on notice.

**Senator ABETZ**—Quite frankly, I cannot blame the officer if they took a coffee break during the speech.

**Senator McLucas**—Not necessary, just not necessary.

**Senator ABETZ**—But let us see if the officer was in fact present—that would be helpful. Has the department got any views as to the impact on the resources sector in the event that the industry assistance that is currently proposed in the emissions trading scheme were rolled back or diluted in any way?

**Mr Clarke**—We have not undertaken separate modelling on such alternative scenarios. We have the scenario in terms of the assistance package currently defined and the forecast of its impact. We do not have any separate modelling on alternative positions.

**Senator ABETZ**—But you have had these deep and meaningful with the Department of Climate Change and hopefully part of your input led to the regime that was put in place for the energy-intensive trade-exposed sector, which includes the resources sector. Do you believe that, if there were a reduced level of assistance than currently proposed, that that would have an impact on production and jobs and, of course, our capacity to sell product overseas?

**Mr Clarke**—Your question is whether, if the policy were different, the outcome would be different. Self-evidently: yes.

**Senator ABETZ**—Yes, thank you.

**Mr Clarke**—But that is a truism, with respect. If things were different, they would be different.

**Senator ABETZ**—Yes, but the important point is that Mr Combet in effect threatened, blackmailed the sector in his speech and I do not expect you to comment on that.

**Senator PRATT**—That is very unparliamentary.

**Senator ABETZ**—Page 4 of his speech says:

If we have to go back to the drawing board, everyone involved will have to run the gauntlet of the political process, something we know cannot guarantee certainty.

This is something that all industries receiving assistance should think very carefully about when they consider their approach to proposals to delay the scheme. Billions of dollars worth of assistance are involved.

They are quite menacing words, and the menacing nature and tone of that has been picked up by many media commentators.

**CHAIR**—I do not think there is a question here.

**Senator ABETZ**—Given your knowledge of what is in the media, Mr Clarke, you would undoubtedly be aware of that. Has the department provided advice on further assistance to coalmines and is it being considered?

**Mr Clarke**—Further assistance? Your question implies alternative policy.

**Senator ABETZ**—Yes, or further assistance.

**Mr Clarke**—No. We are working with Climate Change on the detail of the current assistance package but I am not aware of any alternative policy work that we have been doing.

**Senator ABETZ**—It was set in concrete once; it has since been changed. We had the Wong version of the legislation; now we have got the Combet version of the legislation. We are still in a moving feast.

**Senator CAMERON**—When is Barnaby going to let Malcolm get some policy?

**Senator JOYCE**—What sort of question is that, Madam Chair?

**CHAIR**—That is not a question; it is an interjection and it is out of order, Senator Joyce. Senator Abetz?

**Senator ABETZ**—What would any roll-back of the current assistance package mean for the mining sector? I think you have answered that it would have a negative impact.

**Senator McLucas**—I am sorry, Senator; I think your question was speculative and I do not think it is right to be asking an officer a speculative question like that. I do take exception when you try to answer a question that you have asked.

**Senator ABETZ**—I am not sure what all that was about.

**Senator McLucas**—Have a look at the *Hansard*.

**Senator ABETZ**—I am quite free to ask the question as to what it would mean for the industry. We have the government and departmental officials telling us all the wonderful impacts certain government policies might have in the future; for example, in relation to jobs that will be created in the green sector.

**Senator JOYCE**—Even though there is absolutely—

**Senator ABETZ**—That is purely speculative, and the government and departmental officials are willing to bang the drum on that one—and quite rightly; they should and can and that is all good.

**Senator McLucas**—We have already covered those issues.

**Senator ABETZ**—But if you are willing to beat the drum on that you ought be allowing departmental officials also not to beat the drum but possibly to toll the bell in relation to what it would mean if the assistance package were rolled back, which was hinted at by the Parliamentary Secretary for Climate Change in his speech. That was the broad hint by the parliamentary secretary; not so subtle, might I add.

**Mr Clarke**—The department has not modelled alternative policy in this area.

**Senator ABETZ**—Has the minister—and possibly you will need to take this on notice, Senator McLucas—expressed his concerns to Mr Combet about the tone and nature of his speech at the Minerals Week conference on 27 May 2009?

**Senator McLucas**—I am happy to ask Minister Ferguson if he has anything that would assist the committee.

**Senator ABETZ**—In relation to the specific question I asked, that is all.

**Senator McLucas**—Certainly.

**Senator ABETZ**—Not anything that he might want to tell us about; I want to know whether or not he has expressed his concern to Mr Combet about the nature of those quite menacing remarks. Can I move on, Chair, to an area that I flagged, with my industry hat on, at estimates yesterday, which is in relation to the ‘nuclear waste repository’. What do we call it?

**Mr Clarke**—We understand the questions you are asking of industry yesterday that were referred to us. I will bring the officer to the table. Thank you, Senator.

**Senator ABETZ**—Aha! You were watching. Somebody does not have a life. It is very kind of you that you were watching and so will be able to assist. I hope you are highly paid to watch Senate estimates.

Mr Davoren, can you give us an update in relation to where we are at with nuclear waste disposal in the country? At the moment it is still housed in drums under hospitals, under city buildings and scattered all around the country. Might I add, before people get too excited, that these are the wastes as a result of nuclear medicine, which is of great benefit to possibly hundreds of thousands of Australian people. Alarm bells should not be going off about the fact that we have these wastes, because these wastes are the result of some very good medical treatment that is improving the quality of life for many people. I think it is important to get that on the record. But how far have we progressed with the dump, the repository—whatever we want to call it—especially given that ANSTO has contractual arrangements whereby 2011 is a deadline for them to take this material back from Scotland, as I understand it? Also, there is some discussion about extending that period of time beyond 2011. I think we also have contractual arrangements with France, with a cut-off date of 2015. If any of those basic matters that I have raised as facts are wrong, feel free to correct me, but could you give us a general outline, please.

**Mr Clarke**—Before Mr Davoren responds, I should clarify for the record, of course, that the details of ANSTO’s arrangements are a question that only that portfolio could confirm, with regard to the detail you provided. I am sure Mr Davoren can talk to you about the status of the repository.

**Senator ABETZ**—Yesterday ANSTO was telling us that responsibility for where it will be housed lies with this department.

**Mr Clarke**—That is correct.

**Senator ABETZ**—All right.

**Mr Clarke**—We will talk about the ultimate housing and location of it, but you are asking for confirmation about the dates in ANSTO's contracts. I am saying that that is not our portfolio.

**Senator ABETZ**—That is a fair point, Mr Clarke, and I accept that other than to say that—

**Mr Clarke**—There is a consequence.

**Senator ABETZ**—Yes. There is a consequence of that time line, which now makes it somewhat urgent.

**Mr Clarke**—Of course.

**Senator ABETZ**—Yes.

**Mr Davoren**—I am able to comment on that schedule because of material that is on the public record; in fact, material that was provided in response to a question from Senator Ludlam that was answered in February of this year. We are not looking at 2011 for the radioactive waste returning from Dounreay. Initially there was a window—

**Senator ABETZ**—Dounreay is in Scotland?

**Mr Davoren**—That is right.

**Senator ABETZ**—Yes.

**Mr Davoren**—Initially there was a window in which that material could return. The earliest date was 2011 and the end of that window was 2015. ANSTO has been able to negotiate arrangements which will see that material coming back around 2015.

**Senator ABETZ**—This is not a trick question. I was of the view that ANSTO was still in the process of negotiating, but I may have misheard.

**Mr Davoren**—They are negotiating the specific modalities of that return.

**Senator ABETZ**—But it has been agreed to defer it till 2015?

**Mr Davoren**—That is right. In fact, if you looked at question 1175, which was answered on, I think, 3 February 2009, that would provide the detail on the Dounreay shipment. As far as the broader policy is concerned, the minister stated that the government is developing a strategy for management of the Commonwealth's radioactive waste. That strategy is still under development and it will not be announced until it has been settled and decided within government. The minister has repeated that position as recently as this morning on radio in Darwin. The government has committed itself to repeal of the Commonwealth Radioactive Management Act 2005, but not until it has made arrangements for suitable replacement legislation in accordance with the policy that it eventually adopts.

**Senator ABETZ**—If I were to hazard a guess that this strategy will not be in place before the next election, would you agree with me?

**Mr Davoren**—I would not go anywhere near that, Senator.

**Senator ABETZ**—That is very wise, well done on that. Can you tell us, without putting an election into it, the timeline for this proposed strategy?

**Mr Davoren**—We do not know the timeline for the strategy. I can inform you on the stages—

**Senator ABETZ**—We are developing a strategy; is that right?

**Mr Davoren**—The government is developing a strategy.

**Senator ABETZ**—Minister, when do we anticipate that this strategy will be completed? You had a very strong policy at the last election to repeal certain legislation, but in the rush of legislation I have not seen replacement legislation. Chances are you might even get cooperation from at least one or two other parties in the Senate if you were to introduce legislation. Can you advise us of the timeline for the strategy?

**Senator McLucas**—Minister Ferguson is on the public record regularly and often around the question of progressing this work. I will ask him if there is any information that he can provide to this committee with respect to your question of the timeline.

**Senator ABETZ**—Thank you very much, because you are quite right. He is on the radio and airways regularly and often talking about all these things and studiously avoids the issue of the timeline. That is why I am not surprised you are not able to answer the question—and indeed I do not think anybody is—in relation to the strategy. We are talking about dealing with the Commonwealth's waste, given this new era of cooperative federalism that has broken out. Are we cooperating with all the states in the strategy so we get one central repository for all of the nation's nuclear waste and so that in my capital city of Hobart, for example, we do not have this radioactive material stored in drums under buildings in the city?

**Mr Davoren**—That is a matter for the government to decide in the context of its strategy. I might add that one state, Western Australia, went its own way on this matter a long time ago and has an operating near-surface low-level-waste disposal facility at Mt Walton East in the Goldfields district.

**Senator ABETZ**—It is a policy issue, so I will direct it to the parliamentary secretary at the table. Is it the government's view and policy position that it would be ideal if all the waste of the nation, from both the Commonwealth and the states and territories, were placed in a central repository?

**Senator McLucas**—Once again, I will seek some advice from Minister Ferguson.

**Senator ABETZ**—If that is the government's policy position—which I would have thought, on the face of it, at least, makes sense—have any discussions have been had at COAG, a relevant ministerial meeting or a leaders' meeting to progress this so that we can have a national strategy as opposed to potentially eight or nine different strategies around Australia?

**Senator McLucas**—I will take that on notice.

**Senator ABETZ**—How many people are working on this strategy in the department?

**Mr Davoren**—I have a staff of three officers.

**Senator ABETZ**—How long have they been working on this strategy?

**Mr Davoren**—We provide advice to government on this issue quite regularly. We provided advice to the government on the work done by the previous government and on the site assessment studies that were commissioned by the previous government, and we are awaiting advice from the government on how it wishes to proceed.

**Senator ABETZ**—This might be a bit of a cheeky question and discipline me if it is. You have provided the advice, so what are you and the three staff doing whilst you are waiting on a government response? Are you freewheeling?

**Mr Davoren**—This is not the only issue we have responsibility for, Senator. We have responsibility for managing the former atomic nuclear test sites at Maralinga in South Australia, where the Commonwealth is still responsible for about 3,000 kilometres of land and the infrastructure out there. We also have responsibility for a program of monitoring and maintenance works at Rum Jungle, which was recently funded in the budget.

**Senator ABETZ**—But at this stage there is no further development on the repository; the ball is fair and square in the minister's court?

**Mr Davoren**—That is correct.

**Senator ABETZ**—In that case, Parliamentary Secretary, given that the department has finished its work on this matter, could the minister then provide us with a timeline as to when a decision is made? If the department has finished with its considerations, it would be very interesting to know when the minister will make his determination on it. More likely, is it stuck in the Prime Minister's office for consideration and the tick-off? When it is likely to re-emerge from the government, either via the minister's office or the Prime Minister's office, because it now seems that all the preliminary work has been done and the only stalling is on the part of the government?

**Senator McLucas**—In good faith I have taken those questions on notice, and I note that you have made your political point. We probably could move on to other questions.

**Senator ABETZ**—Not a political point—an observation. But if you are saying to us that this matter will not go to the Prime Minister's office prior to the ministerial tick-off by Mr Ferguson, I will ask that question. Can the minister advise whether the proposal will go to the Prime Minister's office for consideration prior to final approval and decision and also whether this matter will go to cabinet—

**Senator McLucas**—I expect so. I will find out for you.

**Senator ABETZ**—before a final decision is made?

**Senator McLucas**—I imagine it will go to cabinet.

**Senator ABETZ**—In that case, it will go to the Prime Minister's office and my suggestion that it would go to the Prime Minister's office, therefore, was not a political comment and your intervention was ill-considered, was it not?

**CHAIR**—Senator Abetz, Senator McLucas has said she will take all that on notice. Are you finished?

**Senator ABETZ**—I don't know why, but chances are Senator Ludlam will have a question or two on this area.

**CHAIR**—Exactly.

**Senator ABETZ**—Senator Joyce as well. I have got further questions but on this area I think it is—

**CHAIR**—We will go on to this area. Senator Ludlam.

**Senator LUDLAM**—Thank you, Chair. You have just described you have three staff working for you and you have other responsibilities. How much time is the waste dump issue taking up now—or is it actually off your desk?

**Mr Davoren**—It takes very little of our time. We have correspondence on it, as you would expect, and occasionally we brief ministers on issues that arise.

**Senator LUDLAM**—But the main work of—do I call it a department, a unit or a—

**Mr Davoren**—It is a section.

**Senator LUDLAM**—The main work of your section on the radioactive waste dump issue is concluded for the time being?

**Mr Davoren**—Certainly as far as the national facility is concerned.

**Senator LUDLAM**—Have you, therefore, provided drafting instructions for a repeal bill?

**Mr Davoren**—We have not. We are not in a position to do that. I think the government said that it is not going to repeal unless it is in a position to put in appropriate replacement legislation. That legislation would reflect its policy, which has not yet been developed.

**Senator ABETZ**—Can I just ask a question? Was that the actual policy announcement during the election campaign?

**Senator LUDLAM**—There were quite a number of announcements.

**Senator ABETZ**—They would not repeal the legislation until they had alternate legislation? Do you know the answer, Parliamentary Secretary? If not, take it on notice.

**Senator McLucas**—Senator, I think it is fair to say that our government is a consultative government. It is very important—

**Senator ABETZ**—That is not the question.

**Senator McLucas**—I can actually answer your question around states and territories as part of this question. It is important that we do consult with various stakeholders who are part of this piece of work that has to be done, including Indigenous people—

**Senator ABETZ**—But my intervention was—

**Senator McLucas**—and including the states and territories.

**Senator ABETZ**—in relation to what your election promise regarding the legislation was. If I recall it—and I may be mistaken on this and corrected—it was a statement that you would simply repeal—

**Senator LUDLAM**—That is correct.

**Senator ABETZ**—and that you would not make the repeal subject to alternate legislation. This is a new development. You have been mugged by reality and I welcome that to a certain extent.

**CHAIR**—Senator Abetz, you continue to make these comments that invite interjection.

**Senator ABETZ**—Only from the chair on this occasion.

**CHAIR**—I allowed you to come in on that interjection. If you could just ask a straight question and then we will go back to Senator Ludlam.

**Senator ABETZ**—Chair, I fully agree with you. I asked a very straight question, which was: was it part of the policy of the opposition, now government, at the last election, to simply repeal the legislation or only to repeal the legislation subject to? We then got a political diatribe from the minister, and that is what unfortunately tempted me to make further political commentary—

**CHAIR**—I do not think her diatribe was anything like as lengthy as yours, Senator Abetz. Senator McLucas, do you have any further response?

**Senator McLucas**—The timing was not included in the election commitment. I think everyone would know that. The commitment was to repeal. It is now very clear from Minister Ferguson's office and Minister Ferguson himself that there is a commitment to consult with the community. We are committed to the repeal of the Commonwealth Radioactive Waste Management Act, but we will not take piecemeal steps or decisions on radioactive waste management in the absence of a total package that will solve this problem for the long term. I think that is well known to this committee, and I think, Senator Ludlam, you understand that as well.

**Senator LUDLAM**—I have just about memorised that statement! Thanks for the reminder, though. I think you will find, Senator Abetz, that the commitment prior to the election was not conditional—

**Senator ABETZ**—That is right.

**Senator LUDLAM**—on substitute legislation.

**Senator ABETZ**—Exactly.

**Senator LUDLAM**—If you would like to correct the record down the track, that would be appreciated. Let us just stay with where we were. So you have not provided drafting instructions of any sort yet?

**Mr Davoren**—That is right.

**Senator LUDLAM**—Will those originate with the minister or are you expecting some time down the track that that responsibility will—

**Mr Davoren**—We do not really have any access to parliamentary drafting services until the government has made a decision.

**Senator LUDLAM**—The government will make a decision and then it will be down to you to provide some drafting instructions for—

**Mr Davoren**—I assume so.



**Senator LUDLAM**—We are now in early June and that process has not even commenced yet?

**Mr Davoren**—Correct.

**Senator LUDLAM**—Thank you, that is helpful. The minister was on the radio a couple of weeks ago, again from Darwin, saying that they were not going to waste a whole heap of time consulting until a site had actually been selected, which is a substantial shift. Actually, it is a 180-degree shift in the policy that the government took to the election. Could you just describe for us the work that your section has conducted; has it been designing a process or are you still conducting site selection activities?

**Mr Davoren**—Work on the site selection has concluded, with the work initiated by the former government—that is, a consultant's report was provided on the three defence sites and the volunteer site at Muckaty Station. That report was subject to a peer review process. That peer review report and the consultant's response to that have been provided to the minister.

**Senator LUDLAM**—So let us just step this out. The original Parsons Brinckerhoff consultants report was provided to you; on what date was that provided?

**Mr Davoren**—I think it was provided in final form towards the end of last year.

**Senator LUDLAM**—Would you be able to provide us with the date for that?

**Mr Davoren**—I could.

**Senator LUDLAM**—On notice, if you would. Are you able to table that PB report for the committee?

**Mr Davoren**—I am not in a position to, seeing it is with the minister. It is being considered by the minister.

**Senator LUDLAM**—Then you subjected that report to a peer review by CH2M Hill?

**Mr Davoren**—That is correct.

**Senator LUDLAM**—When did you receive that peer review?

**Mr Davoren**—In January 2009.

**Senator LUDLAM**—Then you referred that document back to PB for their comments on the peer review; is that the way the process worked?

**Mr Davoren**—Yes.

**Senator LUDLAM**—When was that final feedback from PB?

**Mr Davoren**—February 2009.

**Senator LUDLAM**—Was that before or after the last session of estimates—the last time we spoke?

**Mr Davoren**—It might have been just after.

**Senator LUDLAM**—So those three documents are finalised and are now with the minister; is that correct?

**Mr Davoren**—That is correct.

**Senator LUDLAM**—Are there any other sites apart from those four under consideration?

**Mr Davoren**—Not by us, Senator.

**Senator LUDLAM**—Okay. So whatever process the minister might have running, that is separate to yours. But you have basically concluded the work that the Howard government had undertaken to select those four sites?

**Mr Davoren**—Yes.

**Senator LUDLAM**—Have you played any part at all in advising the government on a consultation process or is it strictly site selection work that you have been undertaking?

**Mr Davoren**—Obviously, we have not provided this government with a consultation process.

**Senator LUDLAM**—Sorry; you have not?

**Mr Davoren**—No, because I think we would need to know what they intended, how they intended to proceed. There are a whole range of options that are open to them.

**Senator LUDLAM**—That is certainly true.

**Mr Davoren**—They could proceed with an already identified site; they could go to a complete national selection process. I do not see that we are in a position to provide any advice on a consultative process when we do not know the broader context.

**Senator LUDLAM**—When did you provide those three documents to the minister?

**Mr Davoren**—Earlier this year, Senator, pretty soon after we got them.

**Senator LUDLAM**—So some time maybe in mid-February. Would you again be able to provide dates for each of these processes?

**Mr Davoren**—I will take that on notice, Senator.

**Senator LUDLAM**—Thank you, I would appreciate that. Has your section conducted any consultation with a land council or any other parties on this matter or has your interaction strictly been with government?

**Mr Davoren**—It has strictly been with government. We obviously see the land councils because we deal with them on other matters, like the Rum Jungle project, and naturally they ask us what we are doing and I think we give them the same answer that we give you.

**Senator LUDLAM**—But there is no formal correspondence between you and the land council? It is not your role to be consulting or putting options to anyone?

**Mr Davoren**—No, certainly not.

**Senator LUDLAM**—Strictly with the government. What about the Northern Territory government or any agencies of the Northern Territory government—do you liaise with them at all on this matter?

**Mr Davoren**—I think the situation with the previous process was that the Northern Territory government opposed that process, so we had no arrangements for consultation with them, and that remains the current situation.

**Senator LUDLAM**—So there is no dialogue with the Northern Territory government either. Do you have any indication at all in terms of your forward planning—and we will get to the budget in a moment—of the expected workload for your section in the next few months on this issue or are you really in a holding pattern?

**Mr Davoren**—Obviously, if there was an early decision on this, we would have a substantial workload. We would be involved in—

**Senator LUDLAM**—An early decision, with respect, would have happened 18 months ago.

**Mr Davoren**—I am talking from now. There would be a considerable workload in terms of legislation. If we proceeded to an environmental impact assessment of a particular site, there would obviously be quite a deal of work, contractual work and work on a referral.

**Senator LUDLAM**—Can I just bring you to the budget statement. At page 33, under radioactive waste management, there is roughly \$2 million between this point and out to the 2011-12 financial year, with nearly half of the total funds in the next financial year's budget. Can you tell us what you plan to do with \$4½ million dollars between now and this time next year?

**Mr Davoren**—Investigation and early licensing stages of a facility are a major expense. We will be conducting an environmental impact assessment and also applying for a siting licence from the Australian Radiation Protection and Nuclear Safety Agency. We are working on the basis that we are going to do this work, say, in the current financial year. There has been no decision, so this represents a rephrasing of those funds so that those moneys are moved into 2009-10 so that we can respond to a decision by the government.

**Senator LUDLAM**—That is not construction work, though?

**Mr Davoren**—No, not at all.

**Senator LUDLAM**—That is feasibility work and studies and so on?

**Mr Davoren**—Yes. I think it is important to understand that with this project most of the time is taken in licensing processes. We need three licences from ARPANSA, we need EPBC approval and we probably need to take it to the Parliamentary Standing Committee on Public Works.

**Senator LUDLAM**—The \$4.4 million that is in this financial year, the one coming, will that include consultation?

**Mr Davoren**—Yes, it would.

**Senator LUDLAM**—Once you have a policy decision from the government, it will actually be down to your section to conduct whatever consultation process is being envisaged?

**Mr Davoren**—That is my understanding, Senator.

**Senator LUDLAM**—What expertise do you have in your section around running consultative or deliberative processes around these sorts of issues?

**Mr Davoren**—We have significant experience, particularly in relation to consulting Indigenous communities. We handled the consultation on a number of radioactive waste projects, including the Maralinga project, which was a particularly challenging one. It involved commissioning independent scientific advice for the benefit of the traditional owners. Where we do not find that we have relevant experience, I think there are a number of potential contractors that operate in that field that we could use.

**Senator LUDLAM**—For that kind of budget, you would be in a position to bring in other sources of expertise?

**Mr Davoren**—Once again, Senator, that depends on the task. If we had the consultation process involved in a nationwide site selection process, we might have to go back to the government for some more money. Once we know the nature of the task, we can then work out what we have got to do.

**Senator LUDLAM**—But, certainly, if the minister just decides on a site and tells you to go out and sell that, that would be presumably a much cheaper exercise than actually running a properly deliberative process?

**Mr Davoren**—I am not going to respond to the words that you have used, Senator.

**Senator LUDLAM**—Fair enough. Are you aware that the long-running nature of this debate and the fact that some of the communities in the Northern Territory are feeling frankly betrayed by the way the minister has handled this issue—

**Senator McLucas**—I do not think the officer can answer that question, Senator.

**Senator ABETZ**—I am sure you can.

**Senator LUDLAM**—I just put it then as a preamble to the question. Are you aware that all three of the sites that are under study—certainly, if your section has not investigated any other of those four sites—are very strongly contested by the people living in the vicinity of those sites?

**Mr Davoren**—I am aware that there are a range of views on those sites.

**Senator LUDLAM**—A range of views meaning very strong opposition. I do not know if you have taken the time yourself to visit those places.

**Mr Davoren**—I have visited all of those sites.

**Senator LUDLAM**—You would be then directly aware firsthand of the strength of opposition in those communities?

**Mr Davoren**—I just do not think that is an accurate statement in regard to some sites.

**Senator LUDLAM**—Which sites do you feel are welcomed?

**Mr Davoren**—One of them is a volunteer Aboriginal site, so the people that volunteered it obviously were not strenuously opposed to it.

**Senator LUDLAM**—You would be referring to the Muckaty site?

**Mr Davoren**—Yes.

**Senator LUDLAM**—The other three obviously were not volunteer sites. They were proposed and the people first heard of those in media statements apparently. It is not a concern to you that those three were not volunteer sites?

**Mr Davoren**—My concerns are neither here nor there.

**Senator LUDLAM**—Are you aware of the very strong opposition amongst traditional owners of the Muckaty site, which, as you say, was volunteered? Large numbers of traditional owners and people with responsibilities for that country are very strongly opposed to that

**Mr Davoren**—That is a very loose statement, Senator. The people who actually volunteered their land are not opposed. A lot of other people are opposed, but they are not the traditional owners of the land concerned.

**Senator LUDLAM**—I think they would be very upset to hear that statement. Finally, to confirm, you were not instructed or requested by the minister to investigate any other sites?

**Mr Davoren**—No, we were not.

**Senator LUDLAM**—You are absolutely clear about that?

**Mr Davoren**—Absolutely not.

**Senator LUDLAM**—Just the four. Thank you. Are you involved in the ongoing administration of the funds that were paid to the Muckaty Land Trust as a result of their nomination being accepted by the previous government?

**Mr Davoren**—That is the responsibility of the Northern Land Council.

**Senator LUDLAM**—Your section has no responsibility whatsoever for administration of those funds from the Commonwealth?

**Mr Davoren**—Not at all. Once the payment is made, and one payment has been made, the disbursement of those funds is the responsibility of the Northern Land Council under well-established processes that apply to any range of projects, from mining projects right through to infrastructure.

**Senator LUDLAM**—Does the NLC report back to the government on the disbursement of those funds?

**Mr Davoren**—Not to our portfolio. It may report to the minister for Indigenous affairs.

**Senator LUDLAM**—Are you aware of what milestones will trigger the next payment to be made to that group?

**Mr Davoren**—Yes, I think it would be a referral, the selection of a site for environmental assessment.

**Senator LUDLAM**—I will leave it there. If you are able to provide us with the materials that you undertook to provide on notice, or the dates in particular of the documents, that would be greatly appreciated.

**Senator JOYCE**—In regard to the competitiveness and sustainability, are you also across the infrastructure program that is currently before us in moving resources such as coal to ports?

**Mr Clarke**—We have an interest in the infrastructure that supports the resources industry, yes, Senator.

**Senator JOYCE**—You are aware of problems that are currently occurring in regard to the Goonyella link, the missing link between Abbot Point and the coal fields of central Queensland?

**Mr Clarke**—The famous missing link, yes.

**Senator JOYCE**—The famous 69 kilometres. I will put this as a package. You are also aware of the prospect of an inland rail that would have gone through the southern coal basin and into northern New South Wales to increase internodal port activity, remove port bottlenecks and give us greater capacity for utilisation of port resources in a more efficient manner to move coal out?

**Mr Stamford**—Yes, we are aware, Senator.

**Senator JOYCE**—Given these things are essential in increasing our competitiveness, do you believe that it was better to invest in dealing with the missing link, the creation of inland rail or is there more to be gained in our economy by investment in ceiling insulation and boom gates?

**Senator McLucas**—For goodness sake.

**Mr Clarke**—We have not undertaken that comparative analysis, Senator.

**Senator JOYCE**—How much would it cost to fix the Goonyella missing link?

**Mr Stamford**—I do not have a direct figure on the capital cost of fixing the Goonyella system but there will be a number of elements to it. The first is to build the Goonyella link itself; second, to make sure there is rolling stock on that link to carry the coal; and, third, to make sure there is full capacity at the end of that link to ensure that the additional capacity can be dealt with in the export market.

**Senator JOYCE**—There is increased capacity at the point at the moment, isn't there?

**Mr Stamford**—There will be additional capacity built at Abbot Point at the moment, yes.

**Senator JOYCE**—And that will require the Goonyella link really too. They are not going to get all that from Collinsville. They are going to have to go on land to get that coal, aren't they?

**Mr Stamford**—I think that, in the case of Abbot Point, the capacity at 31 December last year was about 21 million tonnes. By mid-2011 they are looking to go to 50 million tonnes. I would have to go back to check here, but my understanding is that they will need additional rail capacity to go beyond that.

**Senator JOYCE**—What about inland rail, the capacity for us to access the Surat Basin, especially access to the port facilities at Brisbane, which is missing because of the Toowoomba Range link, there is also a bottleneck there at the moment, is there not?

**Mr Stamford**—Senator, the Surat Basin railway, firstly, is a private consortium which is being built there, and that will be tied to the Wiggins Island coal terminal first and foremost and will be driven by the Wandoan coal project.

**Senator JOYCE**—Is the Toowoomba Range a current bottleneck in that it completely limits the capacity of transport of coal from the Dalby area and around those areas down to the port of Brisbane?

**Mr Stamford**—The industry regards the Surat Basin railway as something which will add considerable value to the export capacity of the coal producers.

**CHAIR**—If I could ask the secretary of the department whether we could have the Australian Office of Financial Management available a bit earlier than scheduled, perhaps after dinner. We will see how we go with the schedule, but we may get to the Australian Office of Financial Management earlier than the 9.30 proposed time.

**Senator McLucas**—We will come back to you with an answer on that, Chair.

**CHAIR**—If I could have a discussion with the members of the committee about that.

**Proceedings suspended from 10.32 am to 10.48 am**

**CHAIR**—The committee will now resume, and Senator Joyce will continue with his questions.

**Senator JOYCE**—Thank you. I just want to go back to improved strength and competitiveness in regard to the capacity of projects to come on line. Have you done any studies as to the availability of credit in the marketplace and the capacity of new resource projects to get up and running by reason of their capacity to get access to finance?

**Mr Clarke**—We are certainly conscious of the issue as one of the many impacts of the global financial crisis. But to answer your specific question: no, we do not have separate analysis on how that issue is affecting the resources sector.

**Senator JOYCE**—I will not pursue the issue, but to your knowledge is there a sense of crowding out in the marketplace, that is, with the advent of the global desire for bills and notes, that this affecting the capacity of miners and resource developers to get access to finance?

**Mr Stamford**—One of the characteristics of the global financial crisis has been a credit squeeze on resources capacity and a cash squeeze as well and so, yes, the bond and equity markets for resources projects have been very, very tight over the last while and the availability for cash has also had an effect on the resources sector.

**Senator JOYCE**—Like any other resource, being tight will mean they will be forcing the price of finance up?

**Mr Stamford**—If indeed finance is available at all and if those providing the finance are in a position to make that risk, yes, Senator.

**Senator JOYCE**—If available at all. If they are available at all, then it is tight and it will force rates up. Who would be, in the foreseeable future, the biggest domestic buyer of bonds and notes in the Australian market?

**Mr Stamford**—That I could not answer you, Senator, from this portfolio's perspective.

**Senator JOYCE**—Would anything come close to the federal government?

**Mr Clarke**—That is an analysis which we would defer to Treasury on.

**Senator JOYCE**—I just want to go quickly to the Clean Energy Initiative.

**Mr Clarke**—Certainly.

**Senator JOYCE**—I noted the Rudd government claims to have spent \$3.5 billion over the next nine years, but only \$1.3 billion is accounted in the forward years. What instruction has the department received about where the other \$2.2 billion will come from?

**Mr Clarke**—Senator, I am not sure that I can literally answer your question. You are right that the \$3.5 billion of funding for the two flagship programs, carbon capture and storage and solar, extend well beyond the forward estimates, and that there is only so much within the period of the forward estimates. But it simply has that nature. Its profile extends beyond the forward estimates.

**Senator JOYCE**—Is there anything definitive or decisive—decisive being the optimum word these days—about where this \$2.2 billion will come from?

**Mr Clarke**—It will come through the budget process as the forward estimates roll out.

**Senator JOYCE**—Has the government flagged priority areas within the Clean Energy Initiative?

**Mr Clarke**—The Clean Energy Initiative has three components. There is carbon capture and storage flagship projects, solar energy flagship projects, and the creation of a new entity, nominally Renewables Australia, and the funding allocation has been specified across those three elements.

**Senator JOYCE**—What is that funding?

**Mr Clarke**—In total, CCS has \$2.425 billion over nine years of which \$2 billion is new and \$0.425 billion was previously announced money. Solar Flagships has \$1.6 billion over six years of which \$1.365 billion was new, \$0.235 billion existing. Renewables Australia, \$465 million of which \$100 million was new, \$365 million existing.

**Senator JOYCE**—How are these rolling out in regard to the financial encouragement given by the government? Have we had any sort of relationship as to whether these projects are up and running, going forward, the money is turning up as expected, there are people on board, ready to do it?

**Mr Clarke**—Certainly. The three elements of the Clean Energy Initiative have quite different characteristics in terms of the questions you are asking, so I will have to answer it in three parts. In terms of carbon capture and storage flagship projects, that area has been the subject of extensive industry and state government consultation under the National Low Emissions Coal Initiative, and hence there are a number of carbon capture and storage projects on the table as project proposals. We would expect there to be a competition to select projects that are already under development in that area.

Solar Flagships is less well developed and, therefore, we will be undertaking a market study right now to identify the optimum business model, the way in which to shape that program and the appropriate way to present it to the market. The renewables initiative is research and development more than big project. Much of the funding allocated in that area is already in process through various competitive rounds and so on. But the new structure of the



nominal Renewables Australia will be subject to a government decision and potentially legislation before it is implemented.

**Senator JOYCE**—Is this funding available—I imagine it has to be because that is where a lot of it will come from—to overseas organisations working within Australia?

**Mr Clarke**—I would characterise the two flagship programs as the funding will go to projects, and the backers of those projects are likely to be consortia. That could well include energy and resources industry, technology and research organisations and, inevitably, several of the parties in those consortia will be international companies.

**Senator JOYCE**—Obviously part of it is research and development, and they will be putting forward in their submission, ‘This is the research and development of this project and this is what is in my budgetary proposal’?

**Mr Clarke**—Again, I need to break down the answer. There are two components. In the flagship projects, which is building the large CCS and solar energy projects, there will be a research infrastructure component that will require the participation of a research agency.

**Senator JOYCE**—What is to stop a company or organisation gathering those funds and then using the debt of the Australian taxpayer—because it is all borrowed money—in a project overseas? That company can basically pick up their IT, their technology, and head overseas with it.

**Mr Clarke**—The two flagship elements, CCS and solar, the projects where the Commonwealth’s funds will be expended, must be Australian projects. We would expect that the learnings, the know-how, et cetera that come out of those projects, would be disseminated globally to the benefit of both the Australian and the global carbon capture and storage and solar energy communities. But the projects themselves must be domestic projects.

**Senator JOYCE**—It is very benevolent, but it is a form of the Australian government possibly subsidising the development of this technology for the globe?

**Mr Clarke**—These programs have dual benefits. They will accelerate the deployment of these technologies domestically but they also, quite explicitly, will have a knock-on effect globally. They operate in both spheres.

**Senator JOYCE**—When will these projects actually be up and running? When will we actually be able to drive out and see one?

**Mr Clarke**—I cannot give you a date on that. When would we hope that this would start—

**Senator JOYCE**—Have they turned a sod of earth on any of them yet?

**Mr Clarke**—We have not yet selected the project, Senator.

**Senator JOYCE**—When do you think that will happen?

**Mr Clarke**—The project selection process, to actually identify it to where we could tell you it will be that plot of dirt and that technology and that capacity power station or whatever, we would hope across the two, CCS and solar, that it would be completed within 12 months.

**Senator JOYCE**—Within 12 months.

**Mr Clarke**—Potentially faster, but that is a conservative estimate today.

**Senator JOYCE**—What is the belief of your rollout after you have selected the project; how long would you envisage before the project was actually up and running?

**Mr Clarke**—Again, that will obviously be the subject of contracts with each of the projects. It will vary from project to project. Those that have already done a lot of front-end engineering design work, that have got licensing, that have got sites, et cetera, could happen a lot faster. Those that need to go through that process; it could take an additional two years to complete that preliminary work. Some projects are already well advanced in that area and could start much faster. I expect there will be a spread.

**Senator JOYCE**—So, on roughly 12 months and two years, we are looking at, give or take a bit, around a three-year time frame?

**Mr Clarke**—I am reluctant to give you a general answer. I am saying that it will vary. Some projects are well advanced and could start site works much faster than that. Others that are starting cold today, so as to speak, could take up to that period. There is also the fact that some of these projects, particularly in the CCS area, potentially retrofit to existing sites where, again, the permitting process is much shorter.

**Senator JOYCE**—Do the projects have to be commercially viable in production phase or will they be subsidised?

**Mr Clarke**—The design at the moment assumes a capital subsidy for the capital cost of constructing those projects and it assumes a ratio of \$2 from counterparties for each \$1 from the Commonwealth. It is a capital subsidy upfront, but the assumption, the business model behind that, is that these entities will be profitable as power stations in the short, medium, long term, but need this capital subsidy to address that early mover issue in these technologies.

**Senator JOYCE**—Do you see it involved with the Renewable Energy Target scheme?

**Mr Clarke**—The solar projects would be eligible under the Renewable Energy Target, yes.

**Senator JOYCE**—Has government acknowledged the utilisation of methane under the Renewable Energy Target?

**Mr Clarke**—I do not believe so, Senator, although that is strictly a question for the Department of Climate Change, but that is not my understanding.

**Senator JOYCE**—Are any of the benefits from methane from landfill recognised under the Renewable Energy Target scheme?

**Mr Clarke**—I do not think we can advise you on that, Senator.

**Senator JOYCE**—Can you generate power from the burning of methane?

**Mr Clarke**—Absolutely.

**Senator JOYCE**—Is it used anywhere in the world? Is there capacity to generate power from the burning of methane in a viable and productive capacity?

**Mr Clarke**—Yes.

**Senator JOYCE**—Can you give me an example of where that would be?

**Mr Clarke**—No, but I am aware that it is a mature technology.

**Senator JOYCE**—It seems a bit strange that a mature technology that would reduce greenhouse gases because we would be burning the methane would not be utilised under the Renewable Energy Target?

**Mr Clarke**—Your question goes to the definition of renewable energy under that scheme, both the previous renewable energy scheme and the extended one, and that is an issue for the Department of Climate Change.

**Senator JOYCE**—Obviously you have no knowledge of the logic behind methane being omitted from the Renewable Energy Target?

**Mr Clarke**—I am not able to comment on that issue or, indeed, to advise you of its status.

**Senator JOYCE**—Has the department done any modelling on the disproportionate impact of the Renewable Energy Target on the aluminium industry?

**Mr Clarke**—Senator, sorry, it has just been brought to my attention that my colleague has some of the documentation from our colleague department that does indicate that landfill gas, which is what I understand you are talking about, is indeed scheduled as a renewable source. But, again, any specifics about that, I would have to refer you.

**Senator JOYCE**—Landfill gas would be methane, wouldn't it?

**Mr Clarke**—That is what I am assuming also.

**Senator JOYCE**—Isn't there a bit of confusion here, because methane is not under the Renewable Energy Target and landfill gas is, but landfill gas is methane?

**Mr Clarke**—Again, that is why I am cautioning that we are not the responsible department. I just wanted to bring to your attention that the term 'landfill gas' is scheduled by the Department of Climate Change and therefore I would refer you to them for an explanation of that.

**Senator JOYCE**—Let us go back to aluminium. Have you done any modelling on what is going to happen to the aluminium industry under the Renewable Energy Target?

**Mr Clarke**—We have not done any independent modelling of that, no.

**Senator JOYCE**—You are aware of the comments even within the Labor Party? The member for Corio, Mr Richard Marles, has concerns about it. It is in the paper today?

**Mr Clarke**—I am aware that the aluminium industry has raised questions about the impact of the Renewable Energy Target on them as large consumers of electricity, yes.

**Senator JOYCE**—Have you been asked to do further modelling on it?

**Mr Clarke**—Not to my knowledge.

**Senator JOYCE**—What sort of reduction will there be in the aluminium industry from the Renewable Energy Target?

**Mr Clarke**—Again, I can only refer you to the answers to previous similar questions that the Treasury modelling on the sectoral impacts of climate change policy are the only source of independent data that we have in this area, other than submissions made by industry itself.

**Senator JOYCE**—Are you aware of flow-through shares?

**Mr Clarke**—Yes. I will bring the relevant officer to the table.

**CHAIR**—Does the Australian Solar Institute involves these officers?

**Mr Clarke**—It does, Senator.

**CHAIR**—Senator Joyce, could we just save too much to-ing and fro-ing.

**Senator CAMERON**—And I have questions on CCS.

**CHAIR**—Senator Pratt.

**Senator PRATT**—Thank you very much, Chair. As I understand it, one of the programs announced has been the \$100 million for the Australian Solar Institute. I wanted to understand how that \$100 million is going to be divided and used, because I understand that it is for both solar thermal and photovoltaic. If you could take me through that, to begin with, that would be terrific.

**Mr Clarke**—Certainly. The \$100 million for the Australian Solar Institute was one of those parcels of existing money that I referred to—it was actually announced in last year's budget and we have been working through for the last 12 months on implementation of that announcement. It has now been linked into, augmented, if you like, by the Clean Energy Initiative. The three principal members of the Australian Solar Institute are the CSIRO at Newcastle, the Australian National University solar laboratories and the University of New South Wales solar laboratories. You are right that there is an explicit recognition of both solar thermal and photovoltaic interests within the institute, and I will ask my colleagues to explain how that is being rolled out.

**Mr Stone**—The roll-out of the Australian Solar Institute is currently underway. There is an establishment committee that has been appointed by the minister, and that committee is charged with the responsibility for developing the governance, the administrative and the legal framework under which the institute will operate. The institute is most likely to be set up as a not-for-profit company, limited by guarantee, and it will have an independent board. That board will be making decisions on the allocation of funding under competitive grants programs for the institute. For the first year there is a split of fifty-fifty between solar photovoltaic and thermal and that will be reviewed after 12 months of operation.

**Senator PRATT**—Why the decision of a not-for-profit company?

**Mr Stone**—One of the key things over the longer term for the Solar Institute is to make it self-sustaining and one of the tasks that the board will have is to identify alternative sources of funding, so that obviously works better if you have got a non-government model. But at this point in time the government will be the sole shareholder.

**Senator PRATT**—As I understand it, one of the objectives is the development of industry capability and intellectual property. That intellectual property would be negotiated with the partners working with this not-for-profit company?

**Mr Stone**—Some of those details are still to be worked out. It is going to be a matter for the board to negotiate contracts between the Solar Institute and the recipients of funding.

**Senator PRATT**—As I understand it, one of the objectives of the institute is to look at growth in export opportunities for Australian businesses in these two sectors. How are those opportunities currently viewed by the department?

**Mr Clarke**—You talk about export development industry growth in that renewables area. The Australian Solar Institute, as I said and as Mr Stone has said, has a hard R&D focus which is initially centred around the three major research bodies in this field. There are a number of other research bodies, but these three constitute the lion's share of resources at the moment.

The broader area of renewable energy industry development is probably going to be addressed more specifically through this new body—nominally called Renewables Australia—that was announced in the Clean Energy Initiative. The government's intent is that this new body will have a great deal more flexibility in the way in which it disposes the money that is appropriated to it. At the moment we are largely limited to a grant funding model with the inherent limited flexibility that comes with that structure. The policy framework for Renewables Australia is that it will be able to use alternative means of support potentially—this is not yet decided, but potentially—loan funding, equity funding and follow on investment in the form of venture capital. It is a much more flexible and commercial approach.

Looking forward, I would think that the development of the domestic renewable energy sector will be looking to Renewables Australia, whose name is not finalised, as the likely source of support. The solar R&D community will see its focus more in the Australian Solar Institute.

**Senator PRATT**—As I understand it, one of the objectives of the commitment to this research and development is to help cross the divide to help solar photovoltaics and solar thermal to become more cost competitive with other forms of energy. What are the prospects there?

**Mr Clarke**—Again, this is where it links into the announcement in the current budget for the Clean Energy Initiative. With the big Solar Flagship program, \$1½ billion will go into very large-scale solar projects. That will, I think, be the key driver of commercialisation in those two areas.

The PV industry operates from the micro household scale right up to perhaps medium scale. Solar thermal perhaps starts at medium and goes up to large. The place these two technologies take in the energy mix of the future is subject to a lot of conjecture and modelling. But the Solar Flagship program will really test what they look like at very large scale where we were counting deployment in the hundreds of megawatts per facility rather than in kilowatts, which tends to be the scale of deployment in Australia at present.

**Senator PRATT**—Terrific, thank you.

**Senator CAMERON**—Isn't the effect of implementation of carbon capture and storage absolutely essential to the long-term viability of our minerals industry?

**Mr Clarke**—Senator, I would certainly support the contention—and indeed, it is not a personal view; it is a view from international energy agencies and industry analysts

worldwide I believe—that for fossil fuels to have a long-term role in the energy mix of this century, carbon capture and storage is the most likely technology that would provide that pathway. Through this Clean Energy Initiative the government is clearly saying that this technology is essential for the future of that sector.

**Senator CAMERON**—The steel industry in general has basically nowhere to go in terms of chemical or processes. Do they have to have carbon capture and storage in steel as well?

**Mr Clarke**—You are right to highlight that CCS technology is more than just for coal fired power stations. The technology applies to fossil fuel combustion generally and many heavy industries—cement, steel et cetera—are fossil fuel combusting industries. Indeed, the modelling that the International Energy Agency has put out in terms of the energy mix that would be needed to support deep emission cuts by mid century, suggests that almost half the CCS deployment is in industry, not just in the energy sector. Deployment in facilities like steel and cement is particularly important.

**Senator CAMERON**—The UK government has mandated the use of CCS in any future coal fired power station.

**Mr Clarke**—There are a range of policy measures that different significant coal-using economies have deployed. For example, Canada has regulated to the exact effect that you suggest for new coal fired projects. The way they do that is that it must be able to meet the emissions specification that would come from CCS and then it is of course a question for the proponent as to exactly what technology they would deploy to achieve that. The UK has just announced an expansion of its CCS demonstration program. They were initially running a competition to select a single project and, from memory, they have now broadened that to four projects. The Obama administration has similarly made very large announcements. I think very significantly the US package specifies that a proportion of it be taken up by those industrial applications that you talked about, not just in the energy sector.

**Senator CAMERON**—We are not on our own in terms of addressing carbon capture and storage and recognising the need to mitigate against CO<sub>2</sub> emissions?

**Mr Clarke**—Certainly not. The country and industry membership that we have achieved for the Global Carbon Capture and Storage Institute demonstrates the point that you are making. If you start at the top and ask, ‘Where do the deep cuts to emissions come from midcentury?’ the analysis that bodies such as the International Energy Agency and others do, including the IPCC, makes a very compelling case that this is a critical technology to achieve those deep cuts. If it fails to be successfully commercialised, the global abatement task midcentury will be enormously more difficult and enormously more expensive. Every developed economy that has high fossil fuel dependency is interested in CCS and many of the developing economies have a similar interest.

**Senator CAMERON**—We have a particular interest because of the nature of our export industries being coal and minerals.

**Mr Clarke**—The way I have described it in talking about Australia’s interests in this area internationally is to respect the fact that many other economies have a similar interest but to argue that no-one has a greater interest than Australia, for the very reason you say.

**Senator CAMERON**—Are you following the developments at Longannet power station in Scotland?

**Mr Clarke**—I am not personally familiar with that project. I am sure I could bring an officer to the table—

**Senator JOYCE**—Is anybody following Longannet?

**Senator CAMERON**—Actually, Senator Joyce, they are.

**Senator JOYCE**—All the people following Longannet, please put up your hand.

**Senator CAMERON**—Let me tell you, the climate change deniers are not following it, like you, but the government that is actually trying to deal with employment and deal with CCS is. I understand at Longannet there is a one-megawatt carbon capture facility in place and they are talking about by 2014 being able to increase that to 300 megawatts. That would be a significant development, wouldn't it?

**Senator JOYCE**—Isn't that amazing everybody? Longannet, there you go.

**Senator STERLE**—Point of order, Madam Chair.

**Senator JOYCE**—What is the point or order, Senator Sterle?

**CHAIR**—We do not call points of order—

**Senator STERLE**—Butting in. The question was asked—

**CHAIR**—for Senator Joyce's relatively innocuous interjection.

**Senator CAMERON**—Barnaby being a boofhead: that is the point of order.

**CHAIR**—Senator Cameron, please!

**Senator STERLE**—And he has a PhD in being a boofhead.

**Senator CAMERON**—He is being a boofhead, as he always is.

**Senator STERLE**—Senator Cameron asked the question. I am waiting for an answer from the department. We do not need a National over the other side butting in.

**Senator JOYCE**—Senator Sterle, is very interested in Longannet. You might be interested in the miners that are going to lose their jobs, Senator Sterle.

**CHAIR**—Senator Joyce!

**Senator CAMERON**—Mate, you have never been interested in jobs. You have never been interested in—

**Senator STERLE**—You supported Work Choices. You absolute hypocrite!

**Senator JOYCE**—You are going to put your miners out on the street.

**Senator CAMERON**—What a fraud you are.

**Senator STERLE**—'Mr Work Choices'. You did not have the guts to cross the floor.

**Senator CAMERON**—What a shallow fraud you are.

**CHAIR**—Are we ready for the answer now? Senator Joyce, Senator Sterle, Senator Cameron!

**Senator CAMERON**—If the shallow fraud just shuts up for a minute we can get on with it.

**CHAIR**—You can keep arguing among yourselves while we are waiting for Mr Clarke, if you like, otherwise we will wait to hear the answer.

**Senator JOYCE**—Longannet—off you go.

**Senator CAMERON**—Now you know about it, go and have a look at it.

**CHAIR**—Senator Cameron!

**Senator CAMERON**—I was asking about the proposal to have a 300-megawatt CCS facility at Longannet by 2014.

**Mr Clarke**—When we were doing the research to establish the Global CCS Institute we conducted a global survey of CCS projects and that showed that there are of the order of 30 or 40 small-scale projects, such as the one you refer to, and only three that at that stage were storing a million tonnes a year or more. This analysis took us through what commercialisation of this technology would look like and how it would be defined. We struck the nominal analysis that 250 megawatts, or 300 megawatts, if you like, is the sort of commercial scale that is necessary to demonstrate the successful deployment of this technology and, in parallel with that, the successful storage of at least one million tonnes per year per project. We have nominated that 250 megawatts million tonnes per year per project as a nominal indicator of commercialisation. Hence the scale-up that you are talking about is precisely the sort of scale-up that is needed to inform the commercialisation of this technology.

**Senator CAMERON**—As I understand it, the leaders in this technology at the moment are in the regions and companies like Aker, I think it is. Have we had a look at their technology?

**Mr Clarke**—Absolutely.

**Senator CAMERON**—Are there any implications of that? Could we actually create some employment in Australia because of the potential of CCS?

**Mr Clarke**—It is interesting to think through: where are the jobs, where is the technology, where is the manufacturing, where is the expertise in CCS. You need to separate the capture—

**Senator JOYCE**—Longannet.

**Mr Clarke**—and the storage component. Capture is essentially a power station—engineering technology, chemical manufacturing engineering and so forth. Transport is what it is—pipelines. Storage is geology, geophysics, oil and gas industry expertise. Who will be the dominant manufacturers of capture technology? I think it is far more likely to be those companies that are already major players in the power sector, which are not Australian manufacturers. Where will the expertise be in storage? That is likely to be companies with expertise in the existing oil and gas sector of which there are some very significant Australian players. The expertise in structuring and running these projects I think does have significant export potential for Australia. It is one of the knock-on effects that we would hope will emerge from being a first mover on large-scale projects.

**Senator LUDLAM**—I have just got a couple of questions to follow on. In your opening statement on the two different flagship initiatives you said there was a two to one funding mix



and that you were looking for a two to one contribution from the private sector. Does that apply to the CCS flagship?

**Mr Clarke**—The starting point in both of the flagships is that two to one ratio.

**Senator LUDLAM**—How do you mean the ‘starting point’?

**Mr Clarke**—That is what the government has announced. But we have yet to publish the formal guidelines and then conduct the market testing.

**Senator LUDLAM**—There would be some kind of request for proposals process, and you will be looking for industry to put up not just good ideas but money as well?

**Mr Clarke**—Absolutely.

**Senator LUDLAM**—Do you anticipate there is going to be a rush of proposals given that will assume quite a large commitment of funding from private industry?

**Mr Clarke**—I will have to answer that in two parts. In the CCS area, as I have said, where a lot of industry and state government work has already been underway, we know there are a number of well-developed and developing projects in that space. The feedstock, if you like, for CCS projects is reasonably well advanced. In the case of the large-scale solar, we think it is less well advanced and we will need to do the market testing in that area. That is why, before going straight to the market, we are going to undertake quite extensive market consultation in talking to the solar energy industry and the existing energy players just to understand how best to frame the actual formal approach to market for that area.

**Mr Pierce**—Senator, I think one of the design principles around both of these that we are trying to achieve is that when this technology is deployed, when these projects get up, they just do not exist in isolation from the rest of the electricity network, if they are obviously in that sector. We would hope that these projects would be participants in the national electricity market just like any other project rather than just, if you like, sitting off to the side, isolated, for people to look at. We want them to actually play a part in the national electricity market.

**Senator JOYCE**—I have got a question on this carbon capture and storage for you.

**Senator LUDLAM**—May I just finish?

**Senator JOYCE**—Yes, sure.

**Senator LUDLAM**—Just moving to gas for a second before we go to coal, does the government have a threshold for well-field CO<sub>2</sub> that must be captured and stored? I know it is easier to strip CO<sub>2</sub> off a gas resource than it is from a coal-fired power station. Is there a benchmark that has been set by the Australian government for mandatory stripping of CO<sub>2</sub> at the well-field?

**Mr Clarke**—No.

**Senator LUDLAM**—There is not?

**Mr Clarke**—The policy framework is that of course those emissions are measured and will have a cost and an obligation under the CPRS. But the decision whether or not to buy the permits and pay the carbon price, if you like, or to capture, store or otherwise deal with it, is a commercial or economic decision for the project.

**Senator LUDLAM**—In the case of Gorgon off Western Australia, for example, they could decide to bite the bullet and bury the stuff or they could take whatever cost of permits that might be—

**Mr Clarke**—From the Commonwealth's perspective, yes. What obligations the WA government might put on that would be a separate issue.

**Senator LUDLAM**—I am interested to hear about your example in Canada where they are not going to be licensing coal-fired power stations until they are storing and capturing?

**Mr Clarke**—In Australia?

**Senator LUDLAM**—No, in Canada. You mentioned it before.

**Mr Clarke**—My understanding of the Canadian policy is that it is through a licensing regulatory process on those projects. I understand they are imposing, simplistically you would call it, a technology obligation, but that in fact it is framed one level higher than that, in that it is an emissions obligation. The effect of it and the way it is discussed is that, in effect, it is saying, 'If you build for this fuel the only way you can get a permit is to apply this technology.'

**Senator LUDLAM**—They are just setting quite a low benchmark. How the company decides to comply is up to them, but—

**Mr Clarke**—Yes.

**Senator LUDLAM**—it leads them to CCS. Whereas in Australia we have this terminology being thrown around: you can build whatever you like as long as it is 'carbon capture ready'. Have you come across that phrase and can you tell us what that means?

**Mr Clarke**—Certainly, but I need to respond to the preamble to your question. The Australian government does not mandate particular technologies or fuels in the power sector. The CPRS will of course change the economics of developments in the power sector by pricing carbon, but in the current policy framework it is a matter for industry. The parallel mechanism is of course the Renewable Energy Target that creates a particular incentive in that area. If you like, there is no Commonwealth legislation or regulation that goes directly to deployment of CCS. There is enabling legislation for the storage, but it is still a matter for industry as to what form of technology they actually build should they choose to go down the coal- or indeed gas-fired area.

The term 'CCS ready' is an important part of the global discussion about deployment pathways to CCS. The concept is that a government body, a regulator if you like, might only license a coal- or gas-fired power station if it has satisfied this concept of CCS ready. It is a very ambiguous term and, for it to be applied by a regulator there would need to be a specification of it. In broad terms, it simply means that the power station is capable of being retrofitted to capture and, presumably, store CO<sub>2</sub>.

**Senator LUDLAM**—But technically that does not yet exist?

**Mr Clarke**—There is plenty of demonstration of post-combustion capture. The technology exists; it is just not mature and commercialised worldwide. There are numerous examples of the deployment of this technology on a demonstration scale. The concept of CCS ready is that

your power station would be designed from the start to accommodate such kit that would be built in.

**Senator LUDLAM**—You mentioned before that there are up to 30 different kinds of technology floating around—just in the examples that you cited before—

**Mr Clarke**—There are 30 different small-scale projects, in order of magnitude. There will be only about three or four broad classes of technology—

**Senator LUDLAM**—There is no definition in any law or statute in Australia that you could point us to of what CCS ready means?

**Mr Clarke**—But this term or this concept is under active development in the international energy community. Between the International Energy Agency, the Carbon Sequestration Leadership Forum and the Global CCS Institute, those three bodies have all jointly recognised that a robust definition of CCS ready, such that it could be applied by a regulator or indeed a board of a company that wanted to make that a condition of their own investment, needs to be developed. There is work commencing now to develop such a specification.

**Senator LUDLAM**—I have just one last question and then I will pass you back to Senator Joyce. When is this technology going to be playing a measurable part in emissions reduction in Australia? You have benchmarked a 250 megawatt, million tonnes per year power station; how many of them by 2020? When will we actually see a significant proportion of this technology on the ground?

**Mr Clarke**—I will come to Australia, but it has a global context. The global goal, which is perhaps the best term, is for there to be of the order of 20 such projects operating worldwide by 2020.

**CHAIR**—Excuse me, Mr Clark. Could the photographer check with the secretariat before you start taking photographs, please? Sorry, Mr Clark, please go on.

**Mr Clarke**—That was a goal established by the G8 in Hokkaido last year and I think it is a good benchmark in terms of global expectations for the rate of development of commercial-scale projects in this field. We could point today to announcements, statements of intent, that exceed that 20 number by 2020, but the issue always is the conversion rate of announcements, statements of intent, to projects on the ground. In Australia's case we think that the \$2 billion in the Clean Energy Initiative will support of the order of three—it is such a small number that plus or minus one makes a big difference, but in order of magnitude three such projects domestically would contribute to this nominal portfolio of 20. Your point of course is: when do you start getting serious abatement that actually affects the top curve globally?

**Senator LUDLAM**—No, no, just nationally; we have got a notional 20 per cent renewable energy target in Australia now, which is very welcome. What is our carbon capture and storage target by 2020?

**Mr Clarke**—There is no CCS target that is legislated in that manner. There are goals about the deployment of the technology but the current policy framework does not presume a regulated target for CCS.

**Senator LUDLAM**—What are your goals then by 2020, as a proportion of expected emissions in 2020?

**Ms Sewell**—You were asking what the goal is from CCS deployment by 2020?

**Senator LUDLAM**—There is no policy and there is no formal target in law; what are the goals? I am trying to get a sense of what the Australian public, for the expenditure of \$2 billion, could expect to have built by 2020. Could you express that as a proportion of expected emissions in the electricity sector by then?

**Ms Sewell**—I might just ask my colleague to take total emissions from the coal-fired power sector. Although that sector is by far and away the largest component of Australia's CO<sub>2</sub> emissions—coal-fired power produces approximately 32 per cent of our CO<sub>2</sub> emissions—we are hopeful that CCS will be taken up by other heavy industrial sectors, as Mr Clarke was outlining earlier. Basically, the Clean Energy Initiative has been announced for CCS with a target of 1,000 megawatts of CCS power. That is open ended and it is not mandated.

**Senator LUDLAM**—So, 1,000 megawatts by 2020?

**Ms Sewell**—The general thrust of the whole Clean Energy Initiative in the CCS area is around commercial operation from 2015. As Mr Clarke highlighted, we expect \$2 billion to produce two, three or four commercial-scale projects. The government's framework in this area has been very much directed by the work of the national Low Emissions Coal Council, which has provided the framework for the proposed process to select these projects going forward. Depending on the scale of the projects coming out of the Clean Energy Initiative, the quantity of emissions saved could vary quite considerably. By that I mean we have actually identified a number of priorities in the area. If we look at commercial scale, we could be talking about a new build plant in which case potentially you are talking about a 400 or 500 megawatt new power station, we could be talking about smaller amounts of money spread across smaller retrofit projects or we could be talking about a multi-user infrastructure project, which is actually providing financing for say, the pipeline component of CCS as well as the geological storage or injection component.

**CHAIR**—Unless anyone has any objection, we will let the photographer take some photos of the committee. If you could make sure not to photograph any papers or laptop screens or go behind the committee members.

**Senator JOYCE**—To the best of your knowledge is whisky, electronics and financial services covered by the emissions trading scheme or do they require carbon sequestration? They are the main exports of Scotland from where Longannet is.

**Senator CAMERON**—I told you it was shallow. This is really shallow.

**Senator JOYCE**—What has Scotland really got to lose? Have we got far more exposure to carbon capture and storage, if it does not come on line, than a place such as Scotland, which is a thousand miles away from the sort of economy that Australia is based on?

**CHAIR**—Senator Joyce, I think we are going back to general questions that have been answered by the department.

**Senator JOYCE**—Is carbon capture and storage commercially available anywhere in the world at this present time?

**Mr Clarke**—Yes it is. It is a commercial deployment in the oil and gas sector today and it is operating at commercial scale in three locations around the world and has been successfully for quite some years.

**Senator JOYCE**—Where are they and do they have the capacity to deal with our coal industry?

**Mr Clarke**—There are probably four commercial-scale projects operating worldwide, two in Norway, one in North Africa and one that straddles the Canadian-US border.

**Senator JOYCE**—What is the cost overlay on the price of the product?

**Mr Clarke**—It varies. This is one of these technologies that you cannot specify. You cannot go out and buy it and know the exact cost per project. You will be able to on the capture side; the capture side will be an engineering product that, with successful commercialisation, you can get competitive quotes from alternative suppliers to install, build and operate. It is the storage side that is the big variable. It is obviously site specific and the transport and storage costs will depend on each site. There are estimates about the extent to which CCS will increase costs in the coal-fired power sector, which is arguably the most critical of the sectors for its deployment. It is by no means the sole one, but probably a key one. It could increase costs in the order of 30 per cent, perhaps but again—

**Senator JOYCE**—Increase costs by 30 per cent?

**Mr Clarke**—I am very loathe to say. That is not a robust number; it is a forecast number that makes assumptions about the rate at which the economics of the technology improves with scale and deployment, and assumptions about the actual proximity and quality of storage size.

**Senator JOYCE**—Up to a 30 per cent—

**Mr Clarke**—The point I am acknowledging is that it is material.

**Senator JOYCE**—It is material costs. What about the environmental impacts of carbon capture and storage and especially the sequestration of carbon into fields? Has there been any feedback as to whether this might have other environmental impacts like infection of water tables—I do not know, a whole range of things—the seepage through water tables? What sorts of studies have we had about the possible negative outcomes of carbon capture and storage?

**Mr Clarke**—The four projects I referred to are all storing a million tonnes or more per year and of course are the subject of intensive study in terms of the behaviour of the stored CO<sub>2</sub>. There is also a project in Australia, in the Otway Basin through the CO<sub>2</sub> CRC that at a smaller scale is focusing on exactly this question of understanding how the CO<sub>2</sub> behaves in the particular geologies that are in there. There is intensive study worldwide to understand the issues that you are raising.

**Senator JOYCE**—Have there been any issues with regard to volatility and possible explosions via carbon capture and storage?

**Ms Sewell**—That is an issue, obviously, that we have always got in mind. In relation to the four projects we can point to that are operating around the world, governments have worked to ensure that the chances of that occurring are minimal. There is often discussion about an

incident some years ago now where CO<sub>2</sub> had accumulated at the bottom of a lake and came out of that lake. The process of geological sequestration is not comparable to that at all. In terms of a catastrophic explosion, this product is being stored at least a kilometre underground. In the case of the Gorgon project we discussed briefly before, it is more than two kilometres underground. Work has been undertaken in Japan, which obviously is very subject to seismic events and in fact did have a seismic event go through a trial storage site, which demonstrated that the risks of anything coming out of the ground at a greater rate than had been anticipated were pretty close to zero.

**Senator JOYCE**—My final question: is there any sort of emissions trading scheme tax or like tax in the European Union that currently is placed on oil extraction?

**Mr Clarke**—I cannot answer that question with confidence. I would rather take that on notice. Is your question how the European ETS applies to their oil sector?

**Senator JOYCE**—Norway's largest export would be oil, would it not?

**Mr Clarke**—Yes, but it is interesting that the Norwegian CCS experience was driven by the regulatory imposition of a carbon tax. That was exactly the policy driver that has made Norway a world leader in that area.

**Senator JOYCE**—Fair enough.

**Senator EGGLESTON**—Are you the appropriate people to ask about flow-through shares?

**Mr Clarke**—We will bring the officers to the table, Senator.

**Senator EGGLESTON**—Good; thank you very much.

**Senator EGGLESTON**—I notice that in June 2008 Martin Ferguson said the government would introduce a flow-through share scheme. He said this year on 9 April that, 'I will work hard to deliver that commitment in this Parliament'. He meant a flow-through share scheme, but we have not seen any proposal in the budget for a flow-through share scheme. Are you people working on a flow-through share scheme?

**Ms Kruse**—We have been working with Treasury on a flow-through share scheme. The flow-through share scheme is part of the tax review which is currently being undertaken by Treasury.

**Senator EGGLESTON**—It is part of the Henry review, you mean?

**Ms Kruse**—It certainly is.

**Senator EGGLESTON**—Beyond the fact that you have just said it is being considered by the Henry review, do you have any further information that you could provide this committee since the last estimates, when it was stated that the department was working with a number of stakeholders on the appropriate design of such a scheme in relation to its implementation?

**Ms Kruse**—As it is being considered by the Henry review at the moment, the industry has put a submission in to the Henry review on a model and we have consulted with industry on that.

**Senator EGGLESTON**—Has consideration been given to including exploration for geosequestration sites, which you have just been talking about, in a flow-through share scheme? Would that come within the ambit of it? Is that one of the considerations?

**Ms Kruse**—As it is now part of the Henry tax review, the flow-through share scheme will look at a range of issues. You would probably have to talk to the Treasury on the area of whether they are specifically looking at that.

**Mr Clarke**—Your general point that exploration for carbon storage sites is of a similar nature, quite analogous to exploration for mineral resources, is well taken and we will follow through on that question.

**Senator EGGLESTON**—Very good. Are you able to give us any suggestion of when a flow-through share scheme might be implemented? Do you have a projected starting date?

**Ms Kruse**—The tax review is reporting in December at the end of this year and it will come out in those recommendations. I can assume that you might have to look to talk to Treasury about how they feel that that is tracking.

**Senator EGGLESTON**—Are you able to tell us about who has been consulted in relation to the development of a flow-through share scheme? Have you, for example, consulted the Canadian government? They have a flow-through share scheme there.

**Ms Kruse**—We have not consulted the Canadian government ourselves, but we have looked at the Canadian system.

**Senator EGGLESTON**—Do you find it is a system that has merit in terms of its possible application in Australia?

**Ms Kruse**—The Canadian system is subject to the Canadian policy and environment. It was one of the things that we looked at but any system that is brought into Australia, if it is brought in through the Henry tax review, would have to take into account Australia's current policy and environment.

**Senator EGGLESTON**—So really we have to wait for the Henry tax review. That is the end answer. Okay; thank you very much. We will look forward to that. The other question I would like to ask is about uranium mining. The new Western Australia government has authorised uranium mining in Western Australia. Do you know anything about mines that might be under consideration for establishment under this new regime in Western Australia?

**Ms Barton**—There are currently four uranium mines in Western Australia that are actively pursuing development, one of which is the Yeelirrie mine by BHP Billiton. They submitted a referral under the EPBC Act recently. The other ones are the Kintyre deposit, which is owned by Rio Tinto. The third is the Mulga Rock uranium deposit and the fourth is the Lake Way project.

**Senator EGGLESTON**—Are they proceeding fairly actively towards beginning to mine uranium? What starting dates, if any, do you know of and would you put on these projects?

**Ms Barton**—The Yeelirrie mine is the most advanced project. Their forecast as I understand it is for production, pending all the relevant approvals, to be in place by 2011-2012.

**Senator EGGLESTON**—What role does the federal government play in authorising a uranium mining project to go ahead in Western Australia and authorising export?

**Ms Barton**—Our role on the approvals side is under the environment portfolio under the EPBC Act. Another role is in relation to exports; Minister Ferguson has the approval for uranium exports. Our third Commonwealth role is in relation to safeguards under the foreign affairs portfolio in relation to tracking the uranium once it leaves Australia.

**Senator EGGLESTON**—Would you anticipate any problems with the export of uranium from these proposed mines in Western Australia?

**Ms Barton**—As I understand it, the proponents are looking to export through the current uranium export ports of Darwin and Adelaide.

**Senator EGGLESTON**—Not through Fremantle, Albany or Port Hedland?

**Ms Barton**—The shipping lines as they are set up at the moment are through Darwin and Adelaide, so there are no established shipping routes out of Western Australia at the moment.

**Senator EGGLESTON**—I have another question in relation to the mining industry. I attended the Minerals Council of Australia seminar on Wednesday of last week, where it was said that the Carbon Pollution Reduction Scheme might result in the loss of some 23,500 jobs directly and another 100,000 indirectly around Australia. Is the department making any planning to compensate for that loss of jobs within the minerals industry?

**Mr Clarke**—Senator, we—

**Senator CAMERON**—That would explain why they thought they were pointing it out to him.

**Mr Clarke**—As I have answered previously, we have not undertaken any modelling regarding the veracity of such numbers and, no, we are not making explicit plans in anticipation of any such outcome.

**Senator CAMERON**—These are not job losses either. This just perpetuates the nonsense—

**CHAIR**—Senator Cameron.

**Senator EGGLESTON**—Does this mean that you are not concerned about the possibility of job losses? I would have thought that your role would certainly be to consider the implications of such job losses as a matter of some significance to this country as a result of this scheme if it were introduced.

**Senator McLucas**—We have canvassed this a couple of times today. The Minerals Council's report misleadingly describes potential future jobs that are not created in the mining sector as job losses. I think it is inaccurate to say 'job losses' in that context.

**Senator EGGLESTON**—With respect, they believe that there will be an 11 per cent fall in jobs, so I am not sure that what you are saying is quite accurate.

**Senator CAMERON**—For what would otherwise have been produced.

**Senator EGGLESTON**—It is a matter of great concern to most Australians that there will be job losses of this size.



**Senator McLucas**—Absolutely. We are all very concerned about the impact of the global financial crisis on all of our industries, but it is inaccurate to describe 23,510 jobs as job losses in the way that it has been reported.

**Senator EGGLESTON**—That is an opinion. Concept Economics did the report, and it is a much respected economic consultancy. I am a little bit surprised that the department is not giving consideration to the implications of possible job losses as a result of the CPRS. I am surprised at the parliamentary secretary, given the fact that Concept Economics is a highly respected economic consultancy, even though there may be some people who find that hard to believe. It seems to me to be a very serious consideration that there may be a total job loss of 125,000 people in the mining sector as a result of the introduction of the CPRS. I am surprised the department is not modelling this and considering the implications of it.

**Mr Clarke**—The modelling that the department relies on in terms of changes across sectors and industries comes from Treasury, as I have previously answered. The point has been made that in any modelling of the impacts on this you must be careful about whether the delta, the difference, is against current levels or forecast levels. In most of these sectors there is a forecast growth, and these differentials are off an already increasing base.

**Senator EGGLESTON**—That is an interesting comment, but it is so widely different from the report of Concept Economics. I suppose we will have to wait and see who is right.

**Mr Clarke**—I am not challenging Concept Economics modelling. I am simply making the observation that with these headline numbers about increases or decreases you have to look deeper into the modelling to see what the reference case was against which they were making those changes.

**Senator ABETZ**—I would like to go back to the coalmining sector. Has the department done any analysis of the methane emissions of each individual coalmine in Australia? If so, which one vents the most, and do we have a league table of the total amount leaked by fugitive or other means?

**Mr Clarke**—I have seen such a league table, but my advice is that it was submitted to us by industry. Your literal question was: does the department have such an analysis that is independent of one provided by industry or that comes from an independent statistical source? The answer is: not to my knowledge. But such analyses are being done. It is possible that, because of the obvious impact through to the CPRS, such data would be held in the Department of Climate Change, but I cannot offer you more than that.

**Senator ABETZ**—To your knowledge, has the Department of Climate Change consulted with your department to determine methane venting by coalmines?

**Mr Clarke**—Yes. We are in consultation with DCC on that matter because it goes to the CCAF element of the package. Of course, it has to be observed that an analysis of all Australian emissions has been something that successive governments have been undertaking for many years in terms of the carbon-accounting obligations under the UNFCCC. There has been analysis; how much of it is data and how much of it is modelling I cannot confirm. But there has certainly been analysis of coalmine methane for many years. I am sure that analysis exists somewhere in government.

**Senator ABETZ**—Could you please take it on notice. If you have it, provide it; otherwise, do me a favour and find out which department has it and then flick-pass the question to that department. That would be most helpful. Also, has the industry chart or league table been publicly disclosed to your knowledge?

**Mr Clarke**—I do not know but I am happy to take on notice whatever is on the public record or in the government data on that.

**Senator ABETZ**—If you are at liberty to disclose that league table to us, please do so. If you are allowed to disclose it and do so, could you advise us whether you have any opinion to share in relation to the robustness of the league tables.

**Senator LUDLAM**—I believe when I was out of the room we heard from one of the officers on uranium mining and what the federal government is doing to establish a regulatory regime. Could I grab another couple of minutes in the time that is available?

**Mr Clarke**—The information we provided the committee in your absence was our understanding of the sites under development in WA and the extent to which the Commonwealth has a regulatory role in that area.

**Senator LUDLAM**—I want to follow on on those. What is the Commonwealth government doing to establish that regulatory regime? Is it an office, a section or a department that you represent? Who are you meeting with and how is that rolling out?

**Ms Barton**—Is this just in relation to Western Australia?

**Senator LUDLAM**—For the moment.

**Ms Barton**—The Commonwealth's role in relation to uranium mining, including in Western Australia, is in three areas. One is in the Environment portfolio under the nuclear trigger of the Environment Protection and Biodiversity Conservation Act. The second area is in our portfolio, to issue uranium export permits. The third area is in the Foreign Affairs portfolio, to issue permits within Australia and then tracking the uranium once it goes overseas.

**Senator LUDLAM**—Are those three portfolios being coordinated through the Uranium Industry Framework? Through what mechanism are they coordinated?

**Ms Barton**—We have very close relationships with those other portfolios and we have been working together to assist Western Australia on the projects that I described earlier in relation to what the Commonwealth approvals would be.

**Senator LUDLAM**—Which is the lead agency, if there is such a thing?

**Ms Barton**—We work very closely together. We have an industry development role, so we have been leading in the consultations with Western Australia.

**Senator LUDLAM**—Who are you consulting with in Western Australia? If this is a complex, long list, I am happy to have that information tabled, but is there a consultation schedule?

**Ms Barton**—There are two key agencies in Western Australia that we are working with. One is the Western Australian Department of Mines and Petroleum, which issues the mining

titles; the other one is the Western Australian Department of Environment and Conservation, which does all the environmental approvals.

**Senator LUDLAM**—That is not consultation; that is intergovernmental meetings. What about Indigenous communities, local government authorities, general communities? That is consultation. Who have you met with in that regard?

**Ms Barton**—The consultation process would occur under the EPBC Act for the projects.

**Senator LUDLAM**—That is for individual mines.

**Ms Barton**—Yes. Consultation with the Western Australian government, as I said, was with those two lead agencies in Western Australia, and then they would be responsible for coordinating within the Western Australian government.

**Senator LUDLAM**—I do not know that it is really true to say that the Commonwealth is consulting as such; you have agency meetings going on with departments in Western Australia. But am I reading you right when I say there is no consultation occurring at a community level at all? You have named two government departments; that is all.

**Mr Clarke**—That is correct, Senator. This department is not undertaking community consultation in regard to these projects. The Commonwealth may well do so through its EPBC interests.

**Senator LUDLAM**—That will be case by case. That process is not triggered until there is an individual project on the table, as there is now with the BHP mine, but there is no consultation. You are effectively the lead agency in an industry development role but you are leaving consultation either to the state side or to an individual project-by-project basis. Is that fair to say?

**Mr Clarke**—Yes, that is a fair summary.

**Senator LUDLAM**—Can you tell us exactly what role the Uranium Industry Framework is playing in that process.

**Ms Barton**—Regarding the Uranium Industry Framework, I guess we have been working with Western Australia on helping them to establish a regulatory regime, but that would be a state regulatory regime that would be complementary to the Commonwealth one.

**Senator LUDLAM**—Are you playing a role in taking best practice, as is the common phrase, from other states and territories and applying it to WA?

**Ms Barton**—Yes, because South Australia and the Northern Territory government are both members of the Uranium Industry Framework, and Western Australia has recently joined them, to work together on best practice regulation.

**CHAIR**—Last question.

**Senator LUDLAM**—The last one. The benchmark for best practice in the case of tailings management, obviously, is set at the Ranger uranium mine, which has a 10,000-year licence condition on containment and storage of tailings in the mine void. Will that best practice be applied in Western Australia?

**Ms Barton**—Best practice is really on a case-by-case basis for the conditions that are around that mine. In the case of Ranger, that is correct; 10,000 years is the benchmark. In the case of a mine in South Australia, the benchmark may well be quite different.

**Senator LUDLAM**—Well, there is no benchmark, so there is not best practice in South Australia. Best practice is in the Northern Territory. Are you applying that standard across other mines in Western Australia?

**Ms Barton**—As I said, it is on a case-by-case basis depending on the mine, the environment surrounding it and the issues around that mine.

**Senator LUDLAM**—I do not understand how you can use the term ‘best practice’ if it is different everywhere.

**CHAIR**—Thank you, Senator Ludlam. We need to go to Geoscience Australia now. Thank you to the officers of the department in outcome 1. I will now call to the table Geoscience Australia.

[12.02 pm]

#### Geoscience Australia

**CHAIR**—Welcome to Geoscience Australia. Do you have an opening statement you wish to make?

**Dr Pigram**—No, Senator.

**CHAIR**—Thank you. Senator Joyce.

**Senator JOYCE**—In your involvement with government and industry and community decisions on social environmental management, have you had any involvement in the modelling of the emissions trading scheme and its effects on agriculture?

**Dr Pigram**—No, Senator.

**Senator JOYCE**—I really am just fishing. Do you have any involvement in agriculture whatsoever in your department?

**Dr Pigram**—Within agriculture?

**Senator JOYCE**—Yes.

**Dr Pigram**—We do a little bit of work in relation to some remote sensing, some satellite imagery that we provide to the department of agriculture, but by and large we are not involved in that space.

**Senator JOYCE**—I was inquiring about the spatial component of the outcome. Thanks, Chair.

**CHAIR**—Senator Eggleston.

**Senator EGGLESTON**—It is a very interesting agency. I understand Geoscience Australia has contributed to Australia’s mineral export wealth over the past decade. Is that not the case?

**Dr Pigram**—That is a very general question, Senator. We provide the pre-competitive information to attract investment to Australia in the resources sector. Given that that sector has been very successful, we would say that we have made a contribution.

**Senator EGGLESTON**—It is a very important contribution to the Australian economy, we all agree. But, given that you have played such an important role in that area, I am a little surprised to see your funding has been decreased. What decrease in funding has your agency suffered?

**Dr Pigram**—Senator, that is a lapsing program in relation to the onshore and offshore energy programs. They were initiated by the previous government and are now in their third year, I think it is, and that was the funding regime that was put in place.

**Senator EGGLESTON**—So in fact that was a program that came to the end of its—

**Dr Pigram**—It is not yet finished but it is on a decreasing funding base, yes.

**Senator EGGLESTON**—Okay. I understand that Geoscience Australia has made an assessment that there are likely to be several major disasters, killing more than 10,000 people a year, in this region. This was as a result of research commissioned by the Prime Minister and Indonesia's President, I gather, about disasters in the Asia-Pacific region. Do you want to make any comment about what your report was based on?

**Dr Pigram**—Are you referring to the work that we did for AusAID, Senator?

**Senator EGGLESTON**—It very probably is, I suspect.

**Dr Pigram**—The agency was commissioned by AusAID to undertake an analysis of natural disaster risk in the South-East Asia and south-west Pacific region, and that became an input to the government's decision to establish an Australia-Indonesia disaster reduction facility in Jakarta.

**Senator EGGLESTON**—You have provided that information to the Indonesian government, as well as—

**Dr Pigram**—It has been shared with the Indonesian government; that is correct.

**Senator EGGLESTON**—Are you sharing information with other governments around the Pacific area or the South-East Asia area?

**Dr Pigram**—My understanding is that is the case, yes.

**Senator EGGLESTON**—Good. One of the other issues that I am interested in is tsunamis. I understand that Geoscience Australia has been involved in the setting-up of an Australian tsunami warning centre in Melbourne. Could you perhaps tell us a little about that.

**Dr Pigram**—Senator, the Joint Australian Tsunami Warning Centre is a joint venture between the Bureau of Meteorology, Geoscience Australia and Emergency Management Australia. We provide the geoscience component of that, which is the detection of the earthquakes and the identification of their tsunamigenic potential. Our input is to advise the bureau whether or not an event has occurred and what its tsunamigenic potential is. On the basis of that decision the bureau has the capacity to check with deep ocean buoys and tide gauges whether there is a tsunami wave in the ocean column. If that is confirmed, then they

have the capacity through Emergency Management Australia to advise the appropriate SES people in the states and territories so that they can make an appropriate response.

**Senator EGGLESTON**—Why is that centre located in Melbourne?

**Dr Pigram**—It is not. Our capacity is located here in Canberra. The Melbourne node of the centre is in the Bureau of Meteorology. It is actually split.

**Senator EGGLESTON**—I see. I understand that the principal earthquake zones off our coasts and the greatest potential for tsunamis are off the south-east coast and the north-west coast. Have you any facilities located focusing on the north-west coast in particular?

**Dr Pigram**—We do, and the context for this is not where the data is analysed but where it is actually recorded. We operate a seismic network that draws on information not just within the Australian continent and the Australian plate but from all over the globe. We actually have sensors in Western Australia and we have sensors that are particularly located so that we have a good understanding of what is happening in that zone to the north-west of Western Australia because it is one of the high-risk areas for Australia in relation to tsunami events.

**Senator EGGLESTON**—When you say you have sensors, is this buoys in the ocean?

**Dr Pigram**—No, these are seismographs and they are all on shore. There is also one on Christmas Island, to give us advanced warning, and we are in the process of negotiating with the Timor-Leste government to install a facility in Timor.

**Senator EGGLESTON**—Thank you, that is very interesting. I understand that in Senate questions on notice Nos 1073 and 1074, dated 13 May 2009, Senator Carr answered a question from Senator Abetz about individual program underspends or overspends in the 2007-08 financial year. Geoscience Australia was shown as having an overspend of \$0.9 million. It was explained that the main reason for the overspend was to offset an approved operating loss in 2008-09 of \$6.945 million in relation to two carbon capture and storage preconceptual data and promotion of petroleum exploration schemes. Can you just tell us a little bit about why that variation occurred?

**Dr Pigram**—I will start it, Senator, but I might check with my CFO. My understanding is the key component of that issue relates to accessing vessels to undertake our offshore energy program. You will appreciate that at the time that that was meant to occur the oil sector, pre-GFC, was very busy. Getting access to the facilities we required to do the onshore energy initiative was fairly competitive and it took us some time to locate a vessel that could undertake the work we needed to do. Consequently, that activity slipped from one financial year into the next financial year.

**Senator EGGLESTON**—Where is your budget now—is it in underspend or overspend?

**Dr Pigram**—It is balanced.

**Senator EGGLESTON**—Thank you very much. That is all.

**CHAIR**—Senator Ludlam.

**Senator LUDLAM**—I am just wondering to what degree the work of Geoscience Australia involves proving up uranium resources in Australia? Is that a separate portfolio area for you?

**Dr Pigram**—Proving up uranium resources in Australia?

**Senator LUDLAM**—Yes.

**Dr Pigram**—We do not operate that far downstream in that sense. As part of our activities, in the provision of precompetitive geoscience information to the mineral sector, we do identify areas that have potential to hold or contain uranium deposits. So to that extent we are involved, that is part of the portfolio of activities. But it does not focus specifically on commodities; it looks at the broader range of opportunities that might exist in a province.

**Senator LUDLAM**—If you happen to come across host rock that is likely to be prospective for uranium, then you will report that?

**Dr Pigram**—We will report that; that is correct.

**Senator LUDLAM**—As you would expect. Are you doing radiometric overflights of particular regions? Is there work that you do that is specifically targeted at radiation anomalies and that sort of thing?

**Dr Pigram**—Not specifically at this time. A couple of years ago we undertook a national survey where we flew a grid at 75-kilometre spacing across the entire continent and collected a range of geophysical data sets. One of those was radiometric data. The reason for doing that was to allow us to undertake a process to level the existing data sets. Collecting radiometric data is a very complex process, and individual surveys up until that point could not be compared. We did that work to allow those surveys to be compared, so there would be a nationally consistent coverage of those types of data. That data was released earlier this year in map form and digital form and is available to anyone who wishes to acquire it.

**Senator LUDLAM**—But that work was initiated a couple of years ago, wasn't it?

**Dr Pigram**—It was flown in 2007-08.

**Senator LUDLAM**—So no further requests on your agency's time or resources since that project—that has put that to rest?

**Dr Pigram**—We have done subsequently some specific surveys in a multi geophysical data acquisition context, which would include radiometric data.

**Senator LUDLAM**—That is fine. Thanks very much.

**CHAIR**—Does that overlay the work that the individual states have been doing in that geospatial—

**Dr Pigram**—It is done in collaboration with the states and territories. We work under an arrangement called the National Geoscience Agreement. All of the work we do onshore we do collaboratively with the states and territories.

**CHAIR**—You were saying that individual data sets could not be compared nationally. Is that now rearranged so that if any other group does a survey then that can be integrated into the national database?

**Dr Pigram**—That is correct.

**CHAIR**—Does the Commonwealth work need to be renewed from time to time or can you just integrate data from—

**Dr Pigram**—No, that data, once it is acquired, if it is acquired correctly, stands forever, and any new work can then be integrated because we now have this national framework of reference lines that allows us to integrate it and to level the data so that we have a consistent coverage across the nation.

**CHAIR**—In the near future there does not need to be any more Commonwealth work in doing the survey?

**Dr Pigram**—Not in the baseline work to ensure that comparative basis. There are still gaps in the national coverage. We do not yet have 100 per cent coverage of the Australian continent for that particular data set. We do for some others, but not for that particular data set.

**CHAIR**—Where are those gaps?

**Dr Pigram**—Primarily in remote areas of Western Australia, parts of South Australia and I think in south-west Queensland. It is dominantly the petroleum basins which will not have potential for the hard rock areas and the mineral resources that you might normally target with that tool.

**CHAIR**—That is the onshore petroleum basins or offshore?

**Dr Pigram**—The onshore petroleum basins. We are talking about techniques that are only applicable on the continent. They do not apply to our offshore marine areas; there are other techniques you need to use in that space.

**CHAIR**—So it only applies to prospective petroleum areas, not the minerals area?

**Dr Pigram**—No, it is primarily for the minerals areas.

**Senator EGGLESTON**—There is one other issue I would like to ask you about. I understand that you have had an industrial problem running within Geoscience Australia for about the last 16 months; is that the case?

**Dr Pigram**—Are you referring to our certified agreement negotiations?

**Senator EGGLESTON**—I think it probably is.

**Dr Pigram**—That is now resolved. We will be taking a recently agreed outcome to staff next week, more than likely. They will have an opportunity to vote on the offer. The minister has signed off on that offer and we will put it to staff in the very near future with a view to having it to the Workplace Relations Authority as soon as that vote is taken.

**Senator EGGLESTON**—I understand there were two episodes of industrial action in Geoscience Australia; is that correct?

**Dr Pigram**—That is correct.

**Senator EGGLESTON**—What was the cost of those industrial actions to Geoscience Australia?

**Dr Pigram**—They were both undertaken in staff time, at lunch time, and they represented around 100 to 200 people participating in a protest action, one outside the building at an adjacent traffic intersection and one at the front of the building recently. I do not have figures on the cost, but I would suggest that it was minimal.

**Senator EGGLESTON**—What was the basis of the dispute?



**Dr Pigram**—Essentially, trying to reach agreement about the terms and conditions for future employment under the certified agreement.

**Senator EGGLESTON**—Have staff resigned over this dispute?

**Dr Pigram**—No, not to my knowledge.

**Senator CAMERON**—Work Choices is gone, you know. You can actually collectively bargain now.

**Senator EGGLESTON**—That is quite true, Senator. I am just asking about an issue and I am grateful for your advice. Thank you very much.

**Senator CAMERON**—Good. If you keep asking about Work Choices, I am happy to inform you.

**CHAIR**—There any no more questions for Geoscience Australia. Thank you very much for your assistance. As we are close to the lunch break, we might just take that break now.

#### **Proceedings suspended from 12.18 pm to 1.31 pm**

#### **Tourism Australia**

**CHAIR**—I welcome Senator Sherry, the Minister, and the Department of Tourism, Energy and Resources for Outcome 1: Tourism. I understand we have the Department of Resources, Energy and Tourism and Tourism Australia at the table. Do either of those groups wish to make an opening statement? No. Senator Ronaldson.

**Senator RONALDSON**—I understand, Mr Buckley, you are leaving at the end of June. Is that right?

**Mr Buckley**—That is correct. Yes, 30 June.

**Senator RONALDSON**—I also understand that Mr Greg Hywood, who is currently the CEO of Tourism Victoria, had been expected to fill the position and in mid-May he announced that he would not. There has been a lot of industry speculation as to why that might have been, so I will get to that shortly. What recruitment agency was engaged to replace Mr Buckley?

**Mr Buckley**—Spencer Stuart was the recruitment agency used to help in the recruitment process by the board.

**Senator RONALDSON**—What was the recruitment fee payable to Spencer Stuart?

**Mr Buckley**—The recruitment process is still ongoing, so I have not got those figures to hand. Given the process is still ongoing, I am not sure that there is a final number. I will take that on notice.

**Senator RONALDSON**—Has anything been paid to date?

**Mr Buckley**—I would need to check that.

**Senator RONALDSON**—Has there been an extension of that contract?

**Mr Buckley**—The contract is to the completion of the recruitment process.

**Senator RONALDSON**—Is all or part of that contingent on there being a successful candidate?

**Mr Buckley**—Again, I cannot answer that.

**Senator RONALDSON**—What are the total costs expended in seeking your replacement to date? Do you know?

**Mr Buckley**—I will take that on notice as well.

**Senator RONALDSON**—I do not know whether this is a matter for the department or TA. What date was Mr Hywood first offered that position of managing director?

**Mr Buckley**—I cannot answer that. Firstly, I do not know and, secondly, we do not talk about individual candidates while the recruitment process is continuing.

**Senator RONALDSON**—What do you mean you do not know?

**Mr Buckley**—I was not part of the—

**Senator RONALDSON**—Mr Hywood was offered the job, was he not?

**Mr Buckley**—I cannot confirm that.

**Mr Clarke**—The recruitment process is being managed by the chair of the TA board. It is a matter of correspondence between the chair of the TA board and the minister. Mr Buckley, as the outgoing managing director, would not be privy to the internal details of the correspondence between the TA board chair and the minister.

**Senator RONALDSON**—That is your answer. When was Mr Greg Hywood first offered the position of managing director? Someone at this table knows when that occurred. I want someone to tell me when he was first offered the job as managing director. Mr Buckley, I cannot believe that you are not aware of whether your future replacement had been offered a job and, from the department's point of view, I cannot believe that you were not aware that Mr Hywood was offered this job, either. So, when was he offered the job?

**Senator Sherry**—Mr Buckley has answered the question honestly. He does not know the date. He was not part of the process.

**Mr Buckley**—That is correct.

**Senator RONALDSON**—You are acknowledging that he was offered the job, but you do not know when it was.

**Mr Buckley**—I cannot acknowledge that he was offered the job, no.

**Senator RONALDSON**—Can you deny that he was offered the job?

**Mr Buckley**—It is in process within the board. The recruitment process is still ongoing. As a matter of policy, as an organisation, we do not reveal the individual candidates when a recruitment process is involved.

**Senator RONALDSON**—You and I know where this is going. Let us cut to the chase. Let us stop circling around the outside of this. Are you denying that Mr Greg Hywood was offered the job of managing director?

**Mr Buckley**—I am saying to you I do not know whether he was or was not. I do not know whether he was a formal candidate or not. All of that has been speculation in the newspapers as far as I am concerned. I am not privy to that process while it is ongoing.

**Senator RONALDSON**—What about you, Mr Clarke? Are you denying that Mr Hywood was offered the job?

**Mr Clarke**—I am saying to you that there is a process of recruitment ongoing which is being managed by the chair of the TA board in consultation with the minister. I am not at liberty to talk about any details inside that process. It is an ongoing process, the outcome of which has not yet been determined.

**Senator RONALDSON**—What about the contract that was prepared for Mr Hywood? When was that prepared?

**Mr Pierce**—I do not think any of us are aware.

**Senator RONALDSON**—Madam Chair, I do not need to go through with these witnesses their obligations in relation to evidence before this committee, do I?

**CHAIR**—I think they have explained their position, their roles and responsibilities very clearly in relation to this position. I think they are answering your questions very straightforwardly.

**Senator RONALDSON**—Do you think I should run with them about the open and frank responses that they are required to give this committee or not?

**CHAIR**—I believe that they have been giving open and frank answers.

**Senator RONALDSON**—Everyone around here knows, and the officers know, and I can see by the looks on their faces that they know, that Greg Hywood was offered this job and he knocked it back. On what date did Mr Hywood advise that he would not be accepting the position?

**Senator Sherry**—We will take that question on notice. As has already been indicated, the recruitment process is still ongoing. There has not been an appointment made.

**Senator RONALDSON**—No. You know why it is ongoing, Minister. It is because you offered the job to someone and he knocked it back. Do you want me to tell you what the reason was? Everyone around this table knows what it is, but maybe if you do not then I will tell you. The reason was regarding the future of Tourism Research Australia, the TRA. That is why Mr Hywood knocked the job back. Everyone at this table knows that is the reason, but no-one is prepared to fess up that he was offered a contract and knocked it back because of his concerns about TRA. Does anyone want to proffer an opinion at the table, or are we all going to think, 'We all know what he is talking about but we do not want to talk about it.' Is that the way we are going to approach this today?

**Senator Sherry**—No. We will take questions on notice. There is an ongoing appointment process and it has not been completed.

**Senator RONALDSON**—But it was completed, wasn't it?

**Senator Sherry**—The process of appointment has not been completed. No appointment has been made.

**Senator RONALDSON**—Are you going to take on notice whether Mr Greg Hywood was offered the job?

**Senator Sherry**—Yes.

**Senator RONALDSON**—You are?

**Senator Sherry**—Yes.

**Senator RONALDSON**—You are going to take on notice whether a contract had been prepared by the department for his signature?

**Senator Sherry**—Yes.

**Senator RONALDSON**—Are you going to take on notice that he refused to take the job?

**Senator Sherry**—Yes.

**Senator RONALDSON**—Are you going to take on notice that the reason he refused to take the job was regarding the future of Tourism Research Australia?

**Senator Sherry**—Yes.

**Senator RONALDSON**—Thank you. Just to double check, have Spencer Stuart claimed any part-success fee because they found Mr Hywood, but then he refused to take the job because of some argy-bargy with the minister's office in relation to TRA? Have they claimed any success fee in relation to getting Mr Hywood?

**Senator Sherry**—Mr Buckley has already answered that. He will take it on notice to see if there have been any payments made, but he does not know, and he has already stated that very clearly. If any other witness has any detail about whether any payments have been made, they may be able to answer, but Mr Buckley cannot.

**Senator RONALDSON**—You will take on notice whether any requests were made by Spencer Stuart for a success fee payment?

**Senator Sherry**—We will certainly take it on notice.

**Senator RONALDSON**—Minister, I am prepared to accept that you do not know about this but I am counting seven people sitting at this table who know exactly what happened with Mr Hywood.

**Senator Sherry**—I think that is a bit—

**Senator RONALDSON**—I accept you do not know. I am sure you would tell me if you did know about it, but everyone at the table knows exactly what happened.

**Senator Sherry**—I do not know how you can claim that everyone at the table knows. The witness, Mr Buckley, has well explained his particular perspective and understanding of the issue and, as other witnesses have indicated, there is an appointment process part way through. It is not completed.

**Senator RONALDSON**—Does the chair normally come to Senate estimates?

**Mr Clarke**—No, not normally.

**Senator RONALDSON**—The chair was not here last time?

**Mr Clarke**—No.

**Senator RONALDSON**—The time before that?

**Mr Clarke**—No.

**Senator RONALDSON**—Mr Buckley, I understand that the minister wrote to Mr Allert advising him that TRA, Tourism Research Australia, would be moved from TA to the department. Do you remember when that letter was received?

**Mr Buckley**—No, I would need to take that on notice.

**Senator RONALDSON**—Of course, as managing director, you know that the letter was written, do you not?

**Mr Buckley**—I know a letter was written.

**Senator RONALDSON**—I will play dentist. Did the letter that was written happen to relate to TRA?

**Mr Buckley**—Yes.

**Senator RONALDSON**—Indeed, the minister wrote to Mr Allert advising Mr Allert that TRA would be moved from TA into the department. Is that what the letter was about?

**Mr Buckley**—I would need to check the details of the letter to be clear about what the specific question was that the minister put to Mr Allert. It was certainly concerning TRA and it was an issue raised for us to investigate.

**Senator RONALDSON**—Yes. What you were going to investigate was the movement of TRA from TA to the department; is that correct?

**Mr Buckley**—That was one of the options to be considered, correct.

**Senator RONALDSON**—Indeed. We have got to point one. Thank you. What advice did the department give to the minister that gave rise to the letter?

**Senator Sherry**—You know that is advice to the minister.

**Senator RONALDSON**—Did you provide advice to the minister in relation to the contents of the letter from the minister to the chair of TA regarding the removal of TRA from TA back to the department?

**Mr Clarke**—We have provided advice to the minister on all aspects relating to tourism, including the appropriate structures for the performance of the various research functions.

**Senator RONALDSON**—Did you see this letter, did you help draft the letter or were you aware of the letter prior to the minister sending it to Mr Allert?

**Mr Clarke**—We are aware of correspondence of that nature, yes.

**Senator RONALDSON**—Just as well we are sitting for a week, Madam Chair. I wish I were getting paid by the hour because I would make a lot of money out of this, I can assure you.

**Senator Sherry**—Unfortunately, as I discovered, that does not apply to shadow ministers.

**Senator RONALDSON**—Ain't that the truth! Mr Pierce or Mr Clarke, has that letter since been retracted? Mr Buckley, has that letter since been withdrawn by the minister regarding that request?

**Mr Clarke**—Not that we are aware of. The letter still stands.

**Senator RONALDSON**—Mr Buckley?

**Mr Buckley**—There has been no further response, no.

**Senator RONALDSON**—Has there been any contact from the department or the minister about the initial decision to remove TRA from TA to the department? Has there been new advice in relation to that matter?

**Mr Clarke**—Not that we are aware of.

**Senator RONALDSON**—The letter from the minister to Mr Allert was advising him that it was going to be moved. Is the department or the minister proceeding with that transfer of TRA from TA to the department?

**Mr Pierce**—We expect it to happen. There is nothing that would occur to us that would reverse that. In fact, I think it is later this week that I am scheduled to have a discussion with the chair about that very topic, which will be the first opportunity that we have had to do that.

**Senator RONALDSON**—Is the discussion between yourself and the chair—Mr Allert of TA, for those who might be listening to this—to advise him that the minister's decision still stands or is the discussion to see whether there will be other matters involving TRA which would enable it to stay within Tourism Australia?

**Mr Pierce**—I do not know what the chair's view would be. From my viewpoint, I was not aware that there might be a question about whether the minister's decision still stands. I am just taking that as a given. The purpose of the discussion, from my viewpoint, is to talk about the nature of research activities, which goes much broader than just the sorts of things that TRA does, and to talk about what sort of research the minister is seeking to have undertaken within the department, as distinct from that which would continue within TA.

**Senator RONALDSON**—Has a final decision been made on where TRA should sit?

**Mr Pierce**—As far as I am aware, yes it has.

**Senator RONALDSON**—Back to the department?

**Mr Pierce**—Yes.

**Senator RONALDSON**—Why would you be meeting with Mr Allert to talk to him about this? Is this to discuss with him the transition process?

**Mr Pierce**—We want to be clear on what the nature of the research is that the minister would seek to have undertaken through TRA with the department, what sort of research would also be undertaken by TA, how the two relate to one another and how the department and TA may set up processes to make sure that nothing slips between the cracks and that we both understand what each party is doing.

**Senator RONALDSON**—Are some of TRA's responsibilities going to be split between Tourism Australia and the department?

**Mr Pierce**—It is yet to be discussed, but you could imagine that some of the work that TRA has done in the past may be able to be done by TA and some of the work that perhaps the minister is looking for to be done within the department through TA would be new types of research for TRA.

**Senator RONALDSON**—This was in response to TA and certainly industry stakeholders who were outraged about this transfer of Tourism Research Australia out of Tourism Australia to the department. Industry stakeholders were beside themselves, were they not? There were a lot of complaints. TA received a lot of complaints from industry stakeholders about this.

**Mr Buckley**—No formal complaints have been received by TA from the industry regarding the issue at this stage.

**Senator RONALDSON**—And informally?

**Mr Buckley**—A lot of discussion, yes.

**Senator RONALDSON**—They might not have put something in writing but there was a lot of discussion amongst the industry about the outcome of the decision to take TRA out of TA into the department; wasn't there?

**Mr Buckley**—A lot of discussion.

**Senator RONALDSON**—I presume that was probably communicated to the department and to the minister?

**Mr Buckley**—I cannot answer that.

**Senator RONALDSON**—I put it to you that it was and indeed that what has flowed from that is Mr Pierce's meeting with Mr Allert to try to claw back a bit of support from industry in relation to this matter by sharing some of the responsibilities of TRA, of which we have had an acknowledgment, I think, unless I am verballing Mr Pierce as to what the meeting was about.

**Mr Pierce**—I think you are ascribing a motive that was certainly not in my mind nor was it as far as I could tell in the request from the minister for us to sit and meet.

**Senator RONALDSON**—Just by way of a quick potted history, the minister wrote to the chair telling him TRA was gone. Industry, although they did not put it in writing, were incensed about this arrangement. That was communicated to the minister and now there is some attempt to keep some of the TRA responsibilities within Tourism Australia as opposed to a full transfer to the department? Is that a reasonable précis?

**Mr Pierce**—Not from my perspective. You would appreciate that I have come to this relatively recently, so that the view that I would have is that there are all sorts of different types of research. This is part of the problem. People use this term 'research' as if it is a homogenous glob. There are different types of research that are appropriate to be undertaken within this sector. There are parts of that that, in the minister's view, he would prefer to be undertaken within the department; but, likewise, there would be parts of it which would be totally appropriate to be undertaken by TA.

**Senator RONALDSON**—Are any of those things that TRA used to do within TA going to be retained by TA?

**Mr Pierce**—That is a possibility, but that is the subject of the discussions that we initiated through the meeting I will be having with the chair later this week so that we both work through a common understanding of what the totality of the research that is appropriate. If I may just add one comment through you, Chair, that I understand that this organisation, TRA,

was in relatively recent times part of the department and was shifted across to TA in 2004, but prior to that it was part of the department. That is just by way of context.

**Senator RONALDSON**—That does not necessarily mean that it should therefore return to the department.

**Mr Pierce**—No, but it is just that it is not historically unusual.

**Senator RONALDSON**—Mr Buckley, can I wish you well for your future.

**Mr Buckley**—Thank you. I appreciate that.

**Senator RONALDSON**—I thank you for the assistance you have given this committee in the past with your attendances. I am aware that when I read the book I am sure our discussions today will feature a paragraph somewhere because you and I both know where Mr Hywood would sit in this but I accept that there is only so much you can say—

**CHAIR**—Thank you, senator—

**Senator RONALDSON**—I think Senator Feeney wants to say something.

**Senator PRATT**—You give your good wishes and then you go and make a remark like that.

**Senator FEENEY**—You were on the cusp of sincerity there, Senator.

**Senator Sherry**—If you want to be a touch critical of Mr Buckley but to do it—

**Senator RONALDSON**—I was not being critical of Mr Buckley at all. In fact, I reject that.

**Senator FEENEY**—It is my privilege to be a Victorian senator and I want to ask some questions that pertain to the work of the department in Victoria with respect to the bushfires, so if there is an officer who can assist me, that would be superb. As you would be familiar with, many of the bushfire-affected areas in Victoria possessed lively tourism industries. They are obviously important industries with respect to local employment and the local economies. Could you firstly tell me what kind of assistance the department is providing with respect to bushfire-affected areas?

**Ms Madden**—As you may recall, fairly shortly after the Black Saturday bushfires in Victoria the Minister for Tourism, Martin Ferguson, with the Premier of Victoria, John Brumby, announced jointly a \$10 million tourism industry support package. That was announced on 17 March and it comprised \$5 million worth of direct support from the state of Victoria, with matching Commonwealth funding of \$5 million. As mentioned, it was specifically targeted to support businesses and regions adjoining the fire affected areas, those experiencing financial difficulty as a result of the fire. It had three elements to it: a corporate marketing and brand rebuilding program—that was \$6 million. There was a \$1 million program to bring forward postponed events and marketing of existing events. And there was \$3 million in support to assist with the enhancement and redevelopment of tourism and visitor facility infrastructure in the national, state and regional parks adjoining the bushfire-affected areas.

These details were announced in March, as I mentioned, and a task force comprising representatives of the department with the Victorian government, jointly chaired in fact by us



and the Victoria government, but with representation from Parks Victoria, Parks Australia, Tourism Australia—my colleagues here—and industry representatives has been meeting regularly and several projects have already been approved and are underway since the announcement. I would be happy to give details on that either now or—

**Senator FEENEY**—Can you tell me how much of that \$10 million sum has been spent to date?

**Ms Madden**—Yes. I understand that to date \$2.557 million has been spent for eight projects. A further \$3 million for seven infrastructure projects has been approved in principle—

**Senator FEENEY**—I missed that second figure.

**Ms Madden**—It was \$2.557 million and the second was a further \$3 million, bringing the total to \$5.557 million. The latter figure of \$3 million actually relates to infrastructure. Some final implementation details are just being negotiated. But that is over half the package that has actually either been spent or is in the final stages of implementation.

**Senator FEENEY**—When you talked about the task force you mentioned a number of agencies and you touched upon industry groups as well. Above and beyond those, are there other entities that you have consulted with in constructing this package?

**Ms Madden**—Indeed. The process has been quite extensive, with consultation taking place including through direct visitation to the bushfire-affected areas. There has been a lot of close involvement with the Commonwealth's national disaster relief and recovery committees. There has also been a lot of outreach with local councils and community organisations both through the committee and some of the representative members using their networks and community linkages so that the committee can be as informed as possible about the needs on the ground in the bushfire-affected and adjoining areas.

**Senator FEENEY**—You might take these two final questions on notice if that is convenient? The first is that you spoke about the \$2.557 million that had been spent to date on eight projects. Could you perhaps give me those eight projects?

**Ms Madden**—Yes.

**Senator FEENEY**—Secondly, you talked about \$3 million that had been spent to date on infrastructure. Could you provide some more particulars on those infrastructure works on notice?

**Ms Madden**—Certainly. I actually have all the details here and available so—

**Senator FEENEY**—Maybe if you tendered them?

**Ms Madden**—maybe my colleagues would be prepared to table those today.

**Senator FEENEY**—That would be terrific, thank you.

**CHAIR**—Thank you, Senator Feeney. Senator Joyce.

**Senator JOYCE**—Who is responsible for managing swine flu?

**Mr Pierce**—Primarily it is the department of health, but from a tourism perspective Ms Madden will answer the question.

**Senator JOYCE**—I just know that we have a few issues on the news every night. We seem to have developed a whole new meaning for a hospital shift. What is the plan that Tourism Australia has on board to mitigate the effects of swine flu or other pandemics that might become apparent?

**Mr Clarke**—The question actually relates to TA's actual response and we would refer to Mr Buckley.

**Ms Madden**—Maybe I could just make some introductory remarks because, while the Department of Health and Ageing has primary responsibility, we have been supporting them with a National Tourism Incident Response Plan. This was discussed at previous Senate estimates. This is a mechanism that supports the need for consistent messaging amongst tourism stakeholders, state and territory governments—

**Senator JOYCE**—Is screening people effective? Is it working?

**Ms Madden**—The screening issues are a matter for the Department of Health and Ageing, not for the Tourism Incident Response Plan, although, based on information provided by Health, we have been promulgating health advice for visitors, supporting small businesses with information regarding swine flu, particularly because a large majority—over 91 per cent—of the tourism sector is small businesses. There have also been a range of materials developed both by the Department of Health and Ageing and others that we are promulgating and helping the tourism industry to use. They are things like information materials and DVDs for accommodation, hotels and so forth. Tourism Australia also has a range of marketing and industry partner communication messages that have been feeding into this coordinated approach. Maybe Mr Buckley might like to elaborate further on TA's role.

**Mr Buckley**—Our role at this stage is primarily dissemination of information to the industry and to the consumer. We have already undertaken a number of initiatives working closely with both the industry and the state and territory tourism organisations and also our network overseas to try to get as much information as we can. We have issued information updates on the status of swine flu in Australia and then have just tried to help the industry inform their industry network.

I think the biggest particular focus so far has been the Japanese market, which has reacted perhaps differently to a lot of the other markets. Globally we have taken some very strong engagement processes. We have tried to proactively engage with all the partners. We have contacted all the relevant Japanese schools in terms of just what the status was—

**Senator JOYCE**—That is interesting. What exactly do we say to the Japanese schools about swine flu in Australia?

**Mr Buckley**—It is really about passing the information on. At different stages there were different sorts of messages coming from Health and we were communicating those through in terms of whether there was any swine flu in Australia or not and what might be—

**Senator JOYCE**—What is our message now that there is? Have you got the latest one?

**Ms Crowley**—The messages are essentially about just ensuring that the trade are getting accurate information as opposed to information sourced perhaps from the Japanese media. It has really been an exercise in making sure that they understand, even in a translation sense,

exactly what the ramifications of swine flu are, particularly where there has been quarantine. The first cases of H1N1 in Japan itself came from a Japanese school group that went to Canada, so there is great sensitivity amongst parents. That is a major market for us. It has just been really about ensuring that they have accurate information from which to make their own decisions.

**Senator JOYCE**—Do we give them the number of swine flu cases in Australia and where they are?

**Ms Crowley**—That is right. We are also providing the same information to the Japanese media. We contacted 600 separate journalists within Japan to ensure that they went to the right sources for up-to-date information at all times, and that is obviously the health department's information.

**Senator JOYCE**—What did they think was happening that we had to give them further information?

**Ms Crowley**—If they are sourcing information from other media reporting, it can sometimes become a little inaccurate—

**Senator JOYCE**—Such as?

**Ms Crowley**—It is really just ensuring that, if they are going to make an interpretation, they make it from the accurate information of the day. As we all know, this information can be nuanced that so people can misinterpret it, so it has really been making sure that they had the right sources of information at all times.

**Senator JOYCE**—How is it actually affecting our tourism industry? Are the numbers peeling off because of it?

**Mr Buckley**—We are not seeing anything from any markets other than Japan. At this stage we are not seeing any reaction from our industry partners. This has got to be anecdotal at this point. We are aware of some cancellations of these Japanese school groups. That has been occurring outbound from Japan not just to Australia but globally, and I suppose we have just tried to be a bit proactive in that area to give them the best information that we have available. They will need to make the call as parents responsible for the students.

**Senator JOYCE**—Would we get to a position in Australia—obviously you must be aware of some sort of plan—that we would have to close down our public transport sector if swine flu—

**Mr Buckley**—We take the lead from the broader government response.

**Ms Madden**—The Department of Health and Ageing coordinates the whole-of-government plan, which is called the National Action Plan for Pandemic Influenza. As you would be aware, there are multiple levels to the plan. Last week Nicola Roxon, the Minister for Health and Ageing, announced an increase in the alert level to 'contain', which triggers under the action plan a range of steps and initiatives.

**Senator JOYCE**—Is one of those steps closing down public transport?

**Ms Madden**—That is not a step related to the stage of 'contain'.

**Senator JOYCE**—Is it anywhere in the plan?

**Ms Madden**—In the most extreme cases of the plan there are steps to curtail public transport, I believe. But we are just checking that here.

**Mr Buckley**—There are border controls initially.

**Ms Madden**—The first point of entry would be border control if, as I said, the rating or level under the National Action Plan for Pandemic Influenza was significantly increased. Nicola Roxon has announced that as at 22 May we are at the level of containment. I should point out that the Australia-Japan tourism talks are currently on in Hokkaido, Japan this week and we are using them as an opportunity also to enhance consumer confidence and to spread awareness about the measures that the government has in place to managing this influenza to the best of our abilities.

**Senator JOYCE**—What are those things that show confidence that we are managing a potential pandemic, or the influenza crisis?

**Senator Sherry**—As the witnesses have indicated, this is an area for the Department of Health and Ageing. They have got the overall departmental coordination and leadership role for this.

**Senator JOYCE**—I just want to know what happens in tourism.

**Senator Sherry**—If it is related to tourism, that is fine.

**Senator JOYCE**—Obviously there is a part in the plan where you have to close down public transport; I know that. I just want to know what the plan for tourism is if this event occurs. What do you have in mind? I imagine at a certain point in time you are going to need some sort of support package that will have to be given to people in the tourism industry. I want to know whether our nation has the money put aside to be able to do that.

**Ms Madden**—Related to the national plan, as I mention, is the specific Tourism Incident Response Plan. If the level of the national alert goes to a higher level that will trigger other measures that we will need to take, including increasing communication with all the airlines, all the state and territory tourism bodies and so forth. At this level we are meeting regularly, as my colleagues have mentioned, which is partly to address any misperceptions or confusion about the state of the disease in Australia and problems such as the specific Japanese school group case.

**Senator JOYCE**—Is there anywhere in that plan anything about providing financial assistance for small business—which, as you have stated, is 90 per cent of the industry—if the swine flu epidemic gets to such a position that it actually closes down small business? If we have to shut down internal and external flights, that will be the end of North Queensland; it will be the end of a whole range of other places in the tourism industry. I am sure if they are watching this they will want to know if there is the capacity for financial assistance if that occurs; or are we in the financial position in our nation where that is just not a possibility and they will just go broke?

**Ms Madden**—As I mentioned, at the various levels of this incident plan are triggered actions. Under the planning document there is a particular chapter relating to industry support. It does allow, in consultation with the state and territory CEOs of tourism bodies, that consideration be given to mechanisms that may be suitable to meet industry needs. I will point

out, though, that we have no new allocation of financial resources for this and, as I mentioned at the outset, there is a range of business materials and information resources already arranged and developed for support, which we are trying to promulgate in the tourism industry at this point.

**Senator JOYCE**—Is there anything further in your budget that is of assistance to deal with ramifications from swine flu? Are there any provisions for assistance, greater monitoring or anything that deals with the issue at hand?

**Ms Madden**—Yes. This is a mechanism to provide advice to the government about what may be required. It does not come with any new resources. Should the situation evolve to that level there is a mechanism here for tourism bodies, including the state and territory bodies—for example, the Queensland Tourism Authority—to give advice to government about actions, including what new resources may need to be allocated. That is set out in the industry support chapter that I have mentioned.

**Senator JOYCE**—Has your department made any inquiry as to whether there is the capacity for those resources to be made available? We know the extent of debt that we have currently. Certainly the states are in a world of trouble. Is there capacity to borrow any further money to provide any sort of outcome?

**Mr Buckley**—That is a Treasury budget matter. It is not a tourism question.

**Senator JOYCE**—We will go to the next issue.

**Mr Pierce**—Given the contingent nature of these sorts of events, I would not have expected there to be allocated amounts for that to a line agency such as this. If it were to exist it would be held centrally for swine flu, in this particular case, or for whatever the event may be. That is how state government budgets deal with it and I expect the same would be the case here. I would not expect a line agency to have such a contingent amount.

**Senator JOYCE**—We will go to the next issue, the emissions trading scheme. Will that affect aviation fuel?

**Senator Sherry**—I think that is a matter for transport.

**Senator JOYCE**—It is a matter for tourism.

**Senator Sherry**—Indirectly it may be, but the impact on—

**Senator JOYCE**—The direct impacts are closing down flights, which they have suggested they will do. Have you done any modelling on what will happen to tourism in the event of certain regional flights being closed down because of the increase in fuel prices? That will exacerbate the current global financial crisis and will bring about, obviously, a loss of tourism income to certain regional areas along the coast of Queensland specifically.

**Ms Madden**—No, we have not done such modelling.

**Senator JOYCE**—Are you aware—I am, through inquiries that have been held here—that certain regional airlines have said that if the price of fuel goes up they certainly will be doing a cost shift and certain flights to certain areas will get closed down?

**Senator Sherry**—That is your assertion.

**Senator JOYCE**—No, it is not. It is actually the evidence.

**Senator Sherry**—It is your assertion. The witness has already indicated that she is not aware of any study. I do not know about other witnesses being aware of any other studies, but Ms Madden has clearly indicated that she is not aware of the study. How could she possibly be aware of the conclusions that you are reaching as part of your question?

**Senator JOYCE**—There was evidence given by Virgin Airlines in the fuel and energy inquiry, so I am telling you that that is the case.

**Senator Sherry**—This is not the inquiry into fuel prices with Virgin Airlines appearing as a witness.

**Senator JOYCE**—Will the closure of flights to certain areas have any effect on the tourism industry?

**CHAIR**—That is very hypothetical.

**Senator JOYCE**—Are you vulnerable to a restriction in flights to certain regional areas in the tourism industry?

**Mr Clarke**—Aviation is obviously a critical part of the tourism sector.

**Senator JOYCE**—What portion of the tourism industry has aviation as its delivery mechanism of tourists?

**Ms Madden**—Ninety-nine percent of international visitors arrive by air. The international visitation, though, is only a small proportion of the total tourism. Domestic tourism accounts for 74 per cent.

**Senator JOYCE**—Of the 74 per cent of domestic tourism to areas such as North Queensland, how many arrive by air?

**Ms Madden**—I do not have that breakdown available, I am sorry.

**Senator Sherry**—We will take it on notice.

**Senator JOYCE**—You will take that on notice.

**Senator Sherry**—We might include Tasmania in there as well, if you do not mind.

**Senator JOYCE**—Absolutely. I will take Tasmania.

**Senator Sherry**—And boat arrivals. We are happy to take that on notice as well.

**Senator JOYCE**—Can we have on notice how much arrives via air to Tasmania, North Queensland, the Gold Coast, the Northern Territory, Kakadu and Alice Springs?

**Senator Sherry**—Any other regional centres? South Australia? Perth? Why don't we give you a comprehensive list? I am happy to take it on notice and we will give you a comprehensive list.

**Senator JOYCE**—Let us start with those.

**Senator RONALDSON**—Do Perth and Adelaide think they are regional centres, by the way?

**Senator JOYCE**—We can start with those.

**Senator Sherry**—Let me correct the record here. Senator Joyce asked about regional and I indicated we were happy to provide all-encompassing information on regional travel. Perth—

**Senator JOYCE**—I suggested regional. He suggested Tasmania. I said, ‘Tasmania is regional?’

**Senator Sherry**—And we will add Perth, South Australia and regional travel in each of those states, if that is what you want and get the information for you. I am happy to oblige.

**Senator JOYCE**—Is your department intending to do any study on what the implications are of an increase in cost, due to the emissions trading scheme, of aviation fuel and how that will affect tourism in Australia?

**Mr Clarke**—No. We do not undertake separate sectoral modelling for CPRS impacts.

**Senator JOYCE**—Why not?

**Mr Clarke**—It is the same answer as I gave you in regard to the resources sector.

**Senator JOYCE**—It is absolutely vital to what is happening in your industry.

**Mr Clarke**—That part of the policy process is undertaken by the Department of Climate Change and Treasury.

**Senator JOYCE**—Have you asked them to do some for you?

**Mr Clarke**—No.

**Senator JOYCE**—Would you consider asking them?

**CHAIR**—Senator Joyce, the department has answered your question.

**Senator Sherry**—We will take it on notice.

**Senator JOYCE**—They said they have not asked. We have that on the record. I said, ‘Would you consider asking them?’ The minister said that they would take that on notice. I did not think it was such a difficult question.

**CHAIR**—Let us move on. We have a long list of senators waiting.

**Senator JOYCE**—I want you to get back to me about what the implications are of the ETS in the tourism industry.

**CHAIR**—We will go to Senator Eggleston next.

**Senator EGGLESTON**—I was wondering about the impact not of the CPRS but of the GFC on tourism to Australia. I noticed today that there was an Asian airline offering a \$700 return fare from London to Perth. Have any airlines ceased operating into Perth as a result of the global financial crisis?

**Mr Buckley**—I cannot answer that off the top of my head, but I can certainly take it on notice. I will review that. I am not aware of any. There have been some changes around the Perth access, but I cannot tell you—

**Senator Sherry**—We might be able to give you some information about the impact of the GFC relative to other countries.

**Senator EGGLESTON**—That would be interesting. I wondered whether we have seen reduced frequency of arrival of various airlines in this country and if that could be related to the GFC, or in terms of capacity?

**Mr Buckley**—Certainly I can talk to you about the broader impact for Australia. The year ended March 2009 inbound arrival number was minus two per cent compared with the previous 12 months. However, you do need to put that into context. In my belief that is a relatively good result given the significant downturn for some of the competitor destinations. We have a decrease of something like nine per cent in New Zealand, a double-digit decrease into Hawaii and nine per cent down in Canada. All of those markets are affected by the global economic situation. Australia is performing reasonably well in such tough economic conditions.

**Senator EGGLESTON**—What about the Japanese market? Is that still declining?

**Mr Buckley**—The Japanese market is certainly down. However, what you need to understand is that the overall outbound market out of Japan is down substantially as well. We are part of that overall outbound decrease in Japan. I think the number that we were talking about for Japan—and I can be corrected if I am wrong—was something like a 27 per cent decrease going into Japan. Those are the sorts of numbers that are now in the global tourism environment.

**Senator EGGLESTON**—I would also like to ask you about the tourism campaign around the film *Australia*. I believe you launched this campaign late in 2008. We have talked about it in previous estimates.

**Mr Buckley**—Yes.

**Senator EGGLESTON**—It was said to be a transition campaign between the ‘Where the bloody hell are you?’ campaign and another as yet undefined campaign. What amount has been spent on the movie *Australia* campaign to this point in time?

**Mr Buckley**—We have a broad number of \$40 million which we have spent on the campaign. That covers both promotion as well as PR activity and so on. It is a whole-of-marketing figure.

**Senator EGGLESTON**—Has that been spent in any specific countries?

**Mr Buckley**—We have rolled out the campaign in 20 countries around the world. The movie itself has gone into 70 countries and we have undertaken a whole range of initiatives leveraging off the movie but also taking the Come Walkabout campaign to those 20 countries.

**Senator EGGLESTON**—Where have you concentrated? Have you concentrated on the United States and Japan, for example?

**Mr Buckley**—Yes. The major markets are where a significant amount of the consumer dollars are focused. We do both consumer marketing and trade marketing. It is always a combination. The more significant inbound markets are where we focus our more significant consumer dollars.



**Senator EGGLESTON**—You must obviously have KPIs that you assess a campaign like this against. I just wondered how this campaign has measured up against the ‘Where the bloody hell are you?’ campaign?

**Mr Buckley**—I can certainly give you some numbers in terms of where the Come Walkabout campaign is up to now. It is still ongoing. We are only part way through the rollout process. The campaign itself has reached more than 155 million people around the world. As I said, it was a campaign in 20 countries across the globe. In terms of support, it has a record number of partners involved in it. Something like 130 industry partners are partnering with us on the campaign across the globe, so it is unprecedented in terms of the level of support for the campaign. For me, the more important thing is whether it has shifted the consumer, and the answer is yes. We do brand tracking across the globe. What we are seeing is an increase in intention to visit in the next 12 months. Around 22 per cent of our target market is seriously considering visiting Australia in the next 12 months. That is a 47 per cent increase in the intention to visit. From our perspective the campaign is working and working very well.

**Senator EGGLESTON**—What is the target market that you referred to?

**Mr Buckley**—It is a psychographic segmentation of the long-haul travellers. We are looking for what we call experience seekers. We have done a lot of research in identifying a subgroup of the long-haul travellers that, as the name suggests, are looking for experiences rather than a more passive approach to travel. What we do know about that target market is that it covers all the major demographic groups, but importantly what they are doing is looking for experiences. They do spend more money than the average visitor. They stay longer than the average visitor. They also disburse more greatly than the average visitor. That is our target market, which we have identified through research across all of our major inbound markets.

**Senator EGGLESTON**—Do they come from a particular segment of the world—Middle Europe, Japan or North America?

**Mr Buckley**—We have identified large groups in every one of those markets. We are talking about multimillions in every one of our major markets. We are very confident that that can help deliver the increase in yield and visitation that Australia is looking for.

**Senator EGGLESTON**—You talked about the Come Walkabout campaign. Is that the *Australia* campaign under another name or is this the successor to the *Australia* campaign?

**Mr Buckley**—No, it is a combination. We had a two-part strategy for our campaign. One is to leverage off the movie itself, with a whole range of promotional materials.

**CHAIR**—Senators, please do not talk across the table. I cannot hear Mr Buckley’s response.

**Mr Buckley**—The second component of the campaign was a more traditional TV advertising, print, PR and digital campaign, which has been labelled Come Walkabout, but it is our current transition campaign.

**Senator EGGLESTON**—The Pacific route is very important to Qantas and United Airlines—it has been a bit of a cartel—but now you have Virgin on that route, have you not?

**Mr Buckley**—Yes.

**Senator Sherry**—Chair, I cannot hear some of these important questions.

**CHAIR**—Yes. It is very difficult and it is very disconcerting for the witnesses

**Senator Sherry**—Mr Buckley is outlining the relative success in attracting visitors to Australia in these difficult times. I think he should be accorded some respect by senators.

**Senator EGGLESTON**—The impact of Virgin on the Pacific route?

**Mr Buckley**—Virgin has entered on to the Pacific route at a really challenging time for global tourism.

**Senator EGGLESTON**—Are their fares much cheaper?

**Mr Buckley**—What we have seen is a really strong price stimulation by both Qantas and Virgin. There is a third carrier scheduled to enter on to the route in July this year, which is Delta. Again, they have very good prices out in the market.

**Senator EGGLESTON**—Did Delta come to Australia previously?

**Mr Buckley**—No, Continental did.

**Senator EGGLESTON**—Have Pacific route fares dropped with competition?

**Mr Buckley**—We are seeing a lot of price stimulation at the moment, yes. If you took them over average—I have not done the numbers—yes, they are stimulating interest.

**Senator EGGLESTON**—Are we seeing an increase in people coming across the Pacific with the lower fares?

**Mr Buckley**—We are certainly seeing the fare take-up. That is in an environment of quite extraordinarily difficult economic times, particularly out of the US market. It has held up remarkably well when you think about the state of the economy, but it is hard to differentiate just what role those prices are playing. They are certainly helping to fill the planes.

**Senator BUSHBY**—I think Ms Madden mentioned that the NTIRP had been upgraded, or were you talking about the health incident plan?

**Ms Madden**—I was referring to health, but it is true that the NTIRP has also been upgraded.

**Senator BUSHBY**—What level is that at at the moment?

**Ms Madden**—The current level is amber.

**Senator BUSHBY**—What does that mean in terms of Tourism's response?

**Mr Tucker**—The elevation of the National Tourism Incident Response Plan to the amber level does not change any of the current activities that we are undertaking, which is to develop key messages for dissemination through Tourism Australia's network, industry associations and so on. It does mean that we engage at a higher level within state and territory tourism organisations. We will now be engaging directly with chief executives of those organisations in the design of those key messages.

**Senator BUSHBY**—Was the elevation up to amber because of swine flu?

**Ms Madden**—That is correct.

**Senator BUSHBY**—I am curious about that. I understand that the government has recently announced that there will be a modern award for restaurant and caterers. That has come about because of the disastrous consequences that would have applied to employment and the viability of businesses in that particular sector. As I understand it, the government has basically acknowledged that and has enabled a special award that will deal with some of the consequences that would have flowed from that. What involvement has the department or Tourism Australia had in negotiating with restaurant and caterers on the degree to which the modern award would have affected that industry?

**Ms Madden**—The department does have some consultation mechanisms on tourism and employment issues. The Restaurant and Catering Association is represented in that. Since the last time we discussed this we have had a meeting of the tourism and hospitality working group. At that time Restaurant and Catering Australia highlighted its concerns. I believe those concerns are well known to you, including from its submission to the Senate committees. As you alluded to, this matter is the responsibility of the Deputy Prime Minister, Minister for Education and Minister for Employment and Workplace Relations, Julia Gillard. We understand it was reported on 1 June that Minister Gillard has directed that the Australian Industrial Relations Commission treat restaurants, cafes and catering businesses separately from hotels, which appears to go some way to addressing the concerns raised by the Restaurant and Catering Association, including in some of their discussions with us.

**Senator BUSHBY**—Are you aware whether the announcement by the Deputy Prime Minister in that regard has actually guaranteed that the issues regarding penalty rates and the other issues that have been raised by the industry will be addressed in that separate award?

**Ms Madden**—I am not aware. As I mentioned, this is primarily a matter for the Department of Employment, Education and Workplace Relations. It is a very recent announcement, on 1 June, by the Deputy Prime Minister. I would refer you to the department of employment for those details.

**Senator BUSHBY**—Are there other sectors of the tourism industry that would not be covered by this announcement that have also raised similar concerns about the modern award system and how that may affect their viability and their ability to operate?

**Ms Madden**—The issue of training, employment and award modernisation touches a broad number of people right across the Australian labour force. Tourism, as a major employer with half a million Australians employed in the sector, does have considerable interest in this and is involved, to some extent, in the discussions around this area. I should note that the issue of skills and labour is one that is coming to the fore in the development of the National Long-Term Tourism Strategy by the government, including consultations that the steering committee is having, which is headed by Margaret Jackson, in relation to tourism and its long-term future and sustainability. Yes, there have been some other issues known to us about labour and employment matters.

**Senator BUSHBY**—You mentioned the National Long-Term Tourism Strategy. Industry will not necessarily receive the benefits, whatever they may be, of the separate award and have raised that as part of the development of that strategy—that is, tourism operators who would not necessarily be covered by the separate restaurant and catering modern award.

**Ms Madden**—The work of the strategy is to discuss ways in which the industry, working with government, can maximise its potential and the economic benefit. Naturally, the degree to which the tourism sector can be supported by productive workers in the best environment has been an issue for the steering committee and is an issue being progressed through the government's development of the strategy through a whole-of-government IDC process. The issues, in the broad, have been discussed. The award modernisation has been most specifically taken forward by the Restaurant and Catering Association in its position papers and submissions to your committees.

**Senator BUSHBY**—Did the department make any submissions or provide any advice to the government in relation to the impact of modern awards on restaurants and caterers? I am not asking what that advice may have been; but did you provide any advice or make any submissions?

**Ms Madden**—The department has ongoing consultations on a close working basis with the Department of Employment, Education and Workplace Relations.

**Senator BUSHBY**—Do I read into that, in the context of ongoing interaction, that the subject was raised?

**Ms Madden**—The subject has been raised, yes.

**CHAIR**—Senator Bushby, is that the end of your questions?

**Senator BUSHBY**—I am happy to hand over to Senator Ronaldson.

**CHAIR**—Senator Ronaldson.

**Senator RONALDSON**—Mr Buckley, getting back to what we were talking about before, has your contract been extended past the end of June?

**Mr Buckley**—No, it has not.

**Senator RONALDSON**—Is there an end date for the recruitment process?

**Mr Buckley**—No, I am not aware of an end date being set.

**Senator RONALDSON**—Mr Clarke, is there a scheduled end to the recruitment process?

**Mr Clarke**—No, not a scheduled end. But, in recognition that the recruitment process may go beyond the term of Mr Buckley's contract, the chair has spoken about the possibility of his staying on a temporary basis until recruitment is finished. He will essentially take on the role of executive chair for a short period.

**Senator RONALDSON**—I was going to ask you about that. Is his remuneration going to be greater as a result of the move from chair to executive chair?

**Mr Clarke**—I do not know about that. It certainly has not been raised with me or, I would imagine, anyone else in the department.

**Senator RONALDSON**—Do you know whether it is right that there was an announcement by Mr Hywood to the staff at Tourism Victoria that he was going? Mr Buckley, do you have any knowledge of that?

**Mr Buckley**—No.

**Senator RONALDSON**—With the benefit of 15 to 20 minutes, do you have any more information that you want to provide to me in relation to Mr Hywood?

**Mr Buckley**—No, I do not.

**Senator RONALDSON**—You will perhaps take on notice, Mr Pierce, whether Mr Allert will be getting higher remuneration as executive chair as opposed to chair.

**Mr Pierce**—Yes.

**CHAIR**—Is it very important to Mr Allert whether he gets more money?

**Mr Buckley**—Can I clarify?

**Senator RONALDSON**—I do not know whether it is or it is not, but I am certainly interested to know the answer.

**Senator Sherry**—We will take it on notice.

**Senator RONALDSON**—I would like to turn to the ‘No Leave, No Life’ campaign and particularly the Iwo Jima parody. With the benefit of hindsight, would you have gone down that path?

**Mr Buckley**—No, that was really—

**Senator RONALDSON**—The answer was no?

**CHAIR**—Mr Buckley, please continue. Have you finished your answer?

**Mr Buckley**—No. The ‘No Leave, No Life’ imagery was designed to convey a broader message of achievement in winning the work-life battle. That is what it was designed to do and we believe it successfully gets that message across.

**Senator RONALDSON**—So no regrets in relation to the Iwo Jima monument parody?

**Mr Buckley**—No.

**Senator RONALDSON**—Are you aware of the number of people who were killed?

**Mr Buckley**—I was aware of a very small number of people raising some concerns, yes.

**Senator RONALDSON**—No, the number of people who were killed around this area at the time. These are actually the people that saved—Australians are not too sure of the history of this, but—

**Mr Buckley**—From our perspective, the imagery does not mean any disrespect to those who have lost their life in the war. We have made that very clear. It is very distinctly Australian.

**Senator RONALDSON**—It is not distinctly Australian at all.

**Mr Buckley**—It is an Australian family with beach umbrellas.

**Senator RONALDSON**—The Iwo Jima monument was not Australian, was it? It was an American situation, wasn't it?

**Mr Buckley**—Iwo Jima was, yes.

**Senator RONALDSON**—Aren't they part of the target of your marketing?

**Mr Buckley**—Not at all. This is a domestic campaign. It is not meant to go anywhere outside Australia. It is a campaign targeted at trying to convince Australians that they should take more of their untaken leave.

**Senator RONALDSON**—Why would you believe it appropriate to parody a theatre of war where there were extraordinary deaths and casualties? It is pretty tacky.

**Mr Buckley**—It is not a parody. As I said, it was very much designed to convey that work-life battle idea—no more, no less.

**Senator RONALDSON**—How can you describe it as not being a parody? Are you saying the two are unrelated, that picture and the Iwo Jima monument? They are not related?

**Mr Buckley**—I am not making that connection.

**Senator RONALDSON**—You are not?

**Mr Buckley**—No.

**Senator RONALDSON**—I bet you are not. A lot of other people have, haven't they?

**Mr Buckley**—No, not a lot of others. Some, very few, as I understand it.

**Senator RONALDSON**—When you were putting this campaign together what did the Department of Veterans' Affairs or ex-service organisations say about it when you consulted them?

**Mr Buckley**—We did not consult them because we did not see any connection.

**Senator RONALDSON**—You did not consult them at all?

**Mr Buckley**—No. Not with the Australian Department of Veterans' Affairs, no.

**Senator RONALDSON**—Which department did you consult with?

**Mr Buckley**—We talked with our partners in the industry. We talked with industry, who were trying to bring on board the idea of trying to shift Australians to take more of their untaken leave.

**Senator RONALDSON**—Did you not think that this might prompt and provoke some of the responses that you have got?

**Mr Buckley**—No.

**Senator RONALDSON**—You did not?

**Mr Buckley**—No.

**Senator RONALDSON**—You are so completely out of touch that you did not think that this parody of a theatre of war, and what has become to the Americans a great symbol, would cause any offence at all?

**Mr Buckley**—No, it was not meant to cause—

**Senator Sherry**—The question has already been answered a number of times. Mr Buckley has made the point there was no parody.

**CHAIR**—Senator Ronaldson, are you nearly finished?

**Senator RONALDSON**—There is another side to this. The Japanese are a major market of ours, are they not?

**Mr Buckley**—This is not going into any international market.

**Senator JOYCE**—What about the 18,000 Japanese—

**CHAIR**—Senator Joyce, you do not have the call. Senator Ronaldson, you indicated five minutes, which you have now exceeded, and other senators are waiting.

**Senator RONALDSON**—I just want to finish off on this basis. Was the department or the minister's office involved in any way in this campaign?

**Mr Buckley**—Involved in?

**Senator RONALDSON**—In the campaign or its formulation? Was the department shown a copy of the ad before it was run?

**Mr Buckley**—I cannot remember the—

**Senator RONALDSON**—Was the minister's office provided with a copy?

**Mr Buckley**—Ultimately, yes. I do not know where in the process.

**Senator RONALDSON**—Presumably it was prior to it being run?

**Mr Buckley**—Yes.

**CHAIR**—Senator Birmingham.

**Senator RONALDSON**—Sorry, Madam Chair. The department was involved and saw this ad before—

**Mr Pierce**—No, Senator. It is not the sort of thing that comes to the department. Marketing is not the sort of expertise—

**Senator RONALDSON**—Mr Buckley said it was. You are saying you did not?

**Mr Pierce**—No, he did not.

**Mr Buckley**—No, it did not provide advice on the marketing side. But we do as a matter of courtesy show the department and the minister what we intend to market. Yes, we do.

**Senator RONALDSON**—So the department has seen it?

**Ms Madden**—No, we did not see the images that you are referring to before release.

**Senator RONALDSON**—Ms Madden, I am not surprised that you are running away from this at a million miles an hour.

**Ms Madden**—I am just clarifying for the record.

**Senator RONALDSON**—Mr Buckley, why are you right and is Ms Madden wrong? Or, Ms Madden, why are you right and why is Mr Buckley wrong in relation to who saw this? One of you is right.

**Senator Sherry**—Mr Buckley said 'provided'. That does not necessarily mean the witnesses here actually looked at it.

**Senator RONALDSON**—Come on!

**Senator Sherry**—No, seriously, we are all—

**Senator RONALDSON**—It was tucked away in a secret envelope, was it, not to be opened until shown for the first time on TV?

**Senator Sherry**—You and I both know that on many occasions in our parliamentary lives we are provided with discs and viewing opportunities for a whole range of things. I have to say most of them I do not look at.

**Senator RONALDSON**—I cannot imagine one tourism minister who would not have had their hands all over this prior to it being run, and I cannot imagine that the department did not get a copy of this without looking at it. That absolutely beggars belief.

**Senator Sherry**—The officers in the department can indicate whether, firstly, they received the copy and viewed it. The second issue is whether the minister received it and looked at it. That is a separate question.

**Ms Madden**—As Mr Buckley has noted, the department and Tourism Australia work closely together, but the department does not give advice to Tourism Australia about its marketing campaign. Therefore, we did not see the images you were discussing before they were publicly released.

**Senator RONALDSON**—You did not see the ad?

**Ms Madden**—No, not before it was released.

**Senator RONALDSON**—Mr Buckley said you did.

**Ms Madden**—No, he said the department did not provide marketing—

**Senator Sherry**—‘Provided a copy.’ You keep putting words into people’s mouths that are not correct, Senator Ronaldson. You can check the *Hansard*. Mr Buckley said he provided a copy.

**Senator RONALDSON**—But you are telling us that you did not see it? You were given a copy. Are you really asking us to believe, given all the publicity over previous ad campaigns and complaints or brickbats or bouquets, depending on what it was, that you did not look at this ad that was delivered to you? You are not seriously suggesting, Minister—

**CHAIR**—Senator Ronaldson, this question has already been asked and there are other senators waiting to ask questions.

**Senator RONALDSON**—This is very important, Madam Chair. The minister did not look at a copy of an ad that he was given?

**CHAIR**—It has already been answered.

**Senator Sherry**—Can I respond to the question?

**CHAIR**—Yes, Minister.

**Senator Sherry**—Firstly, the departmental officials have indicated they did not see what was provided. I will take on notice the question in respect of the minister’s office.

**CHAIR**—Thank you. Senator Birmingham.



**Senator RONALDSON**—Do I look as if I still believe in the tooth fairy? Quite frankly, anyone listening to this would not think for one minute that if you were given a copy of it—

**Senator PRATT**—The Liberal state government in Western Australia did not have a problem.

**Senator STERLE**—This is absolutely out of order. It is grandstanding.

**CHAIR**—Thank you, senators. I do not need any assistance. Senator Birmingham.

**Senator BIRMINGHAM**—Thank you, Chair. Thank you to the witnesses, and particularly to Mr Buckley for your services; you are departing us all. We have very little time left. My understanding is that between the 2006-07 budget and the 2007-08 budget there was a \$600,000, or 10 per cent, cut in the funding to Business Events Australia. Is that correct?

**Mr Buckley**—I would have to take the number on notice. The Business Events budget is complicated in that there is a central business events area that we fund and we also fund business event activity across the globe. We bring those two together to get a total number. I would need to take it on notice.

**Senator BIRMINGHAM**—Let me help, because you have already taken it on notice once.

**Mr Buckley**—I gave you the answer.

**Senator BIRMINGHAM**—In 2007-08 it was \$5.737 million. In 2008-09 it was \$5.12 million. That is about a \$600,000 or slightly more than 10 per cent cut.

**Mr Buckley**—If that is the number I gave you, then, yes.

**Senator BIRMINGHAM**—What was the impact of that cut in terms of operations?

**Mr Buckley**—We would not be able to identify specifics, I suspect, because of the nature of the changing role that Business Events has played from Tourism Australia from 2006-07 to 2007-08. We have done a range of different things in that next year, as we have done a range of different things again this year in terms of campaign development and other things. Again, I can take it on notice and I can give you some further information on the nature of the activity and the outcomes of that activity in each year. That would be the best way to respond.

**Senator BIRMINGHAM**—Can you provide us with details of the impact of the cut on operations?

**Mr Buckley**—Yes.

**Senator BIRMINGHAM**—This was a very poor time to be cutting business events, was it not? Whilst you told Senator Eggleston that numbers of arrivals were down some two per cent, of course numbers in the business event sector for conference arrivals are down six per cent and for business arrivals there is a four per cent decrease. The total arrivals in the business sector are down significantly as well. This was not a good time to be cutting, was it?

**Mr Buckley**—What you try to do is take advantage of the opportunities as you see them. You put your money where the best return on that investment comes. We are not the only ones who market in the business events. There is a significant number of convention centres and regional organisations that also market in that environment. It is the combination of activity that actually produces the final results.

**Senator BIRMINGHAM**—Can you guarantee the budget for Business Events Australia for 2009-10?

**Mr Buckley**—In terms of holding it at the same level as 2008-09? What do you mean by ‘guarantee’?

**Senator BIRMINGHAM**—Holding it at least at the same level.

**Mr Buckley**—I cannot guarantee that. As I said, what we do is allocate based on the best return on that investment.

**Senator BIRMINGHAM**—Business visitors are very high yielding visitors, aren’t they?

**Mr Buckley**—They certainly are. As you equally pointed out, particularly out of the US and UK-Europe market, it is under a lot of challenge as a sector at the moment, in particular corporate travel. We are seeing good growth out of the incentive market, particularly in the Asian market. We adjust our marketing to try to best leverage the opportunities as we see them.

**Senator BIRMINGHAM**—I would like to pursue that further, but I will put some questions on notice. In the budget portfolio statements you indicated an increase in revenue from other sources of slightly more than \$3 million for the next financial year for cooperative marketing activities. How certain are you of achieving that and what are those sources?

**Mr Buckley**—We are pretty confident. We had something like 120 partners in our current ‘come walkabout’ campaign and movie campaign. Those partners have been able to stay with us and we anticipate we will be able to grow those. Similarly, the ‘No Leave, No Life’ campaign has a huge number of partners coming on board as well. We are confident.

**Senator BIRMINGHAM**—That is a pretty significant increase to expect from STOs, other businesses and so on when they are all pushed in their own budgets in these sorts of financial circumstances. It is obviously key to offsetting the near \$900,000 cut that the government has given you.

**Mr Buckley**—There was not a cut of government base allocation. The variation between last year and this year was around a \$2 million special allocation in 2008-09 that went to the North Queensland marketing program.

**Senator BIRMINGHAM**—I would like to be clear in terms of your base budget. With respect to the document tabled in response to Senator Feeney’s questions about Victorian bushfires, was this money from the current financial year or is any of it budgeted for next year in Tourism Australia’s lines?

**Mr Buckley**—No. The bushfire funding did not come out of Tourism Australia budget at all.

**Senator BIRMINGHAM**—It is not in your budget at all.

**Mr Buckley**—The 2008-09 was for North Queensland.

**Senator BIRMINGHAM**—That is fine. Lastly, in terms of Senator Ronaldson’s questions on ‘No Leave, No Life’, could you provide the committee with a copy of the advertising agency’s brief on that campaign?

**Mr Buckley**—Yes.

**Senator BIRMINGHAM**—Thank you.

**CHAIR**—Senator Pratt.

**Senator PRATT**—I wanted to ask about the ‘No Leave, No Life’ campaign and the targeting of people to use their accrued annual leave. I understand that in Western Australia we have about 12 million days annual leave accrued. Do you have a sense of the size of the demographic that we are trying to unleash here to encourage people to—

**Mr Buckley**—We certainly have some numbers overall. I can take on notice and provide you with a further breakdown. We have done a number of surveys and we are benchmarking these numbers. Obviously as part of our KPIs for this marketing we are trying to see a reduction in that untaken leave area, so we are surveying that on a regular basis. I can take that on notice and give you a bit of a breakdown by state. It is 123 million days across Australia at the moment.

**Senator PRATT**—As I understand it, the WA state government has partnered with the federal department. They do not seem to have had a problem with the ‘No Leave, No Life’ campaign.

**Mr Buckley**—That is exactly right. They have taken up that whole campaign with some energy and, in fact, are doing a whole range of additional things to try to drive that process.

**Senator PRATT**—Do they see the ‘No Leave, No Life’ campaign as a complement to the ‘Holiday at Home’ campaign?

**Mr Buckley**—That is correct; they do. There has been some 93 registrations of further interest on the ‘No Leave, No Life’ website and something like 60 direct discussions with industry partners to come on and partner across the ‘No Leave, No Life’ campaign.

**Senator PRATT**—In the face of the global recession, where we are seeing dropping international markets, the decision to run with the ‘No Leave, No Life’ campaign would certainly seem tactically like a good approach with respect to encouraging people to unleash that leave, and perhaps taking leave from workforces that might not be as busy as usual. It certainly seems like the right way forward at the moment.

**Mr Buckley**—The campaigns work in two parts. One is to get corporations/employers on side and working with their employees to encourage them and give them the support they need to take the leave. I think that has been really important. We have had a huge uptake. Something like 320 employers have registered on our website already, including some very big corporations, public sector as well. That has worked on that side. From the employees’ side, obviously, we are looking for that work-life balance.

**Senator PRATT**—Aren’t we all?

**Mr Buckley**—Yes. That is a critical issue for Australia.

**CHAIR**—Senator Abetz.

**Senator ABETZ**—Mr Pierce, you never knew that tourism could be so much fun, I am sure. In relation to the tourism grants that were recalled—which was a government decision on coming into office and I do not want to traverse the politics of that—I want to traverse the

administration of that and the threshold that the department considers needs to be traversed before law firms are appointed to pursue any outstanding grant moneys. Given the time, you can take that on notice. Also, could you indicate to us how much has been spent by the department on legal services in pursuit of these grant moneys? Could you also tell us how many projects had their grants recalled and how many of them have been pursued with the engagement of legal services?

**Mr Clarke**—I will give you a little bit of information and perhaps some of the detail we will take on notice.

**Senator ABETZ**—I am very conscious of time.

**Mr Clarke**—Of course. You are aware that there are two cases currently on hand where the Commonwealth is seeking the return of funds that were originally announced.

**Senator ABETZ**—Are they both in Tasmania?

**Mr Clarke**—Yes, they are.

**Senator ABETZ**—Are they both from the south of the state?

**Mr Clarke**—You are aware of the two.

**Senator ABETZ**—Yes, without identifying them.

**Mr Clarke**—The protocol that the department follows is a Commonwealth protocol; it is not a department specific protocol in terms of the guidelines for undertaking such recoveries. We are happy to take on notice the detail of your question about the expenditures to date in those recoveries.

**Senator ABETZ**—Thank you very much.

**CHAIR**—We will now go for a short break until 3.15 pm. I would ask the economics committee to have a short private meeting.

**Senator Sherry**—Chair, there is one issue that I wanted to deal with.

**Mr Clarke**—With your permission, Dr Pigram from Geoscience Australia has asked me to correct an answer that he gave just before lunch.

**CHAIR**—Yes.

**Mr Clarke**—It was in response to a question from Senator Eggleston regarding industrial action at Geoscience Australia. I am advised that in addition to the lunchtime and other meetings on employees' own time that Dr Pigram advised there was one instance of a protected industrial action. That was last October. The action involved 105 people and took the form of a four-hour stoppage that resulted in Geoscience Australia docking participants' pay. I apologise for the need to come back and correct that answer.

**CHAIR**—I thank the Department of Resources, Energy and Tourism and its officers for coming in today.

**Proceedings suspended from 3.01 pm to 3.19 pm**

**TREASURY PORTFOLIO****Department of the Treasury****In Attendance**

Senator Stephen Conroy, Minister Representing the Treasurer

Senator Nick Sherry, Minister for Superannuation and Corporate Law

**Department of the Treasury**

Dr Ken Henry, Secretary

Mr Richard Murray, Executive Director, Policy Coordination and Governance

**Outcome 1—Sound macroeconomic environment****Output Group 1.1 Macroeconomic group**

Dr David Gruen, Executive Director

Mr Mike Callaghan, Prime Minister's Special Envoy

Mr Tony McDonald, General Manager, Macroeconomic Policy Division

Dr Steven Morling, General Manager, Domestic Economy Division

Mr Adam McKissack, Principal Adviser, Forecasting, Domestic Economy Division

Mr Kevin Playford, Manager, International Finance Division

Mr Mike Kooymans, Manager, International Finance Division

Mr Bill Brummitt, General Manager, International Economy Division

**Outcome 2—Effective government spending arrangements****Output group 2.1 Fiscal group**

Mr Nigel Ray, Executive Director

Ms Peta Furnell, General Manager, Social Policy Division

Mr Paul McBride, Manager, Social Policy Division

Mr Peter Robinson, Principal Adviser, Social Policy Division

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

Mr Geoff Francis, Principal Adviser, Industry, Environment and Defence Division

Ms Meghan Quinn, Manager, Industry, Environment and Defence Division

Mr Kurt Hockey, Manager, Industry, Environment and Defence Division

Ms Natalie Horvat, Manager, Industry, Environment and Defence Division

Ms Penny Sirault, Manager, Industry, Environment and Defence Division

Ms Jan Harris, General Manager, Budget Policy Division

Ms Luise McCullough, Principal Adviser, Budget Policy Division

Mr Jason Allford, Principal Adviser, Budget Policy Division

Ms Michelle Stone, Manager, Budget Policy Division

Ms Sue Vroombout, General Manager, Commonwealth-State Relations Division

Mr Tony Webster, Manager, Commonwealth-State Relations Division

Ms Deidre Gerathy, General Manager, Corporate Services Group

Mr Rob Donnelly, General Manager, Financial and Facilities Management Division

**Outcome 3—Effective taxation and retirement income arrangements****Output group 3.1 Revenue group**

Mr David Parker, Executive Director  
Ms Christine Barron, General Manager, Indirect Tax Division  
Mr Michael Willcock, General Manager, Personal and Retirement Income Division  
Mr Mark O'Connor, Principal Adviser, Personal and Retirement Income Division  
Mr Tony Coles, Manager, Personal and Retirement Income Division  
Mr Chris Leggett, Senior Adviser, Personal and Retirement Income Division  
Mr Nigel Murray, Manager, Personal and Retirement Income Division  
Mr Paul McCullough, General Manager, Business Tax Division  
Mr Rob Heferen, General Manager, Australia's Future Tax System  
Mr John Lonsdale, Adviser, Australia's Future Tax System  
Mr Jonathan Rollings, Acting General Manager, Tax Design Division  
Mr Haydn Daw, Acting General Manager, Indirect Tax and Treaties Division  
Mr Greg Wood, Indirect Tax and Treaties Division  
Maryanne Mrakovcic, General Manager, Tax Analysis Division  
Phil Gallagher, Manager, Tax Analysis Division  
Colin Brown, Manager, Tax Analysis Division  
Damien White, Manager, Tax Analysis Division  
Mr Marty Robinson, Tax Analysis Division

**Outcome 4—Well-functioning markets****Output group 4.1 Markets group**

Mr Jim Murphy, Executive Director  
Mr Geoff Miller, General Manager, Corporations and Financial Services Division  
Ms Marian Kljakovic, 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 Bede Fraser, Manager, Corporations and Financial Services Division  
Ms Kate Preston, Manager, Corporations and Financial Services Division  
Mr Patrick Colmer, General Manager, Foreign Investment and Trade Policy Division  
Mr Godwin Grech, Principal Adviser, Financial Systems Division  
Mr David Martine, General Manager, Financial Systems Division  
Ms Kerstin Wijeyewardene, Manager, Financial Systems Division  
Ms Vicki Wilkinson, Manager, Financial Systems Division  
Mr Roger Brake, Manager, Financial Systems Division  
Mr Trevor King, Manager, Financial Systems Division  
Ms Jacky Rowbotham, Senior Adviser, Financial Systems Division  
Ms HK Holdaway, General Manager, Competition and Consumer Policy Division  
Mr Brad Archer, Manager, Competition and Consumer Policy Division  
Mr James Chisholm, Manager, Competition and Consumer Policy Division  
Mr Paul Madden, Executive Director, Standard Business Reporting Management Group  
Mr Peter Martin, Australian Government Actuary

**Australian Bureau of Statistics**

Mr Peter Harper, Acting Australian Statistician  
Mr Ian Ewing, Deputy Australian Statistician, Macroeconomics and Integration Division  
Mr Garth Bode, First Assistant Statistician, Social Statistics Group  
Mr Paul Lowe, Assistant Statistician, Population Census Branch  
Ms Heather Jones, Acting Assistant Statistician, Human Resources Branch  
Mr Debra Foggin, Chief Financial Officer

**Australian Office of Financial Management**

Mr Neil Hyden, Chief Executive Officer  
Mr Michael Bath, Director, Financial Risk  
Mr Pat Raccosta, Chief Financial Officer  
Mr Gerald Dodgson, Head of Treasury Services

**Australian Prudential Regulation Authority**

Dr John Laker, Chairman  
Mr John Trowbridge, APRA Member  
Mr Brandon Khoo, Executive General Manager, Specialised Institutions  
Mr Charles Littrell, Executive General Manager, Policy, Research and Statistics  
Mr Senthamangalam Venkatramani, General Manager, Central Region

**Australian Taxation Office**

Mr Michael D'Ascenzo, Commissioner of Taxation  
Mr David Butler, Second Commissioner  
Ms Jennie Granger, Second Commissioner  
Mr Mark Konza, Deputy Commissioner, Small and Medium Enterprises  
Ms Raelene Vivian, Chief Operating Officer  
Mr Neil Olesen, Deputy Commissioner, Superannuation  
Mr Greg Burgoyne, Chief Finance Officer  
Sally Druhan, Assistant Commissioner, ATO Finance

**Productivity Commission**

Mr Gary Banks AO, Chairman  
Mr Bernie Wonder, Head of Office  
Dr Michael Kirby, First Assistant Commissioner  
Mr Terry O'Brien, First Assistant Commissioner  
Dr Ralph Lattimore, Assistant Commissioner  
Mr Paul Gretton, Assistant Commissioner

**Australian Securities and Investment Commission**

Mr Tony D'Aloisio, Chairman  
Ms Belinda Gibson, Commissioner  
Mr Michael Dwyer, Commissioner

**CHAIR**—I call to order this public hearing of the Senate Economics Legislation Committee. The Senate has referred to the committee the particulars of proposed expenditure for 2009-10 and related documents for the Innovation, Industry, Science and Research, Resources, Energy and Tourism, and Treasury portfolios. The committee must report to the Senate by 25 June 2009 and it has set 31 July 2009 as the date by which answers to questions on notice are to be returned. Under standing order 26 the committee must take all evidence in

public session. This includes answers to questions on notice. Officers and senators are familiar with the rules of the Senate governing estimates hearings. If you need assistance the secretariat has copies of the rules.

I particularly draw the attention of witnesses to an order of the Senate of 13 May 2009 specifying the process by which a claim of public interest immunity should be raised and which I now incorporate in *Hansard*.

*The document read as follows—*

**Order of the Senate—Public interest immunity claims**

That the Senate—

- (a) notes that ministers and officers have continued to refuse to provide information to Senate committees without properly raising claims of public interest immunity as required by past resolutions of the Senate;
- (b) reaffirms the principles of past resolutions of the Senate by this order, to provide ministers and officers with guidance as to the proper process for raising public interest immunity claims and to consolidate those past resolutions of the Senate;
- (c) orders that the following operate as an order of continuing effect:
  - (1) If:
    - (a) a Senate committee, or a senator in the course of proceedings of a committee, requests information or a document from a Commonwealth department or agency; and
    - (b) an officer of the department or agency to whom the request is directed believes that it may not be in the public interest to disclose the information or document to the committee, the officer shall state to the committee the ground on which the officer believes that it may not be in the public interest to disclose the information or document to the committee, and specify the harm to the public interest that could result from the disclosure of the information or document.
  - (2) If, after receiving the officer's statement under paragraph (1), the committee or the senator requests the officer to refer the question of the disclosure of the information or document to a responsible minister, the officer shall refer that question to the minister.
  - (3) If a minister, on a reference by an officer under paragraph (2), concludes that it would not be in the public interest to disclose the information or document to the committee, the minister shall provide to the committee a statement of the ground for that conclusion, specifying the harm to the public interest that could result from the disclosure of the information or document.
  - (4) A minister, in a statement under paragraph (3), shall indicate whether the harm to the public interest that could result from the disclosure of the information or document to the committee could result only from the publication of the information or document by the committee, or could result, equally or in part, from the disclosure of the information or document to the committee as in camera evidence.
  - (5) If, after considering a statement by a minister provided under paragraph (3), the committee concludes that the statement does not sufficiently justify the withholding of the information or document from the committee, the committee shall report the matter to the Senate.
  - (6) A decision by a committee not to report a matter to the Senate under paragraph (5) does not prevent a senator from raising the matter in the Senate in accordance with other procedures of the Senate.



- (7) A statement that information or a document is not published, or is confidential, or consists of advice to, or internal deliberations of, government, in the absence of specification of the harm to the public interest that could result from the disclosure of the information or document, is not a statement that meets the requirements of paragraph (1) or (4).
- (8) If a minister concludes that a statement under paragraph (3) should more appropriately be made by the head of an agency, by reason of the independence of that agency from ministerial direction or control, the minister shall inform the committee of that conclusion and the reason for that conclusion, and shall refer the matter to the head of the agency, who shall then be required to provide a statement in accordance with paragraph (3).
- (d) requires the Procedure Committee to review the operation of this order and report to the Senate by 20 August 2009.

(Agreed to 13 May 2009.)

(Extract, Journals of the Senate, 13 May 2009, p.1941-42)

**CHAIR**—Officers called upon for the first time to answer a question should state their name and position for the *Hansard* record and witnesses should speak clearly and into the microphone. Please make sure all mobile phones are turned off. The committee will begin consideration of the Treasury portfolio with retirement income and superannuation questions for the Australian Taxation Office and Treasury revenue group. We will then follow the order as set out in the circulated program.

I welcome back Senator Sherry representing the Treasurer and officers of the ATO and Treasury. Would you like to make an opening statement?

**Senator Sherry**—I do not.

**CHAIR**—We will begin immediately with questions.

**Senator BUSHBY**—What modelling did Treasury undertake on the effects of reducing the super co-contribution?

**Mr Gallagher**—There were two forms of estimates produced for the superannuation co-contribution. The first set of estimates was merely on the basis of the forward estimates and what a different gearing for the co-contribution year by year would produce in cash and accrual terms. That is because the de minimis payment amount does not really deviate much from making the co-contribution linear. The other analysis that we did was take sample data from member contribution statements from 2005-06 suitably adjusted to the budget years. We had a look at the distributional impact of the co-contribution changes.

**Senator BUSHBY**—What results did you find?

**Mr Gallagher**—As you would expect, the co-contributions and income tested payments recipients generally have incomes as assessed below \$62,000 or \$63,000 and, if the gearing was taken from 150 per cent down to 100 per cent, they would lose a third of what entitlement they might have.

**Senator BUSHBY**—In your analysis did you look at any changes in behaviour that would flow in terms of people making contributions?

**Mr Gallagher**—One of the things that we did have a look at was the change in behaviour when the gearing was raised from 100 per cent to 150 per cent. There was also a threshold

change in terms of the income test threshold at that time. What we found was that, of the clients who newly claimed the co-contribution under the new policy, 93 per cent came from the threshold change. In actual fact, only a very small number, seven per cent of the total change in take-up, had come from the co-contribution gearing. That led us to take the view that in actual fact 100 per cent is a very good return on your money—100 per cent government guaranteed in a single year—and that with the same income limits people seemed to make about the same contributions, or the bulk of the population would.

**Senator BUSHBY**—On the basis of that methodology did you form any opinion on the likely reduction in contributions by individuals as a result of these changes?

**Mr Gallagher**—We formed the view that it was unlikely that going from 150 per cent to 100 per cent would reduce contributions. The maximum contribution is \$1,000. Many people seem to be contributing at that maximum level. For many of them who are in income test take-up, they are not actually entitled to that level but they all seem to put in the \$1,000 to guarantee that they will get the best that they can. We thought that would continue.

The other issue, however, is the general returns environment for superannuation funds. The forward estimates have been adjusted in consultation with Treasury but particularly between the Australian Taxation Office and the department of finance because it is an expense, and the co-contribution expense forward estimates were slightly adjusted downwards given lower returns in superannuation funds in the current environment.

**Senator BUSHBY**—What proportion of government super co-contribution payments were paid to each superannuation industry segment as defined by APRA, the corporate industry public sector and retail? Are you able to answer for each of those?

**Mr Gallagher**—My data comes from member contribution statements going to the tax office. In actual fact I do not get to see them; I get to see totally anonymous records once they have been grouped together—

**Senator BUSHBY**—Is the tax office able to assist then?

**Mr Gallagher**—We do not have a fund classification on the data that we get.

**Senator Sherry**—There may be someone who can help you. But also some would be paid to the SMSF sector as well. The ATO makes the payment. I am not sure whether they would have that data.

**Mr Olesen**—I do not have the data with me.

**Senator BUSHBY**—Do you have access to that data?

**Mr Olesen**—We have the member contribution statements which are provided by superannuation funds to us, so that would give us a picture of the kinds of funds to which personal contributions are made.

**Senator BUSHBY**—On notice, I would like to see what proportion of the government super co-contribution payments are paid to each of those, to the best that you can identify, for each of the 2005-06, 2006-07 and 2007-08 years.

**Mr Olesen**—I am happy to take that on notice.

**Senator BUSHBY**—Is anybody able to help me with the next question, which is: what were the top 10 occupations receiving super co-contribution payments from the government where occupation is determined via the declaration in individual income tax returns or another appropriate method for the same years?

**Mr Olesen**—I could take that on notice. I do not have that information here.

**Senator BUSHBY**—As to the concessional contribution caps, is it correct that some individuals are more sensitive to marginal tax rates when choosing whether to participate in the workforce?

**Mr Gallagher**—Yes. The work that has been done on behavioural response to marginal tax rates and effective marginal tax rates tends to show that secondary income earners in couples and sole parents are more sensitive to their marginal tax rates than male bread winners.

**Senator BUSHBY**—Does Treasury expect any of the tax measures announced in the budget to have a negative impact on workforce participation?

**Mr Parker**—There was a range of tax measures announced in the budget, including in respect of the superannuation arrangements as we have just discussed. Are you asking specifically in respect of the superannuation measures or do you mean—

**Senator BUSHBY**—If you are able to answer more broadly than that I would welcome that, but I am specifically asking about the super measures.

**Mr Parker**—In respect of the superannuation arrangements I am not aware that we have done any analysis of participation effects as a result of the superannuation changes.

**Senator BUSHBY**—In view of Mr Gallagher's comments just previously about people's sensitivity to marginal tax rates, do you think that some of those superannuation changes may have some impact on individuals who are sensitive?

**Mr Gallagher**—The average remuneration for people who are contributing in excess of the caps is \$221,000. This was in 2005-06, if the caps policy had applied then. For people over the age of 50 the average remuneration was \$228,000. The bulk of the people affected by the contribution caps measure have remuneration in excess of \$100,000. At that level of remuneration I think it is unlikely that their participation is marginal. What it is about as an issue is how they arrange their affairs in terms of this—

**Senator BUSHBY**—That is the average level of income; it is not necessarily the full range of the income, but at the lower end of the range there may be people who may well be marginal. Do you concede that?

**Mr Gallagher**—That is correct. I think in the *Australia's future tax system* report there is a table which shows the distribution of remuneration for people contributing in excess of \$25,000, so that information has been published.

**Senator BUSHBY**—I understand the minister gave a speech on 18 May 2009 where he indicated that the average account balance for individuals affected by the reduction in the contributions cap is \$890,000?

**Mr Gallagher**—That is correct.

**Senator BUSHBY**—Is that a Treasury estimate?

**Mr Gallagher**—Yes, that is a Treasury estimate. That estimate is based on the ABS survey of employment arrangements, retirement and superannuation. That was a survey conducted in 2007. The balance information in that survey relates to the year ending 30 June 2006. The ABS have only made the unit record data available through their Remote Access Data Laboratory and the number corresponds to people who are over the age of 50 and who were contributing in excess of \$50,000 in 2007. The average balance was \$890,000. There were 28 per cent of the group who on the ABS numbers, as adjusted to fit the APRA average balance amounts, had balances in excess of \$1 million.

**Senator BUSHBY**—You mentioned that that was as a result of a survey. Did you say who was surveyed?

**Mr Gallagher**—I am sorry, it is an Australian Bureau of Statistics survey.

**Senator BUSHBY**—They conducted it, but who did they survey?

**Mr Gallagher**—It is a survey of people contributing to superannuation. It is actually a survey of all people who are employed and people who have retired but are people who are employed.

**Senator BUSHBY**—Who are contributors?

**Mr Gallagher**—The population we have isolated in the analysis is people with deductible contributions.

**Senator BUSHBY**—Was the survey conducted of the contributors themselves, not of the funds?

**Mr Gallagher**—That is correct. That is not a funds statistic; it was what the people said about their own balance information.

**Senator BUSHBY**—Do you know how they were identified?

**Mr Gallagher**—It is a special supplementary survey, so it is a multistage sample of households leading to the interviewing of respondents in a household. Generally remote areas are excluded from special supplementary ABS surveys.

**Senator BUSHBY**—Do the limits in the co-contribution scheme include the employer's nine per cent superannuation guarantee contribution?

**Mr N Murray**—The co-contribution scheme is paid on personal after tax contributions rather than employer contributions.

**Senator COONAN**—From 1 July 2009 are reportable employer superannuation contributions, adjusted fringe benefits and total net investment losses taken into account when determining eligibility?

**Mr N Murray**—Yes, from 1 July 2009.

**Senator BUSHBY**—Where are we currently at with lost superannuation?

**Senator Sherry**—There are three initiatives. We have talked about the temporary entrance and officers can explain what that adds up to—

**Senator BUSHBY**—I will ask them a question about that in a minute.

**Senator Sherry**—That is a removal from lost super. There was an announcement in the budget about very small accounts of under \$200; the officers can outline what the impact of that will be. In terms of the specific auto-rolling together of lost accounts and the clearing house, consultations have concluded and an ‘options, issues and implementation’ paper will be released shortly.

**Senator BUSHBY**—So the consultation was completed at the end of last year; is that correct?

**Senator Sherry**—Yes, it has finished.

**Senator BUSHBY**—So it has taken until now to get to the next point. There will be a paper coming out; how soon will that be?

**Senator Sherry**—I anticipate that will be in July.

**Senator BUSHBY**—I turn to default funds. Minister, in February, you indicated that you had sought a map or a schematic of where default funds are and what was covered by default and a corporate fund. Have you received such a map; and, if so, will you make it available for the use of the committee?

**Senator Sherry**—As a matter of fact, I have not. Thank you for prompting me about that. A schematic was given to me yesterday of the outcomes before the current commission. That is the limit of the material that I have. But I will follow that issue up, because I do not have it yet.

**Senator BUSHBY**—Also, in February, you stated that you were not aware of it being a common practice for employers to select the default fund that would apply to their employees by opening up a competitive tendering process, with the aim to provide the lowest cost, high-return default option. Given that you stated at the time that you would like to see a full breakdown of the data from people who have engaged in that, have you effectively overcome your ignorance of the practice that you had then and have you had a look at it?

**Senator Sherry**—It is not an ignorance of the practice; that description is wrong. There is simply no published data on that practice that I can find. I have requested that APRA provide me with data about practices in respect of contract arrangements. I have just been informed that the data from APRA will be provided to me in a few days. So, if I do get it, I will provide it to you on notice.

**Senator BUSHBY**—So you anticipate receiving data which should indicate—

**Senator Sherry**—I have requested the data; I have not received it yet. I am told by one of my staff that it is a couple of days away. Do you want me to take on notice to provide it?

**Senator BUSHBY**—If you could, that would be much appreciated.

**Senator Sherry**—Yes.

**Senator BUSHBY**—Thank you. Still on default funds and modernised awards, can Treasury advise what legislation precludes default superannuation funds being named in industrial awards from price fixing, geographic exclusivity arrangements or other forms of anticompetitive behaviour?

**Mr Parker**—I think that goes more to the regulation of funds as opposed to their taxation treatment. It would be better to address that question to our Markets Group colleagues.

**Senator Sherry**—Also, it probably would be covered by employment and industrial relations because of the industrial provisions. It would be APRA and/or employment and industrial relations.

**Senator BUSHBY**—I would have thought that this particular section of Treasury would have an interest in ensuring that default superannuation funds, which represent a significant proportion of superannuation that is paid under SGC, are regulated in a way that avoids such anticompetitive practices.

**Senator Sherry**—The funds are regulated by APRA. As to the criteria for determining what an appropriate default fund is for the purposes of an Industrial Commission decision, we discussed this on the last occasion. I wrote to the commission, indicating that I believed that criteria should be developed when carrying out that process. They wrote back saying that, no, they did not believe it was appropriate; I think—this is not a quote—they did not have the expertise. They have proceeded in modernising awards. I am not satisfied with that outcome. The issue of default funds will be one of those matters that will be covered by the operational, governance, efficiency structure of Australia's superannuation system that I announced last Friday.

**Senator BUSHBY**—Will that governance look into ensuring that a default award does not operate with any anticompetitive practices?

**Senator Sherry**—It will examine the issue of criteria for default funds. One of my frustrations in this area is that neither I nor the public can get hold yet of the long-term performance of each fund.

**Senator BUSHBY**—Are you talking about the long-term performance of each fund or each investment option within the funds?

**Senator Sherry**—Each fund; obviously these are default funds. I have asked APRA to produce that data in due course because I think it is important that the long-term investment performance of each of the approximate 600 funds, whether they are default or not, whether they are public sector, retail, corporate or industry funds in this sector that are APRA regulated, should be made public. But I do not have access to that.

**Senator BUSHBY**—We will have a discussion with APRA about that when they appear before us. But I understand that they are interested in delving a little deeper into the performance of investment options within funds to ensure that there is a better comparison between the performance of the—

**Senator Sherry**—They made a statement last week and we will deal with that.

**Senator BUSHBY**—It may take some time to develop a depth of comparison.

**Senator Sherry**—Yes.

**Senator BUSHBY**—Are you aware of any allegations that collusion has taken place according to the Australian Industrial Relations Commission award or as part of the Australian Industrial Relations Commission award modernisation process?

**Senator Sherry**—No. I have had no contact whatsoever with the Industrial Relations Commission since my initial request to them to develop criteria.

**Senator BUSHBY**—I am not asking whether you are colluding.

**Senator Sherry**—I have not.

**Senator BUSHBY**—I am just asking whether you or any of the officers at the table are aware of any allegations of collusion.

**Mr Parker**—No, we are not. Again, the people from Markets Group may have a window on this, but not the tax side.

**Senator BUSHBY**—Under the new arrangements, which departments, agencies and/or regulators will be responsible for ensuring that anticompetitive behaviour by superannuation funds nominated in modern awards does not occur?

**Senator Sherry**—You have referred a couple of times to anticompetitive behaviour. What specifically are you referring to?

**Senator BUSHBY**—I have mentioned before issues like price fixing, geographic exclusivity and other similar arrangements, where they may construct their approach to things in a way that does not deliver the best results for superannuants.

**Senator Sherry**—But, in the default fund context, where is the competition? The member is not selecting.

**Senator BUSHBY**—If people do not select, there is no competition.

**Senator Sherry**—Yes, that is right.

**Senator BUSHBY**—They basically fall into it. The concern that I have is that people who end up in default funds tend to be those who take the least interest—‘least’ is probably not the right word—or those who least examine the benefits that they are getting from their super funds. I am just concerned to ensure that they end up with a decent deal out of where they do.

**Senator Sherry**—Broadly, you are right. We do know that the majority of people do not actively select a fund, which is true of any compulsory system; therefore, you have a default solution. Whilst you and I might disagree on the mechanism, I share the same concern. That is why I have consistently argued publicly that, as part of examining the long-term rate of return of all funds—including fees, obviously—we need to know the long-term performance of all funds, including default funds. That includes corporate funds where they are a default fund and public sector funds where they are statutorily a default fund. I am not impressed by the data that I have seen in every sector—without knowing the individual funds, because that information is not available to me; but I have seen disaggregated data—that show that a number of funds in every sector that we are talking about are long-term poor performers. I do not believe that is in the members’ interests.

**Senator BUSHBY**—You are looking at the long-term data that goes back.

**Senator Sherry**—Correct.

**Senator BUSHBY**—Here, in addition to that, we need to be looking at the data for the long-term performance going forward.

**Senator Sherry**—That would be a bit difficult. Looking at data now going forward would be somewhat difficult.

**Senator BUSHBY**—Looking forward at how we maximise the likelihood that the performance of funds, particularly default funds that people end up in, gives them the best possible return. Looking back in five or six years time at the performance of default funds under modern awards will inform us very well. But, in the meantime, there may be things that the government can do, for example, to ensure that anticompetitive practices do not exist in these default funds which in five or six years time will result in finding that they have performed poorly.

**Senator Sherry**—As I have said time and time again—in fact, I have lost count of the number of times that I have said it—firstly, I am interested in the long-term performance of all superannuation funds and making sure that it is in the best interests of the member and no-one else. I think it is particularly important that default arrangements, wherever they exist, where an employee defaults into an arrangement—whether it be corporate, public sector or a retail master trust through a corporate or industry fund—are all good long-term performing funds that are in the members' best interests.

**Senator BUSHBY**—And will remain so; that is the key.

**Senator Sherry**—Where they are good long-term returns, yes; where they are not good long-term returns, no.

**Senator BUSHBY**—I do not disagree in principle with what you are saying. However, the reality is that what we can do now is regulate to make sure that the funds that people go into without having chosen to go into them—where they have not gone out and made their own assessment of where the best return can be had—provide the best return or the best likelihood of the best return possible. As you have said, the majority of people do not select their own funds. That means that an awful lot of money is going into default funds, and it is very easy for a fund to become lazy when it is getting all of this money without having to go out and advertise its wares to attract it in the first place. I am very keen to see that those funds are kept on their toes and that there is no scope for anti-competitive or other practices to develop that would lead to, as you say, looking back in five or six years time and finding that they have performed poorly. Whether they were good long-term ones beforehand or not, once they become the default fund there is an incentive to be lazy.

**Senator Sherry**—I am very keen about that also and have already indicated my concern. I am also concerned about anti-competitive conflicts of interest in other areas of superannuation. All those issues are going to the panel that I announced last Friday.

**Senator BUSHBY**—In relation to the first tranche of modern awards, what is the anticipated annual flow of contributions into the nominated default funds?

**Senator Sherry**—I doubt whether anyone from Treasury would have that. We could take it on notice and hopefully try to get a figure for you.

**Senator BUSHBY**—In taking that on notice, would you mind also providing the percentage of total superannuation guarantee flows that that constitutes?

**Senator Sherry**—We will take that on notice as well.



**Senator BUSHBY**—A lot of these questions are now for APRA. Intraproduct advice simplification: in February you indicated that the financial services working group had concluded their work and that an announcement about the format and the simplification of intraproduct advice was likely to be made in March.

**Senator Sherry**—Yes.

**Senator BUSHBY**—In a speech about two weeks ago, you referred to this group's work in this area and that you expect to announce a policy decision once the consultation period has expired. What changed between February and May that led to a delay in announcing the government's policy decision on this by at least three months?

**Senator Sherry**—The consultation closes on 5 June. There was significant disagreement within industry about how this approach would be introduced. There was no consensus, if I could use that expression, so there was further consultation. The consultation has finished. As for the time frame, ASIC as well as the working group are involved in this consultation, so there are questions beyond that in terms of detail. ASIC may be able to add to my comments, but they are the reasons.

**Senator BUSHBY**—'Renovating the house' superannuation inquiry: what consultation with the superannuation industry has occurred in the development of the terms of reference for the review into the governance, efficiency and 'renovating the house' inquiry announced by you on 29 May 2009?

**Senator Sherry**—Massive consultation. Every person and their dog in the industry has been talking to me about it over the last seven or eight months. Not a day goes by without some individual or organisation raising the issue with me—what is intended, suggested terms of reference. Not a day has gone by, at least Monday to Friday. Some people have called me even on weekends, at home, about it. It has been massive.

**Senator BUSHBY**—Massive informal consultations.

**Senator Sherry**—Yes. Some people have written formally as well.

**Senator BUSHBY**—But you have not sought feedback formally from the industry, seeking their input on the terms of reference, to ensure that the review reflects what is needed?

**Senator Sherry**—I can indicate that at least eight organisations and individuals from the industry signed a communiqué. That would be an example of formal consultation. That is on the public record; it was released.

**Senator BUSHBY**—That was sent to you at their own behest; you did not actually seek—

**Senator Sherry**—No. I think it was an iterative process. We spoke to them and at various times they spoke to me and certainly to some of my staff. I had a number of meetings. There were quite a number of discussions. This was quite an extensive consultation. Various people and organisations signed the communiqué—and I must say that I am very pleased to have had at least broad acceptance of the process and issues that would need to be addressed, in a general sense, by such a wide-ranging number of organisations in the industry.

**Senator BUSHBY**—Will the inquiry look at any of the recommendations that came out of the 2007 Parliamentary Joint Committee on Corporations and Financial Services inquiry into superannuation?

**Senator Sherry**—That is really a matter for the chair and the panel itself.

**Senator BUSHBY**—Would you, as minister, consider that it would be advisable or beneficial for them to look at that?

**Senator Sherry**—I have not met with the panel as a whole yet. It is not for me at the moment to be indicating that. I think, within the broad parameters announced, two areas are not included. Obviously, one is the issues that are before the Henry review, which I have said broadly represent input and tax issues, and the other matters that were identified in the paper that they released. Secondly, there is the auto-rolling together lost accounts issue, which is an election commitment. They are the two areas that are not within the parameters of the terms of reference. If you look through the terms of reference, certainly at least some of the issues identified by the 2007 joint committee inquiry would fall within the terms of reference of the panel's work.

**Senator BUSHBY**—If they are the only two areas that are specifically excluded, except to the extent that that inquiry dealt with those, it sounds as though all recommendations would fall within the terms of reference.

**Senator Sherry**—Yes. I was just looking for the summary of the recommendations of the PJC review. However, it was interesting that one of the recommendations of the PJC review was that there be a review, so that is what we are doing. It did touch on some other issues but certainly nowhere near to the extent that the panel that I have announced will be dealing with.

**Senator BUSHBY**—So, given the breadth of the terms of reference that you have just referred to, will the review consider directors' disclosure, conflicts of interest disclosure, related party transaction disclosure, election of trustees, valuation of assets, nomination of default funds by the AIRC and the role of insurance within superannuation?

**Senator Sherry**—Yes. I would certainly be presenting to the panel that they should deal with those issues and a lot more.

**Senator BUSHBY**—I presume that there would be a lot more that it would also look at.

**Senator Sherry**—Yes, but certainly those issues.

**Senator BUSHBY**—What emoluments will the chair and the expert panel members receive as part of the review?

**Senator Sherry**—That is to be determined. I can take it on notice.

**Senator BUSHBY**—If you could.

**Senator Sherry**—It is too early in the process to provide you with the detail.

**Senator BUSHBY**—Once that has been determined, I would appreciate it if you would let the committee know.

**Senator Sherry**—Yes.

**Senator BUSHBY**—Given that that has not been determined, I guess you are not able yet to let us know what the cost to government of conducting the review will be? Has a budget been set aside for it?

**Senator Sherry**—We may be able to give you a figure on that.

**Mr N Murray**—No. That is Markets Group.

**Senator Sherry**—Markets Group are coming tomorrow and they can give us the details then.

**Senator BUSHBY**—Were the members of the expert panel appointed based on Treasury recommendations? How were they appointed?

**Senator Sherry**—I got recommendations from Treasury but, at the end of the day, it was my decision in consultation with a number of other ministers and the PM's office.

**Senator BUSHBY**—So there was no consultation with the industry as to the composition of the panel?

**Senator Sherry**—There was massive consultation with the industry. I had all sorts of people suggesting all sorts of names.

**Senator BUSHBY**—But, ultimately, you have just indicated that the decision was made on the basis of recommendations from Treasury and your discussions with the Prime Minister's office.

**Senator Sherry**—No, that is not what I said. Treasury provided an input; that is correct. I had significant consultation. I had all sorts of people suggesting names to me from all sectors of the industry certainly over the last six months but particularly over the last two months.

**Senator BUSHBY**—I note that you have acknowledged that the inquiry will examine conflicts of interest.

**Senator Sherry**—Correct.

**Senator BUSHBY**—Does the inquiry have a policy for handling conflicts of interest that arise with regard to the panel of experts?

**Senator Sherry**—All of the backgrounds and circumstances of the panel of experts were considered in the context of their appointment.

**Senator BUSHBY**—Does that mean no?

**Senator Sherry**—I am sorry?

**Senator BUSHBY**—You are saying that you looked at all the issues prior to appointing. What about conflicts of interest that arise in the course of the inquiry?

**Senator Sherry**—It was very hard to find anyone with any knowledge of superannuation—it depends on how you define 'conflict of interest'—that in the past had not had some interest in superannuation.

**Senator BUSHBY**—I am not suggesting that you would exclusively appoint people to the panel who would not have conflicts of interest; I am interested in how you would deal with the situation when conflicts of interest arose as part of the process of the inquiry.

**Senator Sherry**—If such an issue arises, the chair can consider it when the panel meets—and it has not met yet.

**Senator BUSHBY**—I would appreciate it if the chair would consider that up front. I think that would be very worthwhile, given that it is very hard, as you say, when dealing with something like this, to find people who have not had conflicts.

**Senator Sherry**—Yes. Treasury have a policy in respect of conflicts of interest and I understand that that will be applied.

**Senator BUSHBY**—That is good to hear. Could we have a copy of that policy?

**Senator Sherry**—Sure.

**Senator BUSHBY**—Will that policy also cover the requirement of all members of the expert panel to declare their personal financial interests as they relate to the work of the review?

**Senator Sherry**—I am not sure about that, but we will check in terms of the Treasury guidelines.

**Senator BUSHBY**—Will equivalent standards to those for public company directors be applied to the expert panel?

**Senator Sherry**—Public company directors?

**Senator BUSHBY**—I refer specifically to the requirement set out in section 195 of the Corporations Act, under which public company directors must not be present for discussion or vote on matters where they have a material interest in the matter.

**Senator Sherry**—We will consider that in the light of the Treasury's conflicts of interest guidelines. Certainly I will ask the chair to deal with that issue.

**Senator BUSHBY**—Earlier you raised temporary resident superannuation and I said that I would have some questions about it later on. In February, the department indicated that it would be writing to the industry in February about temporary residents' super obligations and that the funds were due to respond by May. We are now in June; how have the funds gone?

**Mr Olesen**—Earlier this year, we granted an extension to funds until 15 June for making the initial payments. We wrote those letters later than we originally indicated because the funds indicated to us that they needed some additional time.

**Senator BUSHBY**—They indicated that last year before the bill was passed.

**Mr Olesen**—And they indicated it again in the ongoing consultations we had with them. So, following those consultations, we agreed to an extension to 15 June. Letters went out in April, from memory.

**Senator BUSHBY**—June 15 is less than two weeks away.

**Mr Olesen**—Correct.

**Senator BUSHBY**—How is compliance looking at this point?

**Mr Olesen**—Payments are not due until that date. We have received some early payments, but—

**Senator BUSHBY**—Have you received any further submissions from the industry, looking for further extensions or indicating that they will be unable to comply?

**Mr Olesen**—A very small number of funds sought extensions. We granted some extensions to something like five funds to pay a bit later. The rest of the industry have indicated that they will be able to make the payments in the current financial year.

**Senator BUSHBY**—Has Treasury revised its expectation of how much will be received on the basis of actual returns from funds or what they anticipate receiving?

**Mr Olesen**—The estimates, I think, were published and have not been varied. The Treasury might be able to answer, but—

**Senator BUSHBY**—Because there is an extension and they have not sent it all into you yet, you do not know what the actual receipts are.

**Senator Sherry**—I am not aware of any change to the estimates, unless any of the officers—

**Mr N Murray**—No. Again, as we have not seen the data yet, there has been no—

**Senator BUSHBY**—There is no hidden intent with this question; I was just curious to see where it had ended up.

**Mr Olesen**—Most of the funds have indicated that they will be paying inside the current financial year, so there would be no reason on those grounds to change the estimates in terms of expected—

**Senator BUSHBY**—How soon after 15 June will you know how much has been received as a result of this measure?

**Mr Olesen**—It is due on 15 June, so my expectation would be that we would receive significant amounts on or around that date.

**Senator BUSHBY**—Are you able to take on notice how much was raised by the measure?

**Mr Olesen**—Certainly.

**Senator Sherry**—We will take that on notice, if only because we both need to verify it, given that it was a coalition policy and we are interested to see that our implementation of coalition policy on this bipartisan measure delivers the revenue we both expect.

**Senator BUSHBY**—It certainly was coalition policy, but there are ways and ways of implementation.

**Senator Sherry**—As I have said before, I think, the method of implementation was varied by the government in order to simplify what was a somewhat more difficult implementation. However, we have had that discussion before.

**Senator BUSHBY**—We have. How does Treasury measure adequacy in terms of what percentage of Australians will have an adequate superannuation balance? Maybe this could go to Mr Gallagher again.

**Mr Gallagher**—Treasury generally measures adequacy in terms of replacement rates and it normally uses a replacement rate of spending, so we looked at how much could be spent in retirement as a ratio of how much could be spent during working life. There are two sorts of

measures we do for this. One is reflected in the *Australia's future tax system* report, which looks at hypothetical individuals accumulating from a given start date, earning a particular amount, retiring in a particular year and then living to life expectancy or beyond. We also have used population replacement rates to look at it. We also keep an eye on the absolute value of the dollars concerned. But, in terms of a standard that can be used in different years, we prefer to use replacement rates.

**Senator BUSHBY**—What percentage of Australians who are currently working, do you think, will have adequate superannuation upon their retirement, given current projections?

**Mr Gallagher**—Having said that we use replacement rates, I have not said that we have a standard for what is an adequate replacement rate. A number of numbers have been discussed around it. The minister himself has promoted 65 as being an example of what might be considered to be an adequate replacement rate, but Treasury has not adopted a standard. In terms of saying what proportion of Australians will have an adequate replacement rate, one of our problems is that we do not have comprehensive information on superannuation balances—there is only some selective information in the ABS surveys on superannuation balances—and it is hard to know what the career path of the individuals concerned will be; therefore, it is very difficult to give definitive figures. Essentially, we have come to the view that, for people who are working, although replacement rates will be lower over the next 10 or 20 years, once the superannuation system is fully matured, replacement rates will be in the range that we would expect. In the tax review document, there is a table that compares replacement rates for people at different ages and income levels now, to give you an example of what the system could be expected to produce. That represents, I think, indicative numbers of the way that we would expect the system to mature and replacement rates to become more adequate.

**Senator Sherry**—There are two brief matters. The complexity in this area is significant. For example, for the majority of people, it is age pension plus super. The government rightly announced an increase in the age pension; therefore, whatever people's views about what should or should not be replacement rates, you would now have to recalculate the super contribution and what the outcome is there together with the increase in the age pension. Another complexity is the issue of super being 'defined contribution'. Your outcome is heavily dependent on time in the system—that is, the amount that flows into the fund account as a consequence of compulsion and voluntary contributions. A third factor is the fees that are paid over time, and there has obviously been a debate about that. So it is a complex equation and has different outcomes for different individuals.

**Senator BUSHBY**—I will leave that there. I have a question to the ATO. What actions is the ATO taking to investigate and reverse the failure of some employers to remit superannuation guarantee payments to the ATO?

**Mr Olesen**—We have an extensive program of activities that looks at the compliance of employers in relation to their superannuation obligations. Primarily it is posited on dealing with all of the complaints that we get from employees about superannuation that is not paid on their behalf. We look at all of those complaints that we get annually and we seek to get through them as quickly as we possibly can.

**Senator BUSHBY**—Do you have any estimates for the value of the superannuation that, on average, remains unpaid at any one time?

**Mr Olesen**—No, we do not have estimates of that, but we can provide you with information about how much we collect annually.

**Senator BUSHBY**—There have been media reports suggesting that it is in the hundreds of millions.

**Mr Olesen**—The media reports are based on the figures that were in our annual report last year of the amounts that we raised as additional super guarantee payable from our compliance work and through voluntary compliance by employees. So the figure of \$380-odd million, which has been kicked around in the press, is drawn from last year's annual report. That is the amount that we raised in super guarantee—

**Senator BUSHBY**—That does not reflect how much is out there unpaid; it reflects how much was out there unpaid that you managed to recover.

**Mr Olesen**—It reflects a combination of things. It reflects the work that we did in auditing employers. It also reflects those employers who voluntarily came forward and paid up on their superannuation.

**Senator BUSHBY**—Do you think there is a lot out there that is unpaid? Given your comprehensive way of chasing it, you would hope not; but do you think there is?

**Mr Olesen**—When you look at the system as a whole, some indicators indicate that generally compliance with the super guarantee system is pretty good. If you look at aggregate flows of superannuation moneys into superannuation funds by employers and you compare that with aggregate levels of salary and remuneration in the community, it is well above nine per cent at an aggregate level. So, at an aggregate level, there are some indicators there that things are pretty healthy. If you look at the number of complaints that we get from employees, as a percentage of all employees, it is very small; the number of employers that are complained about, relative to all employers, is a very small number. When you look at some of those macro indicators, you find that they tend to support the view that levels of compliance with the super guarantee are pretty high across the board. Of course, not everybody complies; however, at a general level, it looks as though compliance is pretty good.

**Mr D'Ascenzo**—I fully agree with what my colleague has said. Having said that, our last three corporate plans have had a special focus on the follow-up of super guarantee. We will continue to have a focus on the follow-up of super guarantee because it affects ordinary salary and wage earners. As Mr Olesen said, last year we raised \$385 million of liabilities that really are owed to employees. This year we have \$291 million raised in liabilities that are owing to salary and wage earners. From a macro position, the amount of contribution paid to super funds by employers in 2007-08 was something like \$69 billion. The amount that we are collecting is only a small proportion of that, but it is still an important proportion and one where we have a high focus.

**Senator COONAN**—I have a few questions on retirement income before we go to tax. Can an employee of a company or a business that has gone into liquidation or where a receiver has been appointed or, indeed, where there are some concerns that it might be going

belly up ring the tax office and find out whether contributions are up-to-date, or would you say that information is confidential to the employer?

**Mr Olesen**—Certainly they can ring up the tax office and express a concern about whether their superannuation is being paid. That would be a complaint that we would follow up on and we would do so quickly, particularly if there were indications of insolvency or liquidation in relation to that company. Certainly they could complain to us and we would follow it up.

**Senator COONAN**—But would you give them any information? Would you be able to tell them whether super had been contributed on their behalf and was up to date?

**Mr Olesen**—You might recall that the superannuation guarantee law was amended a couple of years ago—

**Senator COONAN**—Yes, I do.

**Mr Olesen**—to allow us to keep employees informed of progress.

**Senator COONAN**—So you can keep them informed; you can get back to them.

**Mr Olesen**—We get back to them regularly on the progress of the complaint that they have made to us and whether or not we have been successful in both raising the liability and subsequently collecting it and transferring it to their super fund.

**Senator Sherry**—The secrecy provision that existed was removed by your government.

**Senator COONAN**—I know that. That is why I am interested in knowing how it is working.

**Senator JOYCE**—At this point in time, if your budget estimates are right, the liability of the federal government is \$122 billion and next year it will be \$126 billion—or \$126,540,000,000. How much of that do you have put away?

**Senator Sherry**—I am sorry; how much does who have put away?

**Senator JOYCE**—That is the federal government's liability for superannuation.

**Senator Sherry**—That is a matter for finance and public sector and Future Fund and public sector.

**Senator JOYCE**—Do you have any idea of how much we have put away for that?

**Senator Sherry**—The Future Fund is funded and there was a reasonable discussion about this in discussing its valuation at finance estimates; I think Senator Coonan was there. I cannot give you figures here and now, because I simply do not have them with me, but there was discussion about this matter at finance.

**Senator COONAN**—I just want to finish a few things with Mr Gallagher on retirement incomes. I know that he has a great tendency to go back and keep working until the wee small hours; he may be needed for this. Minister, when can we expect legislation to be introduced to amend the Social Security Act to increase the age pension, as announced in the budget?

**Senator Sherry**—An officer here may have some information about that, but that is a pension issue and not a superannuation issue. That would be FaHCSIA and it would be dealt with by another estimates.



**Senator COONAN**—I have a forecasting issue, which perhaps is more an issue for tomorrow. Budget Paper No. 2 states that the proposal will reduce the long-term cost to the budget of a substantial and growing expenditure. Is Treasury able to put that into some context? How much has expenditure on pensions been growing over the past 10 years and what financial impact does Treasury forecast the raising of the age pension age will have?

**Mr Parker**—That would be a question for tomorrow.

**Senator COONAN**—Thank you. I also have a couple of other macro issues.

**Mr Gallagher**—I can answer the last part of that question, which was about the financial impact that we expect raising the age pension age to have. You may have noticed in the budget papers the ‘pension sustainability chart’—at other times it has been called the worm chart—where there is a pension spend below the line and then a number of matching saves.

**Senator COONAN**—I remember you explaining it to me on previous occasions.

**Mr Gallagher**—In those matching saves, we show the save that would come from increasing the age pension age to 67. The numbers underlying the chart indicate that initially the save from increasing the age pension age will be 0.07 of a per cent of GDP in the longer run, starting off from around 2017 at about 0.02 of a per cent of GDP and increasing. The modelling underlying that is based on a ring group model of whole-of-population retirement incomes. In doing the analysis, we have made an adjustment; we have said that the labour force participation of pensioners will change as the age pension age goes up. I know that this has been asked in other estimates, but I would prefer to answer it while I am here. The underlying assumption is that, as the age pension age rises, people affected will move to the labour force participation of the group that is two years younger. That is because, on the existing modelling, the age pension age is a major determinant of withdrawal from the labour force.

**Senator COONAN**—Are you able to tell the committee of the relevance of the change to 27D? Why was that changed?

**Mr Gallagher**—It is because the existing schedule of women’s age pension age rising to 65 stops at about 2015. The general nature of the schedule is that every 18 months it moves six months so that there is a two-year period.

**Senator COONAN**—Thank you.

**Senator PRATT**—I have some questions on concessional contributions, and I think this was covered in part before. How many people exactly do you expect to be affected by the reduction in concessional superannuation caps? In addition, how does that relate to equity in the retirement income system?

**Senator Sherry**—Information has been given by Mr Gallagher and I think he may have some additional information to give.

**Senator PRATT**—I am interested particularly in the equity issues.

**Mr Gallagher**—In terms of numbers, we would expect that in 2009-10 about 170,000 people would be affected by the contribution caps; these people would have contributed amounts in excess of the new cap. We expect those numbers to rise across the forward

estimates. In particular, in 2012-13 we would expect about 280,000 people to be affected by the—

**Senator PRATT**—What proportion is that of people making contributions?

**Mr Gallagher**—For people over the age of 50 it is about four per cent of those making contributions. For people under the age of 50 it is 1.1 per cent of those making contributions.

**Senator PRATT**—So on average it might be somewhere around two per cent.

**Mr Gallagher**—Yes.

**Senator PRATT**—I want to know about the equity components of that. Clearly, only a small proportion of co-concessional contributors believe that they can afford to make such payments so we are really only hitting the higher threshold of income earners by such a measure.

**Mr Gallagher**—Not only but mostly.

**Senator PRATT**—Mostly.

**Mr Gallagher**—Clearly, to be over 50 and making a superannuation contribution of \$50,000, the remuneration is probably fairly healthy.

**Senator PRATT**—That is right.

**Mr Gallagher**—As I said, as printed in the *Australia's future tax system* report, 93 per cent of those affected I think have remuneration in excess of \$100,000. The average remuneration, if we just look at it in 2005-06, is \$221,000. They tend to be but are not necessarily on a higher income, because there can be a strategy whereby someone receiving an inheritance can use that. They can live off an inheritance and then salary sacrifice in order to lower their tax. So it is not necessarily about executives.

**Senator PRATT**—But still, under those circumstances they might be reasonably well off in that they have that disposable income—

**Mr Gallagher**—Yes. The average balance for people over 50 is \$895,000—

**Senator PRATT**—That is right. Not everyone—

**Mr Gallagher**—and 28 per cent have balances that are in excess of \$1 million.

**Senator PRATT**—Could you say that again?

**Mr Parker**—I can provide you with additional information here. As Mr Gallagher indicated, it is estimated that that 170,000 people will be impacted in 2009-10 by this measure. If you look at the split of those people under and over 50, you will see that the number is 77,000 people under the age of 50. Of people making concessional contributions under the age of 50, the 77,000 is only 1.1 per cent of all people under 50 making contributions. Of those who are impacted, around 73 per cent are estimated to have remuneration in excess of \$100,000.

**Senator PRATT**—So the vast number of people making use of this will not be affected by reductions.

**Mr Parker**—The vast numbers of people who are making concessional contributions are not affected—that is right.

**Senator PRATT**—What kind of budgetary savings are we looking at over the next four years?

**Mr Gallagher**—In 2009-10, the estimate is \$625 million; then, going out, it is \$640 million, \$720 million and \$825 million, giving a sum of \$2.81 billion over the forwards.

**Senator PRATT**—I want to know about changes in behaviour by low- and middle-income earners in response to the increase in superannuation co-contributions. That is about the matching rate of 100 per cent to 150 per cent and I think it was in 2004 and 2005. Was there any behavioural change in low- and middle-income workers in response to the increase that was made in the superannuation co-contribution matching rate?

**Mr Gallagher**—When the gearing was raised from 100 per cent to 150 per cent we found that for people underneath the income test threshold there was not a significant amount of behaviour. That rise was associated also with a rise in the income test threshold. Ninety-three per cent of the new co-contributions were from people who benefited from the income threshold increase as opposed to people under the threshold, and the increase from the gearing itself was quite small. As I explained earlier, we do not expect large effects, because a 100 per cent return in a given year government guaranteed is still a very good rate of return.

**Senator PRATT**—On that basis, you would not expect there to be any disincentive for additional voluntary co-contributions from low-income earners impacting on their overall superannuation savings, would you?

**Mr Gallagher**—We have taken the view in our modelling that it will not act as a disincentive to contribute post-tax contributions at the current rate.

**Senator Sherry**—If you look at the level of incentive, it is still one of the most generous in the world in the sense of being up to a dollar for a dollar. It is effectively 100 per cent with up to 100 per cent interest guaranteed. In the current climate I certainly cannot think of any better rate of return.

**Senator PRATT**—I have not seen one either, Minister.

**Senator JOYCE**—Are you aware of supported accommodation where residents pay 85 per cent of their pension?

**Mr Gallagher**—Are you referring to nursing homes?

**Senator JOYCE**—Yes.

**Senator Sherry**—That is really an issue for FaHCSIA, Senator Joyce.

**Senator JOYCE**—Why is that an issue for FaHCSIA?

**Senator Sherry**—It is not a retirement income superannuation issue. If Mr Gallagher can answer you, I am more than happy.

**Senator JOYCE**—It is a pretty straightforward question. How many single pensioners live in supported accommodation where they pay 85 per cent of their pension?

**Mr Gallagher**—I will take that question on notice and seek to get some numbers. They will probably need to come from FaHCSIA or the Department of Health and Ageing.

**Senator JOYCE**—I will give you the questions that I would like taken on notice. How many single pensioners and couple pensioners paid a straight 85 per cent? The increase obviously will go straight to the providers. The question is: this pension increase is not really for the pensioner but for the pension accommodation provider, so what did we do for the pensioners?

**Mr Gallagher**—My recollection of the policy announcement is that there are special provisions to prevent the benefits going to the provider rather than the pensioner. But, as I said, they are more properly questions for Families, Community Services and Indigenous Affairs.

**Senator JOYCE**—Thank you.

**CHAIR**—I was out of the room for a little while and I wonder whether you have covered allocated pensions and associated changes.

**Senator Sherry**—No.

**CHAIR**—I want to ask about this issue because allocated pensions, I think, most clearly reflect the way that superannuation is designed to cover retirement. I am concerned that there seems to be a limited take-up of that vehicle. Could you go through the changes in the budget to make allocated pensions a bit more attractive?

**Senator Sherry**—One measure would be the minimum drawdown, which one of the officers could outline in detail.

**Mr N Murray**—The change announced in the budget was to reduce the minimum drawdown rate—the amount that you have to take from your allocated pension each year. Currently there is a requirement that you must draw down a minimum percentage each year. The government decided that, in light of the global financial crisis and the impact that it had on superannuation account balances, with some balances having fallen, rather than requiring the maximum amount to still be taken out, they would halve the amount that had to be taken out each year. The aim of that was to provide some relief so that people in certain circumstances would not have to liquidate assets at poor prices, for example, to pay for their ongoing pension. That move was designed to encourage continued take-up of these allocated pensions, taking account of the impact of the financial crisis.

**CHAIR**—I suppose it has been a relatively short period but, in view of the share market downturn, what has been the trend with allocated pensions? Have they been increasing as a vehicle for retirement?

**Mr Gallagher**—It is very difficult to get any market estimate of the extent of allocated pensions. The Australian Retirement Income Streams Association attempted to pull numbers together, but it has ceased to exist or certainly it has ceased to pull those numbers together and we do not have good series on the numbers who have allocated pensions. From current taxation data, we can see the number of people below the age of 60 who have a pension with a rebate; previously, because of tax-free super, we could see it for other ages. But in actual fact we do not have good time series data on allocated pensions.

**CHAIR**—So there is no way to estimate whether there is an increasing trend to take up allocated pensions.

**Mr Gallagher**—In order to get a better handle on the market, we will probably need to go to a private data provider but, at the moment, I cannot provide you with any estimates.

**CHAIR**—Minister, is there any intention to move in that direction and any way to encourage funds to make these kinds of allocated pensions more attractive?

**Senator Sherry**—Currently there is a range of incentives which, frankly, I find pretty complex. I would hesitate to run through them in any detail now; an officer may be able to help us. However, work is being done by the Henry tax review on annuitisation pension issues, so there is more work to be done in this area.

**Mr Gallagher**—There are a number of significant incentives to take a benefit in the form of a pension. One is that pensions in the retirement phase do not attract tax. It is also the case that pension amounts paid out from that fund, if it is an accumulation fund and is being funded, will be paid out tax free. The means testing treatment of social security allows for full return of capital rather than having a deemed treatment. For many people, because they do not take a high drawdown but, in terms of drawdown factors, tend to be at the lower end, the return of capital in many cases covers the actual payout that they get from their allocated pension products. So there are significant incentives in superannuation fund taxation, personal taxation and the income test treatment for people to take income streams.

**CHAIR**—I suppose that begs the question: is it therefore more attractive for people with a part pension or do we see—I suppose it is difficult for you to know, as you have explained—people with higher incomes who have a greater superannuation pool going into allocated pensions?

**Mr Gallagher**—It is very hard to capture exactly what happens during the retirement phases when people take their money out. But it appears to be the case that many people take some of their benefit as a lump sum and invest some of it in places where perhaps it is easier to get at, and the top tranche will be given to allocated pensions. Many people retiring with superannuation guarantee benefits currently would not have a sufficient benefit to justify the creation of an income stream. So for many people it will still be the case that a lump sum without a large accumulation will be the preferred benefit, particularly if taking it after the age of 60, when it will be tax free.

**Mr Lonsdale**—Perhaps I could add to what the senator and Mr Gallagher have said. The tax treatment of pensions is within the Henry terms of reference, so that is something at which the review will be looking at the end of the year. With their strategic report that they released as part of the budget, they drew attention to life annuities as something that they wanted consider further. So this is another form of pension product to better enable people with balances to purchase a life pension or a life annuity. Those products are very limited in the market at the moment. The issue was put to the panel that it would be desirable, as some people argued, for more of these products to be on the market to purchase at the point of retirement or in terms of a deferred benefit later on. The panel was very interested in that and it will be in its final report.

**CHAIR**—What is the distinction between a life annuity and an allocated pension?

**Mr Lonsdale**—An allocated pension is something that you would purchase. It is a predominant form of income stream that most people purchase and it gives you flexibility on the drawdown. A life annuity is something that you purchase and by which you get an income stream for life; that is set through your life.

**CHAIR**—Is that the one where, if you purchase it, and die before you expect to, you cannot recover the balance?

**Mr Lonsdale**—Correct.

**Mr Gallagher**—Whereas an allocated pension tends to be commutable; you can convert it back to a lump sum benefit, if you pay the appropriate fees.

**CHAIR**—Is that the end of retirement income questions? We will take a short five-minute break to hold a private meeting.

**Proceedings suspended from 4.35 pm to 4.21 pm**

**Senator ABETZ**—I had occasion the other day to have a look at the ATO website and I noticed a link on it to the Nation Building Economic Stimulus Plan. Who can tell me whose idea it was to put that onto the ATO's website?

**Mr D'Ascenzo**—I do not know who put it on. It sounds like a good idea.

**Senator ABETZ**—If you are so convinced it is a good idea, can you tell us what is on that website that would provide extra and further information above and beyond that which is on the ATO website?

**Mr D'Ascenzo**—There is a lot of information of proposed laws that are not yet laws; therefore, we cannot provide advice on those laws. We have to refer the taxpayers who are interested in what those laws might be to the appropriate site.

**Senator ABETZ**—If it were such a good idea, was it your idea?

**Mr D'Ascenzo**—No, it was not my idea.

**Senator ABETZ**—Whose idea was it?

**Mr D'Ascenzo**—The person perhaps working on our website.

**Senator ABETZ**—Perhaps? Would you take it on notice because I have been lead to believe that, when the suggestion was first made to the ATO, the ATO declined to have this link put on. Can you comment on that?

**Mr D'Ascenzo**—I do not know of anything of that nature.

**Senator ABETZ**—Does anybody else of your staff have information in relation to this?

**Ms Granger**—I think we will have to take that one on notice and check for you.

**Senator ABETZ**—Nobody can tell us why this, in effect, propaganda website has been published? Senator Ronaldson went through this with the Department of Finance and Deregulation as to the Nation Building Economic Stimulus Plan website. Have you actually looked at it yourself?

**Mr D'Ascenzo**—Not that website, not through that link.

**Senator ABETZ**—How are you able to tell us then that it would be a good idea to have that link if you do not even know what is on it?

**Mr D'Ascenzo**—This is not the first time this has happened. Any time the government of the day changes laws that affect tax, people ask us, 'What's this all about?' Until royal assent we really cannot provide more than is on the public record, so we refer people to the public record. Having a way for people to work through our system to that public record seems like a good idea.

**Senator ABETZ**—How do you know that it is the public record if you do not know what is on the website? It is just an assumption on your part.

**Mr D'Ascenzo**—Certainly as to these questions it is my assumption.

**Senator ABETZ**—Do you think it is a good idea to have this website link, not knowing what is on the website link? I trust the administration of taxation matters is somewhat more robust than that.

**Mr D'Ascenzo**—It sounds like a good idea for people to have a link to what is on the public record.

**Senator ABETZ**—How do you know that this talks about the public record and not just the propaganda of the government?

**Mr D'Ascenzo**—I am answering in the generic sense that it sounds like a good idea to have a link to information that is on the public record that allows people to understand what their possible rights are under a proposed—

**Senator ABETZ**—That reminds me of an answer that former Senator Gareth Evans once gave—that it seemed like a good idea at the time. But can I ask you then to take on notice whose idea was it? Did the Australia Taxation Office or any officer within it originally reject or disagree with the suggestion? Were further representations made to the ATO for the link to be put on your website?

**Mr D'Ascenzo**—I am happy to take that on notice but in the generic area it is quite common for us to refer to other—

**Senator ABETZ**—I am not talking about generic and other links, I am talking specifically about this one and at all times I thought I made it perfectly clear as to the particular website I was referring to.

**Mr D'Ascenzo**—Yes, you did.

**Senator CAMERON**—You did say it was not uncommon for this to happen. How long have you been doing these links?

**Mr D'Ascenzo**—I am not sure when we first started. I think the use of technology to provide links to other websites that contain information that is relevant to people is quite a common thing. We did it in relation to superannuation.

**Senator COONAN**—I want to go to a matter of tax administration relating to the posting out of the stimulus payments. How much stimulus money has been paid to deceased people or estates of deceased people? Can I please have a breakdown of the figure as to how much

money, which cash bonus amount, whether it relates to either the first stimulus package or the second and how many recipients?

**Ms Granger**—I do not have the amount in payments but I can tell you the number of payments that have been made to deceased estates to date, and that is 16,000 payments. I am not sure if we can extract the figures because, as you know, the bonus payments can be made at three levels depending on your taxable income, so it is not just a matter of multiplying that by 900. I will see if we can provide you with the actual amounts paid.

**Senator COONAN**—Is that total over the two stimulus packages or the second stimulus package?

**Ms Granger**—This is in relation to the tax bonus, which is the one we were asked to deliver. It is figures to date because, as you know, there are still more returns to be filed up to 30 June. There may also be some circumstances where, because we made extensions to the time for filing for those affected by bushfires and floods, were there are some after that date.

**Senator COONAN**—Can the ATO identify taxpayers who are deceased by reference to a postcode, postbox or any other method? I could be wrong but my recollection is that there is a postcode reference in the database.

**Ms Granger**—We can identify by postcode. We have to run special program queries to get that kind of information. But, as you would remember, we normally try to do that kind of analysis in time for tax stats.

**Senator COONAN**—Was that program run prior to the stimulus payments being sent out?

**Ms Granger**—No.

**Senator COONAN**—Was there any reason why it was not run?

**Ms Granger**—Are you asking in relation to deceased estates?

**Senator COONAN**—Yes.

**Ms Granger**—No, because that was within the eligibility context.

**Senator COONAN**—What was in the eligibility—

**Ms Granger**—People who died during the year were not excluded from eligibility for the tax bonus. Prior to payment we had to create a complete mirror image of our database and what we then did was run eligibility criteria against that. This is for people who had already lodged for the 2008 year. Subsequently more taxpayers have been added to that as more returns are filed because, as you know, there were significant filings of tax returns during that time. That picture has been dynamic throughout the process of payments because we knew there were more files to come in. We did not do, if you like, segmentation of various groups within that. We were very busy just running the eligibility criteria so we could make the payments in time.

**Senator COONAN**—But it would have been physically possible, would it not, to be able to identify deceased taxpayers?

**Ms Granger**—To the extent that that has been notified on tax returns, yes.

**Senator CORMANN**—Was there a policy decision to leave them in?



**Ms Granger**—That is a question for Treasury.

**Mr Parker**—I will talk about the policy decision. As you would be aware, the tax bonus was designed essentially as a macroeconomic measure to stimulate the economy, to deliver that stimulus as soon as possible and consequentially in the design of the measure it was important to keep the design of it as simple as possible. The advice was that additional layers of detail would substantially delay the delivery of that measure and consequently would reduce the macroeconomic effectiveness of it. You might recall as this was announced it was intended to begin from early April—I think 6 April was the date at which payments were intended to be delivered. It was a massive effort on the part of the tax office to build the system anew to do this because there was no existing system in place which could make that payment. They did it.

Policy decisions were taken to keep the design simple in order that the system could be built in time. It is a very complex system. I am sure Ms Granger could tell you the story of how that system was built. From the policy side, along the way we had a very significant case in constitutional law as to the validity of those payments. The High Court heard that case in an expedited manner and delivered a judgement that it was constitutional. Given the macroeconomic implications, I think judgements need to be made to balance the macro objective vis-a-vis the amounts that have been paid to the deceased estates and so forth which are a very small proportion of the aggregate amount.

**Senator COONAN**—If I can paraphrase what you have said: the decision was to maximise the speed of the payments rather than worry about all the particular groups or any differentiated eligibility such as if you were a deceased estate?

**Senator Conroy**—Yes, that was certainly the policy objective. Unlike the opposition whose attitude was: let us sit on our hands and wait to see what happens; we were committed to trying to cushion Australian families from the worst of the global recession, so we quite deliberately took the decision that we believed there was a need to progress the protection of Australian families as fast as we could.

**Senator COONAN**—How did you know with deceased estates whether a payment would be going to a family, a charity, a trust, multiple beneficiaries or, indeed, that it would meet the objectives you have just mentioned?

**Senator Conroy**—I am not sure what your question is trying to get at. We took a decision to cushion Australian families—

**Senator COONAN**—Let me rephrase it.

**Senator Conroy**—from the impact of the global recession—

**Senator COONAN**—But you do not even know if it goes to a trust or a charity. You just do not know what a distributed payment would go to as a beneficiary of an estate. There is a huge assumption that it is only a family.

**Senator Conroy**—We made the decision to proceed as fast as was practicable to ensure the maximum benefit to Australian families, the Australian community, from being dragged deeper into the global recession, unlike those opposite whose official position was to sit on their hands and wait to see what would happen. We took the decision that we needed to

urgently process and move forward with this stimulus package and we proceeded down that path.

**Senator COONAN**—Without arguing the toss about that—because it was never our position that one should sit on one’s hands and do nothing—

**Senator Conroy**—It was certainly the then shadow Treasurer’s position.

**Senator COONAN**—from the point of view of the current opposition. Without arguing the toss, what you obviously want to do is to make sure that it is effective. It is not much good doing something urgently if you absolutely misfire when the tax office quite clearly can identify 16,000 deceased estates and could have done so prior to these cheques being sent out. Isn’t that the case?

**Senator Conroy**—The position you are essentially putting is in actual fact the same position as you had back in December which was: wait and see. We are talking about less than—

**Senator COONAN**—We did not say that at all.

**Senator Conroy**—zero point two—

**Senator COONAN**—We did not say that at all.

**Senator Conroy**—This is the position that you are advancing. What you are talking about is that these payments should not have been issued because 0.2 per cent of the payments could possibly fall into this category and that we should hold up for weeks if not months the entire attempt to protect families across the board in Australia because you believe that 0.2 per cent may go to the categories you have nominated. That is the choice we faced and that is the policy decision we took, and we are happy to stand by it.

**Senator COONAN**—It has obviously been a monumental blunder because you have also, have you not, got money paid to Australian expats living overseas? How many are there?

**Senator Conroy**—This now reaches I think a total of around 0.6 per cent of the total number of payouts. Again, you are focused on barely half a per cent of the total recipients.

**Senator COONAN**—How many people?

**Senator BUSHBY**—It is still a quarter of a million dollars. A quarter of a million dollars is a lot of money.

**Senator Conroy**—We are not disagreeing. The billions of dollars that we are talking about here would have been held up.

**Senator COONAN**—That does not justify it? It is sloppy work.

**Senator Conroy**—More Australian families would be unemployed today.

**Senator CAMERON**—If you want a debate, then we will have a debate.

**CHAIR**—Senators!

**Senator CAMERON**—You would do nothing. You would just destroy jobs.

**Senator BIRMINGHAM**—I think there was a question to Ms Granger.

**Senator CAMERON**—Economic incompetence over there.

**Senator Conroy**—Let us be clear. You are prepared for Australian retail workers to be put out on the street with all of the other Australian families who would have suffered with higher unemployment because of the sit-on-your-hands, do-nothing, wait-and-see approach.

**Senator BIRMINGHAM**—We would not have been talking down—

**Senator Conroy**—That is exactly the position that you advocated. You can try to airbrush Ms Bishop out of your records, but you cannot airbrush what she said on the public record.

**Senator BIRMINGHAM**—Just tell us how many.

**Mr D'Ascenzo**—Twenty-seven thousand payments were made to people who were eligible and reported an overseas postal residential address.

**Senator BIRMINGHAM**—How did you calculate those?

**Mr D'Ascenzo**—From the reported overseas postal and residential address.

**Senator BIRMINGHAM**—How hard was that to calculate?

**Mr D'Ascenzo**—It means we have to run the system.

**Senator BIRMINGHAM**—How long did that take?

**Mr D'Ascenzo**—It is more than a press the button type issue, but I am not sure how long it takes.

**Ms Granger**—Having an overseas address does not mean that you are a non-resident for tax purposes. It simply means, for example, that you may have left Australia to work for a few months or to visit and you put down the address. What we are giving you is the overseas residential addresses that we have on those tax returns for that year. If they were non-resident during that year they were excluded from this payment. It is only what has happened subsequently.

**Senator BIRMINGHAM**—I understand that. How long did it take you or your office to ascertain the 27,000 figure?

**Ms Granger**—I do not know how long the analysis took. I can check for you. Again, it is a matter of doing another query of the database.

**Senator BIRMINGHAM**—When did you calculate that figure?

**Ms Granger**—I think it was in relation to questions that we were asked at the JCPAA, but I need to check that for you.

**Senator BIRMINGHAM**—In terms of the 16,000 figure and the 27,000 figure, are we talking about hours, days or weeks for the ATO to work out those figures?

**Ms Granger**—It would have been days, maybe a day. I do not know, but I could check.

**Senator BIRMINGHAM**—‘Days, maybe a day’. This is the significant level of detail that would have delayed the stimulus package by weeks or months if the government got its policy right. ‘Days, maybe a day’. That does not sound like a significant delay.

**Ms Granger**—I could give a little insight into the process of setting up the database with the eligibility criteria. To create the entire database it took the tax office computers an entire weekend where we were not able to do any other processing over that weekend. We had to

stop it. There were three separate ones over three separate weeks; just to do a mirror image, then to apply eligibility criteria and then to apply payments. That is after we did the design process. It was quite important that we had all of that settled very early and were able to quickly work on doing the actual design and set-up of that system.

**Mr D'Ascenzo**—As Dr Parker mentioned from a Treasury perspective, the logistics of doing this was extremely hard. It has been a good achievement by the organisation to have done this. Could we have made those cuts in terms of policy before we rolled out? We are not sure. I think the decision was made to go for the more simple system, as Dr Parker pointed out.

**Senator JOYCE**—How did you make the qualitative statement—

**CHAIR**—Senator Joyce! If Senator Birmingham is finished then Senator Heffernan has the call next.

**Senator JOYCE**—I just wonder how you could make a qualitative statement of how long someone had to be passed away for before they deserved a payment and when they did not deserve a payment? For how long did they have to be deceased before they had been deceased for too long?

**Mr D'Ascenzo**—I think the criteria in the law was that they had to be deceased in the 2007-08 year.

**Senator JOYCE**—What is the emotional difference for people?

**Mr D'Ascenzo**—I am saying that is the criteria.

**Senator JOYCE**—It is crazy.

**Senator COONAN**—I just wanted to get a few answers.

**CHAIR**—Senator Birmingham has finished.

**Senator BIRMINGHAM**—I jumped in on Senator Coonan.

**CHAIR**—If this is going to happen then please let me know, because I got a complaint about Senator Cameron jumping in.

**Senator CAMERON**—Did you?

**CHAIR**—That is all okay now. Otherwise, we will just continue on according to the list. Senator Coonan.

**Senator COONAN**—I just want to spend a bit longer on this topic. Do you have a breakdown of any amount paid to people who were incarcerated in prisons?

**Ms Granger**—No, we do not. We do not have the means of being able to analyse that information.

**Senator COONAN**—Do you have any information about non-Australian residents—the colloquial term ‘backpackers’—who spent time working in Australia in 2007-08?

**Ms Granger**—No. As I mentioned before, if you were a non-resident on your 2007-08 tax return then you were automatically excluded from this database. The only information we

have is about people who were resident for that year but gave an overseas address. We will not know how many of those are non-resident until they file their next year's tax return.

**Senator COONAN**—There have been some reports that some people have received stimulus package payments twice or indeed more than twice. Does the tax office have any information about that?

**Ms Granger**—We had a small number of cases where there had been a doubling of payment. It involved one tax agent and there was confusion about whether to redirect the payments. At the time there was a double up of that. I think it involved about 400 payments. Three hundred of those were stopped and we are negotiating a repayment with the rest in relation to the second payment.

There was a newspaper report today or yesterday that suggested up to nine payments. I have not seen that personally. We followed that up. That was a number of beneficiaries. There was confusion about the actual case, so there was not any doubling up of payments.

**Senator COONAN**—Has there been any confusion with respect to people who have, for example, family trusts with multiple income streams? Were they eligible?

**Ms Granger**—The only case that I am aware of is the one that I just referred to, where there were a number of beneficiaries that were eligible. There was confusion that was a doubling up of payment. In fact, they were for separate beneficiaries.

**Senator COONAN**—How many people earning over \$100,000 received the tax bonus by, for example, salary sacrificing? Does tax know?

**Ms Granger**—The only information we have is that if they met the eligibility criterion in terms of their taxable income they were eligible. We do not have a breakdown of those who may be below that level because of salary sacrifice.

**Senator COONAN**—You have obviously seen reports of people who are relodging tax returns in order to qualify for eligibility. Do you have any knowledge of that?

**Ms Granger**—No, I do not. I do know that we have had a particularly close look at where we see amendment requests, obviously for a whole range of reasons. We are looking closely at those.

**Senator COONAN**—How much money has been spent on advertising the cash splashes or bonus payments?

**Senator CAMERON**—Advertising what?

**Senator COONAN**—Would you rather 'sugar hit'?

**CHAIR**—It is nice to have this pleasant discussion on semantics with the people up here, but do we have a question?

**Senator COONAN**—That is the question.

**Senator BIRMINGHAM**—We are waiting for an answer.

**Senator RONALDSON**—Can I ask a question while they are considering the question?

**CHAIR**—No. We are sticking with Senator Coonan's question.

**Senator RONALDSON**—It is along the same line.

**CHAIR**—Is that question answered?

**Ms Granger**—The plan is to spend \$11.5 million. I do not have the to-date figures on that, but we do expect to fully expend it.

**Senator COONAN**—Is that largely on print media?

**Ms Granger**—Print and radio. Most of it has been aimed at reminding people to get their returns in, what the basic eligibility criteria are and where to call if they need more information or what to look up on the website.

**Senator HEFFERNAN**—I am not an accountant; I am a wool classer and welder. If you are a farmer, you have a failure, you are a sole trader and you run at a loss, do you get the \$900?

**Mr D'Ascenzo**—No, because you would not fall within the eligibility?

**Senator HEFFERNAN**—This is a stimulus payment to stimulate the economy, but if you are a farmer that happened to have a crop failure and ran at a loss you do not get any stimulation and they tell you to go to hell. Why is that?

**Mr D'Ascenzo**—That is the criteria for the payment.

**Senator HEFFERNAN**—Isn't that stupid? You are prepared to send it overseas and send it to the estates of dead people, but hardworking farmers who happen to run at a loss are told to go to hell.

**Mr D'Ascenzo**—Basically, the eligibility requirements were taxable income.

**Senator HEFFERNAN**—Anyhow, that is not what I wanted to talk about. We are on division 7A. Could you explain to me what the principle behind division 7A is?

**Mr Konza**—The principle behind division 7A is to ensure that income is not taken from private companies without taxation being paid on it.

**Senator HEFFERNAN**—Would it be fair to say that the following interpretation is new to it: 'Division 7A aims to tax transfers of wealth and value from private companies to their shareholders and their associates when these transfers are not made in the form of taxable dividend'?

**Mr Konza**—Yes, I guess so. The income tax act taxes the payment of dividends, for example. Division 7A is an integrity measure that makes sure that if people transfer the wealth of a company out to the shareholders, other than through dividends, then tax is paid.

**Senator HEFFERNAN**—Just to go back, it would be fair to say the current perceived anomaly of division 7A is that it does not bring to tax a distribution of private company profits in the form of a prelicence to use company assets such as holiday homes, boats and so on.

**Mr Konza**—Are you talking about the concept of a licence to use a company asset?

**Senator HEFFERNAN**—Yes, as opposed to a lease.

**Mr Konza**—Yes, that is right. What we are talking about there are cases that we have actually struck where the company will own a major asset and, without entering any legal contract, will simply allow a prominent person associated with the company to use that asset. In legal terms, it is called a licence to use.

**Senator HEFFERNAN**—That is correct.

**Mr Konza**—That is the anomaly.

**Senator HEFFERNAN**—With your indulgence, Madam Chair, I will just say that one of the great institutions of Australia, besides the tax office, is the institution of family farming. Would you agree with that?

**Mr Konza**—Yes.

**Senator HEFFERNAN**—Do you take it for granted when you go to the supermarket for your tucker, when the vegies are there, the meat is there and the milk is over there? You get used to that idea. You will be pleased to know that every day 40 per cent of the world's tucker is actually chucked out. It is wasted. In the 2009-10 federal budget the Australian government announced its intension to introduce new legislation to prevent shareholders and their associates avoiding tax on the use of company assets, such as land, cars, boats and houses. How much is in the forward estimates that will be recovered from that?

**Mr Konza**—The forward estimates are a matter for Treasury.

**Senator HEFFERNAN**—How much are you after?

**Mr Parker**—I will ask Mr Brown to address the question.

**Senator HEFFERNAN**—Is this a considered guess you are about to give us or have you made some calculation of what is out there?

**Mr Brown**—The estimates for that do not include a specific allowance for any amount.

**Senator HEFFERNAN**—So you have got no idea of how much you are going to recover.

**Mr Brown**—Not how much is attributable to farmers specifically, no.

**Senator HEFFERNAN**—You just chuck the hook out there and see what you can drag in.

**Mr Brown**—The estimates are based on aggregate data. The aggregates do not necessarily break down.

**Senator HEFFERNAN**—I will put it in a better form of words. You are the bureaucrat and I am a worn-out farmer. How much does the government think it is going to recover from people who have been lurking the system, as you see it as a lurk?

**Mr Brown**—The forward estimates indicate that there is an estimate of around \$10 million a year over the forward estimates period.

**Senator HEFFERNAN**—My question earlier that I did not get to ask is: in that scheme of the money going overseas to whoever they are—backpackers—how much money that we just threw away was involved in that compared with the money that we cannot give to farmers who have had a crop failure? How much money have we sent to people who have gone overseas? How much was in the cash splash on that, or whatever you would like to call it?

**Senator CAMERON**—I thought this question had been answered.

**Senator COONAN**—No, it was the number.

**Senator HEFFERNAN**—There is no need for points of order. We are under control. How much was in it? Was it \$20 million or \$30 million?

**Ms Granger**—Are you asking for the value of the payments?

**Senator HEFFERNAN**—How much money went overseas in the \$900 giveaway?

**Ms Granger**—I do not have that figure with me.

**Senator HEFFERNAN**—But you do have it.

**Ms Granger**—We would have to do the analysis.

**Senator HEFFERNAN**—Have a rough guess?

**Ms Granger**—No. I am sorry. I do not have that.

**Senator HEFFERNAN**—Can you come back tonight with the answer? It has been in the press. I think it was \$20 million.

**Mr D'Ascenzo**—The maximum amount would be \$24,300,000, if it is \$900 for each person, but some people have less than \$900.

**Senator HEFFERNAN**—I am just trying to get this into perspective. We are talking about the \$10 million forward estimate revenue and we have a \$24 million giveaway to people who have gone to Timbuktu.

**Mr D'Ascenzo**—No. That is the maximum.

**Senator HEFFERNAN**—The maximum perhaps of the pulling apart of the institution of family farming, as well as a few other people, is going to be \$10 million in. I would just like to say that I declare an interest. I am a farmer.

**CHAIR**—We do know that.

**Senator HEFFERNAN**—Even though I am worn out and cranky. My father's generation of farmers, who were decent, honest, hard-working Australians—I have got a buggered neck from looking back like this when I have driven the tractor to see that the wheel was in the furrow all the time—

**Senator CAMERON**—I thought it was a problem you had in the party room.

**Senator HEFFERNAN**—All we do is drink together.

**Senator Conroy**—You are entitled to write a reply for defamation.

**Senator HEFFERNAN**—This is quite a serious issue. My father's generation of farmers were simple bookkeepers and worked bloody hard without the gear that they have got today and they were originally four bushel bags a week. When that generation of farmers died they were more concerned not with the fact that they were dying but the fact that, if they did not have a flash accountant, when they died half of the family farm went on state and federal death duties in certain proportions. As you know, to guard against some of those things, and also to preserve the farm for the family in circumstances where there might have been nine or 10 kids, thousands of these farms were put into company structures, a thing called the Gorton



scheme back in those days and all sorts of things such as family trusts, to protect the integrity of the family farm. It was not for some flash reason; they just wanted to continue farming and they did not want to lose half the farm. You would agree, Mr D'Ascenzo, that death duties were high-impact, low-revenue taxes.

This is going to be what is proposed. The government has known for weeks that I have been going to raise this. I have had the courtesy of going to the Prime Minister's office and to Mr Swan. They are saying this may well be an unintended consequence and all we want to do is fix it. This will be a horrendous tax impacting on people who, for whatever reason, run at a loss—we are shaping up to another crop failure in the south again this year and we have had three already—and who were involved in all that stuff earlier to protect the institution of the family farm and have a farm, and there are thousands of them. There are representatives sitting right behind you there from the farming organisations who are terrified of the consequences of what this will do, whether it is unintended or not. You are saying that because of what is considered to be a licence now that the ATO states: 'Granting a lease to a shareholder to use company property has always been caught by 7A Part III of the Income Tax Act 1936 while licences have not. The proposed legislation will extend the 7A provision to cover licences. As such, licences to use company assets will be considered leases and charged at a deemed market rate. Licences in the hands of the company will therefore be treated as taxable income.'

What if you are a farmer at Moree or wherever and dad had seven kids. Two of the boys stayed home, one went off to become a tax lawyer, three kids got married and left the farm, and two blokes were left to run a family partnership on a farm that was owned by the family in a company structure or a trust. Most farms in a lot of years have no chance at all of returning a real rate of income on the value of the farm. Say five per cent, which would be a leased value. If you have a drought, you have no chance of being able to pay any sort of fair dinkum rent even if it was imposed upon you. What you are saying under these changes in the 2009 federal budget is that the family farming partnership has to pay to the proprietor—usually the same people in a different form—a real rate of return in terms of lease, or if they do not pay that you will charge the trading partnership the equivalent of an unfranked dividend, which will be taxable, in a lot of circumstances where there will be a real loss because they have had a crop failure or whatever.

**Mr Konza**—Could I clarify one thing. Division 7A applies only when the private company has a distributable profit and distributable income. In that situation in which a company is not paying tax then division 7A does not apply.

**Senator HEFFERNAN**—Which company?

**Mr Konza**—The company that owns the farm property.

**Senator HEFFERNAN**—This stuff goes back to the 1960s. These structures go back where decent, honest, hardworking farmers had to change the structure of the farm or they simply lost it. In some of those companies there are unrealised profits. They do not actually make anything. Are they trapped?

**Mr Konza**—If it has distributable profits it may be caught by division 7A depending upon—

**Senator HEFFERNAN**—Some of these profits have accumulated back in the 1960s in these companies. This is a dead set attack on the people who supply your tucker.

**Mr Konza**—We would need to know whether those distributable profits have accumulated that way.

**Senator HEFFERNAN**—With great goodwill and with the indulgence of the minister, I am instructed that this may well be an unintended consequence. I am instructed that perhaps what you are after are the people who have got yachts, Lear jets, mansions and so on, and there is a proposal which is being put to the Treasurer's office and the Prime Minister's office to carve out the farming institution. Can you give me some advice on that?

**Mr Konza**—The only advice I can give you is to confirm the cases that we have identified have been in the high-wealth and high-income segments.

**Senator HEFFERNAN**—Say Joe Bloggs Pty Ltd owns a farm at Gunnedah and dad put it in the company name back in 1960-something. The boys have left. We will use plain language here. The institution of family farming is the one that guarantees the farm's survival. Corporate farmers come and go. They are not used to the vagaries of the weather, working when it does not make any sense to work and so on. You try to protect the institution of the family farm. One of the reasons you do it is that you might have three sons. One might marry a dropkick. One might marry a bloody rocket scientist. You can have all sorts of challenges brought back on the farm by the next generation. This sort of arrangement protects the integrity of the farm. I have to say that this is seen to be an attack on arrangements that were made 30 years ago. Could we be given some advice? You might be able to come back with the advice. I am sure they are listening down in someone's office. Was it the intention to capture farmers in this?

**Mr Konza**—These are matters for government rather than us. We apply the law.

**Senator HEFFERNAN**—My understanding from Treasury is that it was unintended. My understanding from the tax office, which is the world's worst job, because everyone that comes through your door wants to pay less tax—

**Senator Conroy**—You are not asking the officer an opinion?

**Senator HEFFERNAN**—No. My understanding is that it is unintended, but the tax office will prosecute the law as it stands whether it is unintended or not. What I am appealing to is for decency of government. Australia's farmers are already in suicidal land, a lot of them.

**Senator CAMERON**—You were in for 11½ years. And now you are appealing for decency? Come on!

**Senator HEFFERNAN**—No, this is now. With great respect, we do not have the decency to tell Australia's farmers whether they are in or out of emissions trading. If we go into emissions trading, the profitability of cattle production is going to go down 200 per cent.

**CHAIR**—Senator Heffernan, can you not respond to interjections. Please continue.

**Senator HEFFERNAN**—We would seek clarification and obviously some consultation with the government, because Australia's farmers are not up for this. We are under attack from everything from global cartels in fertiliser to the unknown of climate change, whether

America is going to have their farmers in on the credit side and out on the debit side, another bad season forecast. These are decent, honest people and we just seek clarification. Is that fair enough?

**Mr McCullough**—If it is any comfort, I understand that the government's intent is to consult fully on this process. There is a detailed paper that is about to be released.

**Senator HEFFERNAN**—I understand that.

**Mr McCullough**—Without getting into the technical nuances here, because it is a bit difficult, a number of the scenarios you have raised seem to me for reasons given by Mr Konza and others unlikely to result in the consequences that you fear will necessarily flow from some of those circumstances.

**Senator HEFFERNAN**—I just wanted to flag it in a nice way tonight, because we have had decency and the cooperation. It was not designed to be a political ambush. This is a consequence of what happened back in the 1960s and the 1970s in the Gorton scheme era. These things did accumulate all sorts of unrealised profits and so on. This is very complex. I can tell you that, if it goes ahead as is described in the budget papers, you will destroy both the mind and the body of a lot of farmers.

**Mr McCullough**—I understand that. I will just clarify a point, though. In your description you have talked about the family farm. The asset of the business is a different thing from what this is designed to catch. I think it would be wise to wait for the discussion paper, see the detail, and then perhaps some of the things you are concerned about will not come to a head.

**Senator HEFFERNAN**—We are all alarmed, and we seek to turn the alarm off. Thank you.

**Senator CORMANN**—I have a series of questions in relation to the proposal to means test the private health insurance rebate. Can you describe the process of Treasury advising the government regarding the proposal to means test the private health insurance rebate?

**Mr Parker**—There was a process of advice in the context of the budget being put together. It involved a cross-portfolio exercise—Treasury, Health and the Department of Finance.

**Senator CORMANN**—When did you first provide advice on the proposal?

**Senator Conroy**—I appreciate you will argue that a date goes simply to a process. The budgetary process is—

**Senator CORMANN**—The Prime Minister's department and the finance department have answered exactly that question. I can tell you that the finance department provided advice on 22 February. The Prime Minister's Department provided advice first on 23 February. I am sure that Treasury—

**Senator Conroy**—We will take it on notice. If Treasury has anything it would like to add then we will come back to you.

**Senator CORMANN**—How long is it going to take to provide that answer?

**Mr Parker**—In terms of the policy here—

**Senator CORMANN**—No. I am asking a very specific question.

**Mr Parker**—The relevant part of the Treasury that deals with the policy here is Fiscal Group, not Revenue Group. Our role in the private health insurance rebate area was limited to two specific areas, that is, the precise mechanism around the Medicare Levy surcharge arrangements and, secondly, a role in some of the costings.

**Senator CORMANN**—Presumably you would have coordinated the consideration of this measure across relevant departments? You described that as part of your introduction.

**Mr Parker**—No, we did not coordinate it.

**Senator CORMANN**—I am asking Treasury. I have been told that this is the section to ask Treasury about the private health insurance rebate.

**Senator Conroy**—You have just been told that it is not the section, it is Fiscal Group.

**Senator CORMANN**—This is where I was told to ask questions about this.

**Senator Conroy**—Has Fiscal Group come on yet?

**Mr Parker**—No.

**Senator Conroy**—You have not missed the opportunity. You will get to ask the Fiscal Group this question.

**Senator CORMANN**—When is the Fiscal Group?

**Mr Parker**—In terms of issues around costing or the mechanism relating to the Medicare levy surcharge and so forth, we are the right people to ask about those issues.

**Senator CORMANN**—Can you tell me when you first provided advice to government on this particular budget measure and who initiated the work?

**Senator Conroy**—We said that we would take that on notice and make sure we get the accurate answer. You asked the wrong group the question.

**Senator CORMANN**—I am asking you: when did your group first provide advice on it? Can you give me a date?

**Mr Parker**—We will take that specifically on notice.

**Senator CORMANN**—How long is it going to take you to get back to us? Can you get back to us by the end of tomorrow?

**Senator Conroy**—We will endeavour to do that.

**Senator CORMANN**—Can you also tell us when you first consulted with the Department of Health and Ageing? Did you consult with anyone outside the federal government in relation to this measure?

**Senator Conroy**—Again, you are asking questions that should be directed to Fiscal Group. They are more likely to know the answers.

**Senator CORMANN**—Do they take all of the responsibility for this? I will go to Fiscal Group and leave it there.

**Senator COONAN**—I would like to follow on from a question from Senator Heffernan. Will farmers have to pay rent to a family trust or company entity for living in the farm residence?

**Mr D'Ascenzo**—I do not think it is law yet, is it?

**Mr Konza**—As there is no legislation it is not a matter that we can comment on.

**Mr Parker**—As Mr McCullough commented, there will be a discussion paper on this released shortly. The legislation has not been legislated or put into parliament yet. The consultation process is intended to ensure that the law works as best as it possibly can.

**Senator COONAN**—At the moment you do not know whether farmers will have to pay rent to the family trust or company entity for living in their farm residence?

**Mr Parker**—That is a matter that may be considered by the government in the context of the consultation process. I could not give you a definitive answer.

**Senator COONAN**—If you do not know then you do not know. I wanted to move on to some issues to do with changes to the employee share scheme relating to the existing election of discounts for shares or options that applied from budget night, which was a major integrity measure. There is currently a rethink going on? Is that right, Minister?

**Senator Conroy**—I think we are reviewing aspects of this.

**Senator COONAN**—What is the timeframe for the review?

**Mr Parker**—The government intends to issue a paper on options in this area during the course of this week.

**Senator COONAN**—Is it within the contemplation of Treasury that this will be resolved by 30 June? What happens in the meantime?

**Mr Parker**—I think that is certainly an objective, yes.

**Senator COONAN**—That you are trying to resolve it by 30 June. What is the position in the meantime? The measure took effect from budget night, as I understood it.

**Mr Parker**—That is right. The measure did take effect from budget night. The position in the meantime will ultimately depend on what the government decides to do in response to the consultation process. The paper to be released later this week will address commencement issues and it is intended, in conjunction with that paper, that there will be draft legislation for the purposes of consultation. Hopefully when this paper is released the matter will become clearer.

**Senator COONAN**—Just sticking with what has been announced and what currently applies from budget night, it being an integrity measure, was there any consultation prior to the measure being announced?

**Mr Parker**—There was no consultation process prior to the measure being announced. There were processes both internal to government in terms of forming up the measure, and with people from the private sector putting to government that there were substantial compliance issues in this area that needed to be addressed.

**Senator COONAN**—The main reaction or objection, if I can put it that way, springs from the fact that the budget announcement will require some employees to pay tax up front on the difference between the cost value of shares or options that may never vest. Is that right?

**Mr Parker**—That is one dimension of the reaction to it, yes.

**Senator COONAN**—You mentioned some potential revenue leakage. Can you take us to that? My understanding from this side of the table is that deferral of tax can maximise revenue if paid at the marginal rate on a depreciated value.

**Mr Parker**—Yes. I think you are referring to the interplay between the income tax system and the capital gains tax system. In a perfect world where everybody complied with taxation arrangements to the extent that more of these schemes were taxed under the capital gains tax, and hence subject to the discount, then that would involve a smaller amount of revenue. That is why you will see in the costing that appears in the budget documentation the bring forward results in a large amount of revenue up front and then over time the amount of revenue declines.

**Senator COONAN**—It declines over the forward estimates?

**Mr Parker**—That is right.

**Senator COONAN**—Given industry's response to the announcement, has Treasury done any calculations as to whether the revenue figures will stay the same, especially for the 2008-09 and 2009-10 years?

**Mr Parker**—We are in the process of looking at that issue. That would ultimately depend on whatever decisions the government takes through the consultation process and the regime adopted. It is fair to say that the response, particularly from the business community, to this measure has been, firstly, to acknowledge that there are substantial tax integrity problems in this area. They have been very forthcoming with that information in support of an argument that it should be possible to tax on deferral where there is a risk of forfeiture, for example. In the process of that consultation which has been taking place they have been providing substantial information on the degree of tax integrity problems, and the types of schemes that have been problematic, as a basis for making an argument that there would be an alternative way to close down that scheme. It is a matter of judgement, but based on the information which has been made available by the business community it appears that there is a larger revenue integrity problem here than the government was previously aware of.

**Senator COONAN**—I do not mean to interrupt you, but on those continually deferring?

**Mr Parker**—Yes, and disappearing from the tax system and setting up schemes where the deferral is not just limited to the 10-year period which is currently in the law but gets rolled over ultimately into further and further—

**Senator COONAN**—Do you have some numbers on that now?

**Mr Parker**—We do not have specific numbers on that. In effect, if the government were to look at changing the arrangements—as has been flagged as a possibility in the minister's press release on this area—to permit deferral in more limited circumstances, what you would tend to get is less revenue upfront and then a growing amount of revenue over time.

**Senator COONAN**—It would change the projections?

**Mr Parker**—It would change the profile.

**Senator COONAN**—Did Treasury consider any alternative options to try to fix this problem that did not focus, for example, on taxing at the grant?

**Senator Conroy**—That would go to advice to government. Maybe you can rephrase the question and ask a similar type of question, but you are essentially asking to reveal what options Treasury considered, which I think goes to the heart of advice.

**Senator COONAN**—Are there any countries in the world that tax a grant?

**Mr Willcox**—I understand that a number of countries have schemes akin to the Australian one where it is possible to have an upfront tax as well as a deferred tax arrangement, although I think that the common feature would be deferred tax arrangements or taxing at the stage where a person is actually able to access the value conveyed by the scheme.

**Senator COONAN**—In your assessment and in your workings in relation to this matter did Treasury come to a view that taxing a grant was better than taxing investment?

**Senator Conroy**—I think unfortunately you are probably just across that line. Would you like to rephrase the question and try it slightly differently?

**Senator COONAN**—We are looking here at the workings—I am not talking about advice. I am talking about—

**Senator Conroy**—The workings in preparation of advice are still the workings in preparation of advice.

**Senator COONAN**—It may not be, because that might not have been the advice.

**Senator CORMANN**—Are you claiming public interest immunity?

**Senator COONAN**—Can I put this to you?

**Senator Conroy**—Any time you want to try, go for it. Any time you want to try it on, Senator Cormann, feel free.

**Senator CORMANN**—You know what the proper process is.

**Senator Conroy**—Any time you want.

**Senator CORMANN**—I can see that you have got an attitude of wanting to reveal information.

**Senator Conroy**—Any time you would like to start that debate, I am here. I sat there for 11 and a half years. I am fully aware of the rules of the Senate.

**Senator CORMANN**—Maybe we can ask the senior official at the table whether he is aware of the new order of the Senate.

**Senator Conroy**—It is of no relevance to the official. It is only of relevance to a senator.

**Senator COONAN**—Will the announced policy result in fewer people participating in employee share schemes?

**Mr Parker**—That has certainly been put to the government by the business community, yes.

**Senator COONAN**—Is that ‘yes’, is it?

**Mr Parker**—To the extent that the use of employee share schemes involves a tax break and that tax break has been reduced then, yes, you would expect participation in that scheme to be reduced.

**Senator COONAN**—You would expect that some employers would stop offering employee share schemes on the announced policy?

**Mr Parker**—As I said, that has been put to the government, yes.

**Senator COONAN**—Did you have any idea of the magnitude of this withdrawal from employee share schemes that has been foreshadowed?

**Mr Parker**—It is probably fair to say that we were surprised by the degree of the response, particularly in relation to the \$60,000 cap. Obviously the level of the cap was a government decision. But, based on information that we have on the take-up of these share schemes—and I will ask some of my colleagues if they have any further detail on this—going back to some data the ABS collected in 2004, there is a very substantial proportion of employees in receipt of benefits under an employee share scheme that have an income below the \$60,000 level.

**Senator COONAN**—Is the threshold something that the government has under consideration to change?

**Mr Parker**—I think that has been flagged.

**Senator COONAN**—It has been flagged, though, has it not? I think that is what the minister's press release indicates.

**Mr Parker**—Yes.

**Senator COONAN**—Has Treasury modelled the impact on revenue if employers substitute employee share schemes with cash components?

**Mr Parker**—If employers substituted share schemes that were subject to the \$1,000 upfront exception, and to the extent that that substituted into other forms of remuneration, that would tend to increase tax revenue, yes.

**Senator COONAN**—The minister referred to these matters in his press release of 24 May. Could you give me some details? He referred to some confusion as to taxpayers' obligations. What are they?

**Mr Parker**—I might pass that question to colleagues from the tax office to give you details about the tax avoidance issues that have arisen here. One particular thing which the word 'confusing' was referring to is where taxpayers have taken their tax deferral option but at the later taxing point have nevertheless reported and claimed an amount of income under capital gains tax rather than income tax. It has been argued by those taxpayers that this was not a deliberate matter but a matter of confusion on their part. Nevertheless, it led to a substantial reduction in tax on their part. But perhaps my ATO colleagues could give you some further information about that.

**Mr Konza**—What my colleague from the Treasury was talking about was a situation that I think was partially addressed last year, which was where taxpayers were neither putting in an election nor declaring income and then saying that they had made an election but had not told us and had just forgotten to put the income in. The law was changed to make it mandatory that the income had to be returned as part of that election process so then there would be an outward sign that they had made that election and we could better ensure compliance. Nevertheless, our observation of the minority of high-income individuals who are not



following the law is that many of those people simply find the temptation of taking the capital gains tax discount too great to resist and they will simply misdescribe their affairs in an attempt to take it. That is a fairly consistent observation. Some of those taxpayers also figure that it has been a long time since the grant of the shares, that everyone must have forgotten by now, and they simply do nothing with them. Some of them retire and stop lodging returns and obviously do not declare the shares. Because of the deferral period and the availability of the capital gains discount in other circumstances, a lot of taxpayers have found it too difficult to comply.

**Senator COONAN**—Mr Parker, you were going to refer someone who could help me with some ABS data.

**Mr Robinson**—The most recent data we were able to find in relation to the number of employees engaging in employee share schemes was from a 2004 ABS survey, the employee earnings benefits and trade union membership survey, which estimated around 481,000 people were engaging in employee share schemes at that time, which was equivalent to around 5.9 per cent of wage and salary employees in 2004. We noted that had grown over time since some of the earlier data that was available in relation to that, from about 2.4 per cent in 1989 to about 5.5 per cent in 1999 and up to the 5.9 per cent in 2004.

**Senator COONAN**—Does any data available to you indicate the companies that offer these share schemes in terms of size—say, large corporations down to SMEs or IT companies?

**Mr Robinson**—No. The information we had available to us was only really in terms of take-up by employees. There was really no information on the size of the business or industries offering employee shares. However, the other source of information that we have referred to in undertaking the costing is from Australian Taxation Office taxation statistics, where we looked at a category of income called Other Income Category 1, which actually includes a larger subset of income reported in people's tax returns. For example, it includes lump sum payments and arrears, foreign exchange gains, benefits or prizes from investment related properties. Nevertheless, we took into account some information from there.

**Senator COONAN**—What did that tell you?

**Mr Robinson**—That was just trying to get a sense of, again—

**Senator COONAN**—How big or small—

**Mr Robinson**—I am sorry?

**Senator COONAN**—Go ahead.

**Mr Robinson**—We were just trying to get a sense of the amount of income associated with employee shares that people were claiming in their tax returns.

**Senator COONAN**—Are you able to give the committee any information extrapolated from those inquiries?

**Mr Robinson**—On the basis of some of our estimates, we estimate that the total pool of income that related to employee shares was a bit over half a billion dollars. But that was relating to mainly the taxation on the upfront and deferral, apart from the taxation which

would have been received from people with employee share values up to \$1,000, which of course are exempt.

**Mr Parker**—Part of the difficulty here in terms of the information is that there has been a large part of employee share schemes that have been in effect invisible to the tax system because they have been schemes where people have gone through the deferral route. They do not have to report anything to the tax office upfront; they do not have to do any election at that point. Then it is just a question of the basic honesty of the taxpayers in reporting that income. Regrettably—and this is evident in some of the tax office auditing information—they have increasingly picked up, as my colleague Mr Konza said, a minority, but a significant minority, of high-wealth individuals who have had employee share schemes who, on audit, have been found not to have complied with the law.

**Senator COONAN**—I appreciate the difficulty. Lest there be any misunderstanding about this, I do not think that you would find really from any elected representative any criticism of serious revenue leakage, if that is in fact what this represents. What I think the concern has been is that, firstly, it is very difficult to get these estimates anything like right. It appeared to have been a bit overestimated, if I can put it in a fairly neutral way.

**Mr Parker**—You are going to a question of judgment. Ultimately, history will tell, because we do not know how much of this stuff is out there. As I mentioned before, it certainly appears on the basis of information that has been made available that there may have been some more aggressive use of this than we had thought at the time. But, as I said, history will tell. If that is the case, there may well be more revenue to be gained from tightening up in this area.

**Senator COONAN**—Is the government committed to maintaining the employee share schemes?

**Senator Conroy**—Absolutely. One of the reasons we are going through the review process is to ensure that the share schemes can continue to function.

**Senator COONAN**—It was not the intention that you had effectively shut down employee share schemes and the very good benefits that flow for a lot of these shareholder interests—

**Senator Conroy**—We have a long history of promoting employee share ownership. We just want to ensure that it is not being taken advantage of by any individual.

**Senator COONAN**—Nevertheless, it is the intention of the government to try to redesign this scheme in such a way that it allows employees to participate in schemes in a way that allows the intention of such schemes to operate?

**Senator Conroy**—I do not think I can add much more than the press release that Mr Bowen put out at the time, where he outlined the key principles that would underpin the consultation process. There is no suggestion that we are attempting to close them down. In fact, it is the exact opposite.

**Senator COONAN**—He is talking about alternative solutions anyway, which made me anxious that we would get an assurance from you that the government is absolutely committed to employee share schemes.

**Senator Conroy**—Yes, we continue to be committed to them and we have a long history of promoting them.

**Senator BUSHBY**—To what extent has the ATO or Treasury considered the current tax arrangements of online companies based offshore but trading within Australia?

**Ms Granger**—I am just trying to think what the answer to that might be. At the moment I do not think we have a specific project around online companies. We have certainly done some work in the past in relation to what the taxing provisions are in relation to that. I am not aware what the particular projects are at the moment.

**Mr D'Ascenzo**—Just by way of background, a number of years back when the concept of e-commerce was coming to the fore we led some OECD work in preparing a number of OECD booklets on taxing responses to e-commerce activities. That involves trying to work through some difficult areas of what is a permanent establishment under our treaties, for instance. We have been doing that progressively for a number of years and more recently we had reviews of some online arrangements to ensure that tax was paid in relation to activities here. At this point of time it is not as high on our list as we expected in the past. That is why Ms Granger indicated it is not part of our main plan. That is basically where we stand.

**Senator BUSHBY**—Companies like Google, Yahoo, EBay, Facebook, Microsoft Fish Pond are all to some extent billed outside of Australia for services provided within. A recent estimate suggests Australia may be missing out on up to \$160 million in tax just from Google because it does not have in place tax arrangements that capture this sort of activity. If you look at potentially \$160 million from Google, we could be looking at tax revenue possibly in the billions if there were arrangements—

**Mr D'Ascenzo**—This is the point that I made about what is a permanent establishment or not comes into play. It is only taxable in Australia in relation to those activities if they do have a permanent establishment here and the international OECD benchmark for that means that they need to have a place or business here, and the general proposition in relation to electronic transfers is to not put in too much of a barrier for the free-flow of electronic commerce.

**Senator BUSHBY**—As I understand it President Obama is looking at taking some action with respect to online activities in the United States which occur in the United States but are billed from outside the United States.

**Mr D'Ascenzo**—I think it is always important to keep alert to this area because it was foreshadowed as a significant potential risk. We have not seen it in those terms. The risk that you referred to us is more in relation to the legal framework under which these apply. For instance, there have often been questions here of why suppliers of, say, books are not taxed whereas book stores here are. That is a question of policy and law.

**Senator BUSHBY**—It is a question of policy. I would have thought that a government facing significant debt would be looking at ways that would assist recover revenue to actually cover that. I will move on from there. Treasury has provided forecasts to 2016-17 showing above-trend growth. Given that Treasury failed to predict the unexpected events that led to the global financial crisis, how can we be sure that there will not be other unexpected events that will affect growth in revenue over the forecast periods?

**Senator Conroy**—What can I say? Dick Cheney comes to mind: how can we know what we do not know? Actually, it was Rumsfeld who said that.

**Senator BUSHBY**—We have the Treasurer saying that it would be silly to question these forecasts, to suggest that these forecasts of future revenue growth might not actually be realised. If you have the Treasurer saying you would be silly to question it, surely my question makes a lot of sense: how can we be sure?

**Senator Conroy**—I think Dr Henry has spoken at length on this issue in a speech—

**Senator BUSHBY**—I have read that speech and I do not think it really fully explains—

**Senator Conroy**—I am sure Dr Henry will be joining us—

**Senator BUSHBY**—I will be asking similar questions tomorrow as well. But in terms of revenue I was interested tonight.

**Mr Parker**—As a matter of logic, how can one be sure there will not be unexpected events? One cannot be sure there will not be an unexpected event, by definition. In terms of what these numbers are, I am sure Dr Henry and Dr Gruen, when you talk to them tomorrow, will speak at length about the trend estimates. The revenue numbers essentially drive off those numbers.

**Senator BUSHBY**—Essentially you acknowledge that there is a potential for unforeseen events, which means that you cannot say with absolute certainty that the revenue forecast contained in the budget—

**Senator Conroy**—To be fair, over the last 12 months Treasury have consistently indicated that the risks are on the downside—

**Senator BUSHBY**—I am not asking about whether the risks are on the downside or the upside. What I am asking is: will those forecasts be achieved?

**Senator Conroy**—If I can finish? Treasury have been quite clear that the risks were on the downside. I think the position now would be marginally different, but how can you guarantee that you will achieve a forecast when by definition a forecast is a forecast. It is not an actual; it is a forecast.

**Senator BUSHBY**—You cannot guarantee that you will achieve the forecast?

**Senator Conroy**—It is not an actual.

**Senator BUSHBY**—That is fine. We will move on from there. We will continue that tomorrow, no doubt. In your assumptions behind the forecast of future government revenues has Treasury assumed there will be no further tax cuts and no indexation of tax brackets between now and 2015-16?

**Mr Parker**—There are no further tax cuts in the forward estimates.

**Senator BUSHBY**—Is there any indexation of tax brackets?

**Mr Parker**—Not as far as I am aware. When the projections are done, they are always done on a no-policy-change basis.

**Senator COONAN**—What happened to the aspirational tax cuts?

**Senator ABETZ**—They went out the door with economic conservatism.

**Senator COONAN**—Have they gone out the window?

**Senator Conroy**—They were described dependent on future economic circumstances, and I would think that most would agree that the sort of circumstances we are facing at the moment mean that those are not part of the ongoing discussions.

**Senator COONAN**—Has that been announced anywhere?

**Senator Conroy**—I am happy to take that on notice if you like and get further information from Mr Swan.

**Senator BUSHBY**—It reminds me of an answer that you gave in the chamber about aspirational promises and non-aspirational promises.

**Senator COONAN**—The question I would like you to take on notice is: are the government's aspirational tax rates goals a casualty now of everything else that the government—

**Senator Conroy**—I will happily take that on notice for Mr Swan to see if he has anything he can add.

**Senator BUSHBY**—Following on from my question about whether there were any further tax cuts or indexation of tax brackets in the forecast to which we have heard the answer is no, how much has been calculated to be added to government revenues from fiscal drag or bracket creep for each of the years up to and including 2015-16?

**Mr Parker**—I would have to take that question on notice.

**Ms Mrakovcic**—I just wanted to refer senators to the top paragraph on page 52 of the *Mid-Year Economic and Fiscal Outlook* publication. It says:

In the 2008-09 Budget, the Government made a provision for its aspirational tax goals in 2011-12. The Government said that achieving its aspirational tax goals 'will depend on economic conditions and the need to maintain fiscal responsibility'. Given the dramatic deterioration in the global economic outlook and associated increased uncertainty, the provision will no longer be maintained. The Government will reconsider the policy parameters following an improvement in overall economic conditions.

**Senator BUSHBY**—Thank you. That answers Senator Coonan's question. In terms of my question about how much has been forecast to be added to the revenue as a result of bracket creep or fiscal drag; you will take that on notice?

**Ms Mrakovcic**—Yes, we will.

**Senator BUSHBY**—Budget Paper No. 3 has GST projections out to 2012-13. Has Treasury done any modelling on years beyond that, to 2013-14, 2014-15, 2015-16 for GST? I could not find anything in the budget papers, but they may well be there.

**Mr White**—We actually say in statement three of Budget Paper No. 1 that we have modelled the receipts past the forward estimates out to 2020 in a similar way to the forward estimates period but with some simplifying assumptions. Yes, we do have GST numbers out to 2020.

**Senator BUSHBY**—Are you able to make those numbers available?

**Mr White**—Yes. We would have to take it on notice.

**Senator BUSHBY**—During estimates in February of this year it was noted that page 44 of the most recent UEFO showed the forecast for GST falling by \$1 billion in 2008-09 and \$2 billion in 2009-10. What do the budget papers show for GST for these two years now and subsequently, to the extent that they are forecast with reference to the level that was predicted by UEFO?

**Mr White**—Pages 5-41 and 5-42 of Budget Paper No. 1 have changes in revenue heads since UEFO.

**Senator BUSHBY**—Since UEFO?

**Mr White**—Yes. GST is on 5-41 and 5-42. GST receipts are down by \$1 billion in 2008-09.

**Senator BUSHBY**—That is \$1 billion since UEFO?

**Mr White**—Yes.

**Senator BUSHBY**—And UEFO was already down \$1 billion?

**Mr White**—Yes.

**Senator BUSHBY**—So it is down \$2 billion from the forecast prior to UEFO for this financial year?

**Mr White**—I think that is about right. I would have to go back and look at your first number, but it is about right. The 2009-10 year is down \$2 billion since UEFO.

**Senator BUSHBY**—That is down \$4 billion according to the answer that you provided in February?

**Ms Mrakovcic**—We would have to check.

**Senator BUSHBY**—Given that you told us that we were down around \$2 billion in UEFO for the 2009-10 year, are you saying we are down a further \$2 billion from that point?

**Mr White**—Yes.

**Senator WILLIAMS**—There is a serious problem with cash flow of the GST in the meat-processing industry. The problem is this: in the meat industry, if an abattoir—I will give you an example, Bindaree Beef at Inverell—go and buy livestock, they have to pay for livestock in seven days. If they buy on 25 May they have to pay on 1 June. They might buy half a million dollars a day of cattle so they pay \$50,000 GST. Then on 2 June they pay another \$50,000. As the month goes on by the end of the month they have got about \$1.2 million out in GST. The problem is when they sell their meat, whether it be fresh or export, they do not collect any GST. On 1 July they put a claim in to get their \$1.5 million of GST back; they will wait another two weeks and their GST will go up to probably \$2.2 million. It will peak at \$2.2 million, and then they will get their GST back—it might be \$1.5 million, so their GST outgoing will go back to \$700,000. It is a constant cash flow for them because that industry does not collect GST when it sells its product.

Would you see anything wrong with having a situation where these abattoirs could have a seven day BAS period where perhaps each Monday they could lodge their GST with a couple

of people in the ATO, electronically pay them two days later and then that peak instead of being \$2.2 million might be something like \$700,000 or \$800,000, which would free up \$1.5 million of cash flow at no cost to anyone? It would just be processing each week. I see that as a solution. How do you feel about that idea because it is a serious cash flow problem in our abattoir processing industry?

**Senator Conroy**—I think the cash flow issue is argued at length in the GST debate and your party voted for it—

**Senator WILLIAMS**—I know. That was promised today—

**Senator Conroy**—I am happy to take that on notice to see what the Treasurer or Mr Bowen would like to respond with.

**Senator WILLIAMS**—It would solve a serious problem in a very competitive industry. They do it tough. I can name the abattoirs that have been closed over the years and we do need to keep these viable processing industries going.

**Senator EGGLESTON**—I have a lot to do with small business in the chambers of commerce. Again on the GST, some of them have difficulty meeting their BAS and GST payments. Do you have any data on that sort of thing—how many small businesses do have difficulty in meeting their BAS statements and GST payments?

**Mr D'Ascenzo**—We have some information on debt. There is some difficulty in differentiation but I can give you some generic information that can probably cover some of the order of magnitude of what you are interested in.

**Senator EGGLESTON**—Are you able to do that now?

**Mr D'Ascenzo**—Yes, I can do it now. I just want to see if I can find it.

**Ms Mrakovic**—I just wanted to add to the numbers I mentioned before. The numbers that we quoted from statement 5 of Budget Paper No. 1 were in cash terms, and the numbers that you used of \$1 billion and \$2 billion in the UEFO document were on an accrual basis. There is a not insignificant difference between the two that one simply has to be aware of.

**Senator BUSHBY**—On that basis, are you able to tell me now what the drop in GST is for those two years and subsequent forecast years from the prediction in last year's budget to now? That is what I was after. I wanted the prediction from the high before UEFO to now, so the accumulation of the four from last year's budget to UEFO and then from UEFO to now for both those years and subsequent forecast years?

**Ms Mrakovic**—We would have to take that on notice. Do you want it on a cash or accrual basis?

**Senator BUSHBY**—Both would be very useful.

**Mr Parker**—We will get those numbers to you quickly. It is a simple matter.

**Senator BUSHBY**—That would be good because Treasury's record on answering questions on notice is not good. I am going to raise it with Ken Henry tomorrow. I raised it with him in February and it has not improved.

**Ms Mrakovic**—In terms of small business we are seeing an activity statement debt. We have seen a growth to date of about 7.9 per cent.

**Senator EGGLESTON**—You are seeing a growth of debt level of non-payment of 7.9 per cent.

**Ms Mrakovic**—They are the latest stats from about yesterday, actually.

**Senator EGGLESTON**—Has that been a trend over the last year with this financial crisis?

**Ms Mrakovic**—Yes, it has been a gradual trend over the year.

**Senator EGGLESTON**—What was your previous debt level, say, two or three years ago?

**Ms Mrakovic**—I would have to take it on notice for two years ago. I can give you the debt as of 30 June last year if that would help.

**Senator EGGLESTON**—I am just interested in knowing whether it has increased. Has there been a noticeable increase? Has it gone up by 50 per cent or 100 per cent?

**Ms Mrakovic**—No. We are seeing a slight increase. We are seeing a larger increase in our small-to-medium enterprise market more than the micro market at the moment.

**Senator EGGLESTON**—I am interested in small-to-medium business. How many of these small to medium sized businesses have been penalised by the ATO for late payment or non-payment?

**Ms Mrakovic**—We would have to take that on notice.

**Senator EGGLESTON**—Has the ATO provided any tax exemptions to small-to-medium businesses? If so, how many have there been in recent times because of these issues?

**Mr D'Ascenzo**—Tax exemption is a matter for government legislation. What we have done in terms of small business is actually try to make early contact with small businesses. By making early contact with them we have been trying to enter into payment arrangements. We have been remitting appropriate interest and penalties in some cases. We have been taking circumstances into account. We have also announced that we will be reducing the pay-as-you-go instalment rate for GST to two per cent from its current nine per cent rate starting from next year. There is a whole package of activities designed to assist small business.

**Senator EGGLESTON**—I want to ask about the hobby farm \$250,000 tax loss cut-off. Would you describe the process behind Treasury recommending this measure to government or government recommending Treasury to investigate this measure?

**Mr D'Ascenzo**—That is a matter for Treasury.

**Senator EGGLESTON**—What does that mean?

**Mr D'Ascenzo**—I am not aware of the processes.

**Senator EGGLESTON**—Has Treasury any answer to that?

**Mr Parker**—I am sorry; could you repeat the question?

**Senator EGGLESTON**—It was about the \$250,000 tax loss cut-off and what the process was behind Treasury recommending this measure to government or government recommending Treasury to investigate this measure.



**Mr Parker**—A range of advice was provided by Treasury to government on this matter in the process of budget formulation.

**Senator EGGLESTON**—Did Treasury consult with rural or regional communities regarding the impact on those communities of this measure? Was that part of your process or did it not do that?

**Mr Parker**—There was not consultation specifically about the integrity measure in the budget, no. I am happy to talk about the overall framework for consultation for tax measures and budget measures in particular if you would like, but I think that is on public record.

**Senator EGGLESTON**—I presume that it involves stakeholders though, doesn't it?

**Mr Parker**—Any consultation process involves stakeholders.

**Senator EGGLESTON**—In this case 'stakeholders' would mean people who held these hobby farms, I would have thought.

**Mr Parker**—I am using a slightly pejorative label there. The government has a broad commitment to consult over the design and implementation of tax measures. That has been lifted as a result of the government's commissioning and acceptance of the recommendations of the tax design review panel. That is in the public arena. In the formulation of that policy it was noted that in the case of budget measures, particularly when it comes to issues of integrity measures, there is not a commitment to a prior consultation but there is a commitment to subsequent consultation. As has been mentioned in other cases that we have discussed tonight, that consultation process is to take place.

**Senator EGGLESTON**—Did Treasury give any consideration to the fact that this measure might cause a flood of rural and regional land sales, resulting in a drop of property prices in the affected areas? Was that a consideration you took into account in your thinking?

**Mr Parker**—Again, you are going to an issue of advice to the government on that matter.

**Senator Conroy**—If you were to rephrase your question you may be able to find a different way to try to draw some information.

**Senator EGGLESTON**—It is about consideration of local impact which I suppose is stakeholder consultation, the stakeholder consideration—

**Senator Conroy**—You have probably crossed the line there. But if you would like to rephrase your question, perhaps you might be able to try a different way.

**Senator EGGLESTON**—It is difficult to rephrase it beyond the concept of consideration of local impact. I have been told that consultation in this issue was post the event rather than prior. I think I will assume that there probably was not a great deal of thought given to this particular dimension of this decision and I will leave it at that.

**Senator JOYCE**—If I earn over \$250,000 and own a house which I rent out, can I negatively gear that?

**Mr D'Ascenzo**—Is this—

**Senator Conroy**—It sounds like tax advice. I thought you were a tax accountant.

**Mr D'Ascenzo**—Basically you get a deduction for expenses incurred in deriving assessable income. In this case, in relation to a rental property, the general proposition is that that is deductible.

**Senator JOYCE**—If I can earn over \$250,000 and negatively gear a house, why can't I negatively gear a hobby farm?

**Mr D'Ascenzo**—Again, that is not a question for me.

**Senator JOYCE**—There is an anomaly there; isn't there?

**Mr D'Ascenzo**—It is not a question for me.

**Senator JOYCE**—It is kind of peculiar really; isn't it?

**Senator CAMERON**—A house is the same as a hobby farm?

**Senator Conroy**—Yes, they are.

**Senator CAMERON**—If you have a house like a mansion, what do you do with that—

**CHAIR**—There is a very long—

**Senator CAMERON**—and a hobby farm. It is the same thing.

**CHAIR**—Please continue, Senator Joyce. We have a long list of people who want to ask questions, so let us come to order.

**Senator JOYCE**—I want to refer to 5-37 on the revenue statement. How do we manage to keep on getting more personal income in a recession?

**Mr Parker**—I am sorry?

**Senator JOYCE**—How do we manage to keep budgeting for more personal income tax returns in a recession?

**Mr Parker**—Could you point us to specific numbers?

**Senator JOYCE**—Page 5-37 of the budget estimates of Budget Paper No. 1—

**Mr Parker**—I have that in front of me.

**Senator JOYCE**—If, as you point out, this is the worst global financial crisis of all time, how do you manage to keep getting more gross income taxes from personal income taxes? It presumes that if the tax rates are reducing, which they are, that you have more people employed earning more money?

**Ms Mrakovic**—There are two factors operating here. The first one is to note that the estimates have been revised down relative to the last budget. The second is to point you in the direction of a table on page 5-18 about key revenue parameters. You will notice that there is an item there called 'compensation of employees' and you will see that—certainly in 2008-09—there has been some sort of continued increase in that compensation of employees, which includes both a wage effect and an employment effect—that category of compensation. In the out years there has been a revision downwards and that has been reflected in lower estimates of what we expect to receive.

**Senator JOYCE**—We have reduced tax rates, but we are still collecting more money?

**Mr White**—Wages growth in 2009-10 basically offsets a slight fall in employment and personal tax cuts.

**Senator JOYCE**—So fewer people are getting paid more?

**Mr White**—Yes, it is just general wages growth as happens in most years.

**Ms Mrakovcic**—It would not be fewer people. Essentially you have wage increase occurring and you have slower growth in employment.

**Mr White**—No, you have a contraction in employment.

**Senator JOYCE**—Which one is right?

**Mr White**—There is a small contraction in employment and there are personal tax cuts. Wages growth in that year more than offsets both of those impacts.

**Senator JOYCE**—You have fewer people being paid more?

**Ms Mrakovcic**—Yes.

**Senator JOYCE**—That is interesting. I noticed your interest costs at 9-4. You have \$300.8 billion and about \$11 billion in interest. That calculates at less than four per cent. How do you manage to get a cost of funds out of 2013-14 at less than four per cent if you are anticipating 4.5 per cent growth in GDP?

**Ms Mrakovcic**—Can you confirm that you are referring to page 9-4?

**Senator JOYCE**—Yes, page 9-4.

**Ms Mrakovcic**—Is this the Australian government general government sector balance sheet? What item are you referring to?

**Senator JOYCE**—I am referring to your total liabilities stated at \$300.8 billion, and the total interest was \$11.975 billion.

**Mr Parker**—Is this a question about the interest cost on the government liabilities?

**Senator JOYCE**—Yes. How did you calculate the cost of funds?

**Mr Parker**—That is an issue that you should direct to Fiscal Group rather than to Revenue Group.

**Senator JOYCE**—Back in 2006 you calculated the exemption for non-real property for foreign entities at \$50 million, \$65 million and \$65 million. Do you still hold to that costing?

**Mr Parker**—Can you give us some specific information? Then we will take the question on notice.

**Senator JOYCE**—With the exemption for non-real property assets for foreign entities that was passed in 2006, the calculation by the Revenue Group in Treasury was a costing, if I remember rightly, of \$50 million and then \$65 million in the preceding three years. Do you still hold to that costing, which at the time seemed absolutely remarkably low? If you do, what do you intend to save from taxing individuals who are deemed to be working overseas?

**Mr Parker**—In respect of your specific question about the earlier measure, I will take that on notice and go and have a look at the numbers.

**Senator JOYCE**—As you know, you have changed your laws in regard to when a person is deemed to be working overseas and when they are deemed to be working in Australia. Is that correct?

**Mr Parker**—That is right.

**Senator JOYCE**—I remember flicking through the budget—I cannot find it here—and seeing savings in there of about \$250 million.

**Mr Parker**—It is about \$200 million a year, and over the forward estimates it is \$675 million.

**Senator JOYCE**—Can you refer me to where that is in the budget papers?

**Mr Parker**—Yes. If you look at Budget Paper No. 2, this is the measures document. It is on page 19.

**Senator JOYCE**—I have it here. It is \$215 million, \$225 million and \$235 million?

**Mr Parker**—That is right.

**Senator JOYCE**—That is an exceptional windfall. Do you find that disproportionate compared with what you expect to have conceded on capital gains tax exemption for foreign entities?

**Mr Parker**—You put me in a difficult position, because I have taken that former question on notice.

**Senator JOYCE**—You can take it from me that it is \$50 million and then \$65 million in the preceding years.

**Mr Parker**—You also asked me whether I stood by those numbers.

**Senator JOYCE**—Yes.

**Senator Conroy**—We have indicated that we would take it on notice.

**Senator JOYCE**—I can table it for you if you like.

**Senator Conroy**—The question is: do you stand by those? That is a question that would require some detailed response.

**Senator JOYCE**—Do you acknowledge that still remains a big loophole in the Taxation Act?

**Senator Conroy**—You are asking an opinion.

**Senator JOYCE**—I will change it around.

**Senator Conroy**—Rephrase your question.

**Senator JOYCE**—Do I have the capacity, if I am overseas, to not pay tax in Australia for a capital gain that I make on the purchase and sale of a non-real property asset?

**Mr Daw**—There is an issue about where the taxing rights lie in respect of the sale of Australian assets. In terms of real property, Australia—

**Senator JOYCE**—I am talking about non-real property.

**Mr Daw**—The taxing right in respect of the treaties that we strike with our parties would rest with the residence of the non-resident.

**Senator JOYCE**—If I set up a trust in New Zealand, where there is no capital gains tax, then am I tax free? They do not have capital gains tax.

**Mr Daw**—I am not sure that would be a permanent feature.

**Senator JOYCE**—Would that be in breach of section 4A?

**Mr Daw**—I do not know.

**Senator JOYCE**—I notice the borrowings in the revenue statement and how they keep going up. Can you refer me to anywhere where you actually pay me the money back?

**Mr Parker**—I am sorry. You would need to be more specific about the question.

**Senator JOYCE**—I notice in the revenue statement that you take the increase in external borrowings. Can you direct me to where we are paying the money back?

**Mr Parker**—Can you direct us to a specific page?

**Senator JOYCE**—We can look at the increase in liabilities, which go out to \$111 million, \$169 million, \$222 million, \$273 million—

**Mr Parker**—Which page are you referring to?

**Senator JOYCE**—I am referring to page 9-4. You also have another subtable that talks about the incremental increase in borrowings, which quite obviously is this differentiation between those numbers. I was poring through your budget papers and I was trying to find somewhere where we actually pay money back. I cannot find it.

**Mr Parker**—Again, in respect of issues that go to balance sheet and flows on that, the appropriate people, who will be better informed to answer your question, are Fiscal Group.

**Senator JOYCE**—To the best of your knowledge, you do not know anywhere—

**Senator Conroy**—No. I think he indicated that the best section and the relevant section to ask this question of is the Fiscal Group.

**Senator JOYCE**—Going back to book 2, page 19, which is overseas workers, the change in this now obviously reflects that for someone working overseas—say, on a drilling rig off the Congo or working in Russia, as they do—instead of bringing that money back now into Australia and investing it in a local town such as Roma the smart thing for them to do right now would be to stay in Phuket or somewhere rather than coming home, wouldn't it? If they stay over they do not have to pay any tax and we do not get the advantage of the GST revenue?

**Mr Parker**—Under the present law, if people are working overseas in a tax-exempt jurisdiction they do not get the exemption under section 23AG. If you are working in a tax haven or arrange your affairs so that you are paid in a tax haven, the present law does not exempt that kind of income.

**Senator JOYCE**—What is the exemption that we are closing up?

**Mr Parker**—The exemption as it applies now—and Mr Daw can provide further details if necessary—is that people who are working overseas for a continuous period of 91 days in a non-tax-exempt area will be required to report that income for Australian tax purposes if they remain a resident, and then they will get a tax credit for any tax paid in the foreign jurisdiction.

**Senator JOYCE**—A resident for tax purposes?

**Mr Parker**—A resident for tax purposes.

**Senator JOYCE**—If I want to remain exempt, the best thing for me to do is to stay overseas?

**Mr Parker**—If you want to remain exempt, the best thing for you to do is to clarify your residency status, yes.

**Senator JOYCE**—So, instead of coming back to Australia, spending my money here and getting caught for tax, now I am just going to go and spend it in Thailand or somewhere else. What were the numbers that you utilised in determining the figures that you came up with on the \$215 million, \$225 million and \$235 million savings that you made? How many people do you deem to be overseas for that?

**Mr Robinson**—We referred to Australian Taxation Office data, which provides information on the number of employees claiming income which is exempt under section 23AG. That allowed us to provide some estimates of the number of people who are currently claiming the exemption. We had to make an allowance for people who will continue to be exempt under the proposed budget measure, which include foreign aid workers, charitable workers and certain types of government employees.

**Senator JOYCE**—In your consideration of actions and your determination of 23AG, did you model it that their actions would be consistent—that is, that they have the nous to go overseas and work, for instance, on drilling rigs? If they have the capacity to get their mind around that problem, do you not think they will have the capacity not to come back? They will just stay away for tax purposes. If your modelling is consistent, would that not be implausible, as people would just determine to stay away?

**Mr Robinson**—As I mentioned, the—

**Senator CAMERON**—The end of that song *I Still Call Australia Home!*

**Mr Robinson**—The costing was done on the basis of past patterns of claiming of foreign income under the exemption. We used that to inform our assumptions.

**Senator JOYCE**—In your modelling, did you create any mechanism of adjustment to take into account the motivation of the individual in this instance to stay away, not go home? Therefore, we have a problem because the numbers lack veracity. What I believe you have done is consistently model out the actions on 23AG on exactly who is there now and made the assumption that all of these people will act exactly as they did before even though the tax regime has changed?

**Mr Robinson**—Yes, we modelled the costing on the basis of the historical information.

**Senator JOYCE**—So it was on a consistent parabola. Do you believe in light of what we are talking about now that that may be implausible?

**Mr Robinson**—I do not know that that is an implausible assumption to start with.

**Senator JOYCE**—Are you affected by costs? Do you believe that the market works on such a mechanism that people predominantly try to save or minimise tax as best they can?

**Senator Conroy**—I think you are moving into quite a theoretical—

**Senator JOYCE**—There is nothing theoretical about it at all.

**Senator Conroy**—It is somewhat hypothetical.

**Senator JOYCE**—I was an accountant for 18 years. Believe me, there is nothing theoretical about this at all. It is quite simple.

**Senator Conroy**—Perhaps you may want to rephrase your question a little bit.

**Senator CAMERON**—You never made it to Treasury, did you?

**Senator JOYCE**—I will go to the CPRS. I notice in the CPRS on page 537 that your allocated revenue streams in CPRS start to flow in. I cannot quite pick it now, but I think it was four and 12, to the best of my knowledge. Where have you noted where the money is going out, where we are actually paying for things?

**Mr Parker**—That would be an expense measure.

**Senator JOYCE**—Can you just direct me to it?

**Ms Mrakovic**—In the budget measures Budget Paper No. 2 document there is a Carbon Pollution Reduction Scheme revised implementation.

**Senator JOYCE**—What page is that?

**Ms Mrakovic**—That is page 7 of Budget Paper No. 2. In addition there is a range of other CPRS measures in Budget Paper No. 2. That is a key one.

**Senator JOYCE**—There seems to be quite a differential between what we are collecting and what we are paying out—in fact, a remarkable differential. I also want you to show me where these are shown in the holistic figures.

**Mr Parker**—In which one?

**Senator JOYCE**—This is becoming a major revenue item for government. They are collecting vastly more money than they are paying out.

**Senator Conroy**—Could you repeat the question?

**Senator JOYCE**—I am saying that what you are doing is collecting \$4 billion and then you are collecting \$12 billion. I cannot see where you are paying the money out, so it has become a revenue raising mechanism for the government. Even on cross-portfolio page 7, the differential between what the expenditure item is is heading towards \$10 billion.

**Mr Parker**—I do not think that you have the full picture.

**Senator JOYCE**—Maybe you can direct me to the full picture.

**Mr Parker**—I would ask you to direct that to the Fiscal Group, who have overall responsibility in Treasury for the CPRS arrangements. I am sure that when you ask them they will be able to provide you with a full description of the inflows and outflows.

**Senator JOYCE**—We are collecting money at the moment, but we are not paying it out. I want to refer you to social security and welfare, 6-7. I note in social security welfare—once more heading to a recession—that in 2009-10, on the estimate, we are actually going down. I thought that with unemployment that would be going up.

**Ms Mrakovic**—Page 6-7 is the expenses statement. That is a question more appropriately put to our colleagues in the finance department.

**Senator JOYCE**—Do you think it would be peculiar that in the middle of a recession we are actually paying out less social security rather than more?

**Senator Conroy**—That is a finance question.

**Mr Parker**—Our Fiscal Group colleagues may be able to assist. If you turn over to page 6-8—I am just trying to be of assistance here, although it is not directly within our responsibilities—one of the reasons that it is mentioned there is that a decrease of \$13.9 billion in 2009-10 results effectively from the fact that there were:

... one-off lump sum payments to pensioners, families and other Australians in 2008-09 as part of the *Economic Security Strategy* and the Nation Building and Jobs plan stimulus packages.

There is a large amount paid out as lump sum arrangements as part of the macroeconomic response of the government and then they are not there in the numbers for 2009-10.

**Senator JOYCE**—How do we deem when it was reasonable to pay a deceased person or their estate \$900 and when it is deemed to be unreasonable? What was the cut-off process—whether they lodged a tax return in the last 12 months or something? Is that it?

**Mr Parker**—That is right.

**Senator JOYCE**—Why was that deemed to be the reasonable process?

**Mr Parker**—We have already discussed that at some length. This was a macroeconomic policy response. Time was of the essence, as has been explained. Building a new system was a large and complicated exercise. Making the measure simple so that it could be implemented, insofar as possible, on the basis of information that the ATO already had was critical to its design.

**Senator JOYCE**—How much of the \$900 payments as a percentage have not actually been collected at this point in time?

**Mr Parker**—Not been paid?

**Senator JOYCE**—Not been paid or not cleared?

**Ms Granger**—We have done modelling based on the year before filing of tax returns. We think there could be up to 500,000 more.

**Senator JOYCE**—About half a million?

**Ms Granger**—Five hundred thousand.

**Senator JOYCE**—Five hundred thousand people still have not cleared their cheque?



**Ms Granger**—No, that is dependent on them filing. All of the returns that have been filed to date with the tax office have been evaluated and eligible payments made. All that remains is any more tax returns that are filed between now and 30 June, unless people have an extension of time in place.

**Senator JOYCE**—So if they are still putting in an extended return they are still going to get their \$900?

**Ms Granger**—Up to 30 June: the legislative requirement is that it must be filed by then.

**Senator JOYCE**—After that time, if they have a valid case—sick, incapacitated?

**Ms Granger**—The requirements were that they had to have an extension of time granted by the commissioner in place at the time this became law. There are a number of tax agents who would have that, but the commissioner also made a special general exemption for those who were affected by natural disasters that they could have until the end of the following year. For example, if you have been affected by the recent floods or bushfires you have beyond 30 June.

**Senator JOYCE**—I want to go back to division 7A. Has it not always been the case that there has to be an arms-length transaction between a corporate entity and an entity; otherwise it was deemed to be an imputed dividend? It is deemed to be dividend and you have to pay the imputation credit?

**Mr Konza**—Technically it has to be a market rate of consideration. The transactions themselves cannot be arm's length at all times, but as long as the rate is market, yes.

**Senator JOYCE**—Is there any capacity in the tax act to roll people from a corporate entity into, for instance, a trust such that it would not strike a capital gains tax event? For example, for people with family farms, could this be rolled out of a corporate entity into a trust entity in such a manner that it did not strike a capital gains tax event yet basically gave the capacity for the same protections that they would be looking for, that is, against divorce and disassociation of the asset by entry of new parties?

**Mr Konza**—A trust does not give all the same legal protections as a company. In answer to your question, I would need to take that on notice because there are rollover provisions that apply to the rollover of assets between different entities where exactly the same people are in control. These are very technical areas and it would be dangerous for me to give you an assurance without getting that checked.

**Senator CORMANN**—I have a series of questions in relation to the Treasury analysis of the coalition savings alternative to the means testing of the private health insurance rebate. I am advised that this is the right area to ask questions about that.

**Mr Parker**—Yes.

**Senator CORMANN**—Are we able to get a copy of the Treasury analysis that was released to the media on 17 May?

**Mr Parker**—The numbers were released by government. Mr Brown, are you aware of what form that was released in?

**Mr Brown**—No.

**Mr Parker**—In that case we will take the question on notice.

**Senator CORMANN**—Sorry, you will take on notice whether what has been provided to the media can be provided to a Senate committee that is assessing this?

**Mr Parker**—As I understood it, you asked whether we could get a copy of it. I will take on notice the provision of a copy of—

**Senator CORMANN**—Can you then also take on notice that, should you refuse to provide the information, we will require a proper statement of the public interest ground and the reasons as to why it is not in the public interest to provide that information, given it has been released to the media.

**Senator Conroy**—We have taken it on notice and the Treasurer will provide you with an answer.

**Senator CORMANN**—Who requested you to do the exercise of assessing the coalition's alternative savings measure? Was that request from the Treasurer's office?

**Mr Parker**—I am not personally aware. It was requested by the government in accordance with longstanding practice of—

**Senator CORMANN**—Can you also take that on notice?

**Mr Parker**—Successive governments are able and have asked the Treasury to cost a range of policy.

**Senator CORMANN**—This is a question that goes to process.

**Senator Conroy**—He is answering your question, if you would listen.

**Senator ABETZ**—No, he is not.

**Senator CORMANN**—He was not, actually.

**CHAIR**—Mr Parker, would you like to continue.

**Senator CORMANN**—It is a very simple question. Who submitted the request to Treasury to do the analysis? Can you give us a name or a position?

**Senator Conroy**—You are getting an answer, if you would let the officer finish.

**Senator ABETZ**—No. We were told what the general position was, which is all very interesting. We want the specific in this case.

**Senator Conroy**—If you will stop being rude and interrupting the official, he will give you an answer. He has indicated that we will take some parts of it on notice.

**Mr Parker**—And no doubt whichever individual it was was doing so effectively in the role of the government. Put it this way, if a person in the Treasurer's office asked us to do that, then that would be in place of the Treasurer.

**Senator CORMANN**—Can you just talk us through the modelling you did to come to your conclusion that the alternative savings measure would mean that we would fall short by \$3.2 billion over a decade?

**Mr Parker**—We can discuss that.

**Mr Brown**—The analysis basically projected out the tobacco revenues using the medium-term growth assumptions that apply to tobacco in the broader medium-term projections that were included in the budget. The growth rate that applies to tobacco is essentially zero over that period, which reflects the trend growth rate that we have seen in tobacco revenue over recent years. The growth rate in the other elements of the costing that was released were reflecting the growth rates that were applicable to the private health insurance measure, which is somewhat higher. The gap between the two measures reflects the different growth rates.

**Senator CORMANN**—Can you confirm the information that was reported in four major newspapers, which is that the measure would raise between \$550 million and \$570 million per year? Is that what you assessed?

**Mr Brown**—That is correct.

**Senator CORMANN**—These estimates are not a simple 12.5 per cent gain in revenue. There must be an assumption included somewhere along the way that there is a reduction in consumption moving forward?

**Mr Brown**—Going forward, the numbers take account of the growth in tobacco excise revenue. Tobacco excise revenue is essentially flat over that period. That reflects a decline in consumption as well as CPI indexation of excise going forward, and those two roughly cancel out.

**Senator CORMANN**—Is that a decline in consumption as a result of the increased excise?

**Mr Brown**—No. That is the trend decline in consumption overall. The costing itself includes a decline in consumption, which is related to the one-off price increase.

**Senator CORMANN**—There is an assumption of a decline in consumption as a result of the 12.5 per cent increase in tobacco excise under our measure; is that what you assess?

**Mr Brown**—There is a decline in consumption included for that, yes.

**Senator CORMANN**—Essentially, our proposal would reduce the number of people smoking or the amount of tobacco smoked or a combination of the two?

**Mr Brown**—A combination of the two. The elasticity used does have two components in the academic studies that we were using.

**Senator CORMANN**—Essentially, there would be a net health benefit to the nation?

**Mr Brown**—There would be a decline in tobacco consumption, yes.

**Senator Conroy**—That will be when you vote for the alcopops tax. When you vote for the alcopops tax you will be achieving a good health outcome.

**Senator CORMANN**—By applying a tax on one product? We are not going to go down that path. Is there any empirical evidence that you relied on to make the assessment?

**Senator Conroy**—Voting with us on our side of the chamber; we know which path you will be on.

**Senator CORMANN**—I am asking some questions here, Minister. Have you relied on any empirical evidence that higher tobacco taxes lead to less smoking and therefore make a positive contribution to public health?

**Mr Brown**—We were relying on academic studies that show there is a price elasticity associated with tobacco prices and that an increase in tobacco price leads to a reduction in consumption.

**Senator CORMANN**—How do our tobacco taxes compare with those in other OECD countries?

**Mr Brown**—I would have to take the specifics of that on notice. Most countries have relatively high levels of excise on tobacco, as we do in Australia.

**Senator CORMANN**—Has your department recently proposed an increase in the tobacco excise?

**Senator Conroy**—That goes to advice to government.

**Senator CORMANN**—Are you claiming public interest immunity?

**Senator Conroy**—No, I am just saying that it goes to advice to government.

**Senator CORMANN**—Why is it not in the public interest for you to answer that question?

**Senator Conroy**—As I said, that goes to advice to government.

**Senator CORMANN**—That is not a sufficient answer.

**Senator Conroy**—I have answered the question.

**Senator CORMANN**—I will just place on record that you have not answered the question. You have refused to answer the question. Madam Chair, I ask you to make a ruling as to whether I can insist, on specific reference to a public interest ground, on a statement of reasons as to why the minister does not think it is in the public interest to answer that very important question.

**Senator Conroy**—I will take that on notice.

**Senator CORMANN**—On a point of order—I have asked the chair to make a ruling.

**CHAIR**—The minister has just indicated that he was taking that on notice for referral to the minister. We will await the outcome of that before we go to that next step.

**Senator CORMANN**—If we accept the Treasury modelling of the tax take from the coalition's proposed increase in the tobacco excise over the period of the forward estimates and we assume a 1 July 2008 start date, how much would be raised over the forward estimates? Presumably that would be four times \$550 million, which equals \$2.2 billion. Is that right? I can assist you. At present, the annual tobacco excise collections are \$5.5 billion.

**Mr Brown**—It would be in the order of \$2.2 billion, yes.

**Senator CORMANN**—It would be in the order of \$2.2 billion. Over the period of the budget forward estimates, how much would be saved by the government's proposed changes to the private health insurance rebate?

**Ms Mrakovcic**—\$1.9 billion.

**Senator CORMANN**—Is it fair to say that according to the Treasury's own reckoning the coalition's proposed tobacco excise increase would more than offset the cost of retaining the current private health insurance arrangements over the period of the forward estimates?

**Mr Brown**—Over the forward estimates, that is right, yes.

**Senator Conroy**—Over a 10-year period that is not correct.

**Senator CORMANN**—Just going back to the 10-year period, and bearing in mind the significant public health benefits from fewer people smoking and the significant—

**Senator CORMANN**—I assume that the department has costed the savings to the public health system as a result of the reduced tobacco consumption over the 10-year period?

**Mr Parker**—No, we have not. Nor have we costed any of the second round effects.

**Senator CORMANN**—You call benefits to the public health system from fewer people smoking a second round effect, but you will put your name and the Treasury's name to a 10-year forecast essentially as part of a political exercise of the government, will you?

**Senator Conroy**—I refute utterly suggestions that Treasury has been involved in a political activity, but you are welcome to the rest of your question.

**Senator CORMANN**—Why was the modelling done in such a hurry?

**Senator Conroy**—I just need to clarify your question: 'Why was it done in such a hurry?' It was provided when asked for. You might need to expand your question.

**Senator CORMANN**—On the spot. You do modelling, including assessing the impacts of—

**Senator Conroy**—You know the difference between first round effects and second round effects?

**Senator CORMANN**—I know the difference very well.

**Senator Conroy**—I just wanted to make sure I understood, because the implication from your question—

**Senator CORMANN**—Minister, do you think over a 10-year period there will be second, third, fourth and fifth round effects of a measure like this? Do you think there are going to be some benefits to the public health system of fewer people smoking?

**Senator Conroy**—The implication of your question was that there was a deliberate attempt not to include what you are now demanding be included.

**Senator CORMANN**—How meaningful is it to estimate over a 10-year period the first round of—

**Senator Conroy**—Normal modelling routines were followed.

**Senator CORMANN**—Normal modelling goes over a four-year period of budget forward estimates. Normal modelling does not go over a 10-year period. We have just found out that over the forward estimates we will actually be in front as a result of the coalition measure of an increased tobacco excise.

**Senator Conroy**—I see you are trying to hide your embarrassment at your inability to count.

**Senator CORMANN**—\$2.2 billion revenue versus \$1.9 billion savings. That is \$300 million ahead.

**Senator Conroy**—It is quite clear that you are trying to perpetrate, firstly, a serious allegation against Treasury, which is refuted utterly. Secondly, and more importantly, you are trying to hide the embarrassment over the debacle that was your policy.

**Senator CORMANN**—We have just established—

**Senator Conroy**—A complete embarrassment.

**CHAIR**—Order! As it is now 7 o'clock we will continue this discussion after the dinner break.

**Proceedings suspended from 7.00 pm to 8.03 pm**

**Senator CORMANN**—I would like to go back to the Treasury analysis of the coalition proposal to increase the excise on tobacco by 12.5 per cent. The Treasurer's office or somebody unnamed within the government asked you to provide the advice. That is what you indicated before.

**Mr Parker**—I said we would take that on notice.

**Senator CORMANN**—How was the request for advice made? Was it made by email, phone or in person?

**Mr Parker**—It is not in my personal knowledge.

**Senator CORMANN**—Is there somebody here who can assist me?

**Senator Conroy**—I said we would take it on notice for you.

**Senator CORMANN**—Is there anybody here who knows the answer to the question?

**Senator Conroy**—I said we would take that on notice for you.

**Senator CORMANN**—You are not prepared to provide the answer?

**Senator Conroy**—The officer has said he does not know. We will take it on notice and get you the information.

**Senator CORMANN**—There is more than one officer here who might be able to assist the committee.

**Senator Conroy**—As I said, we will take it on notice.

**Senator CORMANN**—When were you asked to provide the advice? Can you give me the date on which the request for advice was made?

**Mr Brown**—The request was received the morning after the policy announcement.

**Senator CORMANN**—That would have been Friday, 15 May. Do you know when you provided the advice? Were you given a deadline?

**Senator Conroy**—You are straying beyond the purposes of Senate estimates.

**Senator CORMANN**—I am asking about the process, the time.

**Senator Conroy**—No, you are straying beyond.

**Senator CORMANN**—It is a question that goes to process.

**Senator Conroy**—I will take that on notice and we will get back to you.

**Senator CORMANN**—I have a question directly to Treasury. When did you provide the advice to the government about the particular measure that we are discussing?

**Senator Conroy**—We will happily take that on notice and see if the Treasurer—

**Senator CORMANN**—Minister, you are not prepared to answer these questions? These are pretty straightforward questions.

**Senator Conroy**—Perhaps you have misunderstood the purpose and processes of Senate estimates. Taking a question on notice is not refusing to answer the question.

**Senator CORMANN**—I relate you back to answers that you have provided to questions on notice in the past, but anyway. If you are taking all of these things on notice, can we have a copy of the request or can you read it into the record so we know exactly what you were asked to provide advice on?

**Senator Conroy**—I will take that on notice and see what information the Treasurer's office has to provide to you.

**Senator CORMANN**—You might be able to answer this, because it is either a yes or no. Was there one simple request or were there a number of successive requests?

**Senator Conroy**—I am happy also to take that on notice.

**Senator CORMANN**—You are not prepared to provide any answers?

**Senator Conroy**—No, we said we will take it on notice. You continue to labour under a misapprehension that taking it on notice is refusing to give you an answer.

**Senator CORMANN**—We know exactly what it means. It is a stalling tactic. It is an absolute refusal to provide the answer now. Were any phone calls or emails—

**Senator Conroy**—I am going to be sitting next to you when you vote for alcopops.

**Senator CORMANN**—Were any phone calls or emails exchanged between the department and either the Treasurer's office or any other minister's office while the modelling or calculations were being done?

**Senator Conroy**—I am happy to take that on notice for you also.

**Senator CORMANN**—As you are taking it on notice you might be able to tell us what the nature of the exchanges was?

**Senator Conroy**—Thank you.

**Senator CORMANN**—Who suggested that the figures be extrapolated out over 10 years rather than over the forward estimates? Was that the decision of Treasury or was that part of the request?

**Senator Conroy**—That will be revealed in the answer to the previous question most likely, but if there is any further information that we can provide for you we will take it on notice.

**Senator CORMANN**—You are not prepared to answer here and now who made the decision to extrapolate the costings over a 10-year period instead of over a four-year period? I suggest to you that you used Treasury for political purposes as part of your propaganda exercise on a particular measure.

**Senator CAMERON**—You asked—

**Senator CORMANN**—He is refusing to answer questions.

**Senator Conroy**—Thank you for your opinion. I will treat it with all the diligence you would anticipate.

**Senator CORMANN**—Perhaps the officer could answer the question whether the original calculation looked at a period over four years or whether the original calculation looked at a period over 10 years?

**Senator Conroy**—As I said, I am sure that information will be forthcoming in the questions that we have already taken on notice. If there is any further information on this, we will get back to you.

**Senator CORMANN**—You are being extremely helpful and extremely accountable at this Senate estimates committee tonight. This is a question to Treasury officials. Were you asked to assess the health effects of the increased excise on tobacco?

**Mr Brown**—No.

**Senator CORMANN**—The answer that I have just received was no. Thank you very much for that, Mr Brown. Did you consult the health department on your modelling?

**Mr Brown**—No.

**Senator CORMANN**—Just confirming my understanding—and correct me if I am wrong—over four years your assessment is that the increase in the excise on tobacco would raise about \$2.2 billion over the forward estimates? That is what you said before.

**Mr Brown**—I have previously answered that question—yes.

**Senator Conroy**—Is it true that the PHI measure in the budget was costed over 10 years?

**Senator CORMANN**—The PHI measure was over the forward estimates. It was costed as saving \$1.9 billion. I refer you to your budget papers where you will be able to assess that for yourself. The person who is writing your emails is obviously trying to get you out of a sticky corner, because your stalling is obviously—

**Senator Conroy**—Oh, yes, it's really sticky!

**Senator CAMERON**—You must be under pressure!

**Senator Conroy**—I am under pressure here.

**Senator CORMANN**—I think we have the answers we need. We know that this would more than offset not proceeding with the means testing of the private health insurance rebate.

**Senator ABETZ**—Mr Brown, was population growth taken into account in your assessments over the 10-year period?

**Mr Brown**—It was based on the long-term or the trend growth rate in tobacco, which would implicitly take that into account but not explicitly.

**Senator ABETZ**—Was it taken into account or not?



**Mr Brown**—As I said, what was taken into account was the trend growth in tobacco excise revenue, which includes a number of factors, including changes in the volume of demand. That is partly determined by population.

**Senator ABETZ**—What population growth was factored into your assessment? You can take that on notice.

**Mr Brown**—It was not an explicit factor.

**Senator ABETZ**—That was not an explicit factor.

**Mr Brown**—But it is implicit in the growth rates that we used.

**Senator ABETZ**—Tell us, on notice, what the explicit growth rate is or the implicit growth rate in the population because that may tell us something as well. I turn to the luxury car tax. How are we going with those regulations for four-wheel drives and the tourism sector?

**Ms Barron**—Those regulations have been made.

**Senator ABETZ**—They have been made?

**Ms Barron**—Yes.

**Senator ABETZ**—When were they promulgated?

**Ms Barron**—I would have to take that on notice.

**Senator ABETZ**—All right.

**Ms Barron**—My understanding is that it was sometime last year, but I will check on that.

**Senator ABETZ**—How many claims have been made against them as yet? Do we know? Has that come out in any material as yet?

**Ms Barron**—I am not aware of any. I am not sure whether the tax office has any data on that that they have collected yet.

**Senator ABETZ**—Does it work when they put in their tax returns or do they get the benefit immediately upon purchase?

**Ms Barron**—Immediately upon purchase. That is when the luxury car tax becomes payable.

**Senator ABETZ**—That is right. That is what I thought. Given it is three, four or five months now I was wondering whether you might have some figures on that?

**Ms Barron**—I am not aware of any, but I can look it up to see if anybody does.

**Senator ABETZ**—So, could you take on notice how many have accessed it via the definition of being a tourism operator and also, I think, farmers' four-wheel drives?

**Ms Barron**—That is correct.

**Senator ABETZ**—Our forecasts in relation to the luxury car tax have taken a fair pummelling. I must say that I was shown not to be a doubting Thomas in relation to your estimates; the predicted revenue was way off the mark. Can you tell us, over the forward estimates, how much less is now being anticipated to be brought in from the luxury car tax than when this measure was before the parliament and we were told we were being economic

vandals by seeking to oppose it? I suppose I will be told now that it is just a forecast. It is in the hundreds of millions of dollars, is it not?

**Ms Mrakovic**—The only information that we have, which is available in statement 5, on pages 41 and 42, basically related back to the change on UEFO. That is the only information that we have with us at this point in time.

**Senator ABETZ**—The budget papers tell us that, for the 2008-09 budget figures, increasing the luxury car tax would provide additional revenue of \$555 million over the forward estimates. That is no longer right, is it? It is badly wrong and badly miscalculated, undoubtedly for a whole host of reasons. That was the best estimate at the time, but experience has shown that estimate to be out; is that right?

**Mr White**—Luxury car tax has been revised down.

**Senator ABETZ**—Yes. By how much?

**Mr White**—As we said, we have only got since UEFO in this document. As we have said in the document, it is basically because of the deterioration in economic circumstances. That is the main factor behind it.

**Senator ABETZ**—Can you tell us what the estimates are now for the luxury car tax revenues?

**Mr White**—We can tell you what they are now.

**Senator ABETZ**—How do they vary to previous years estimates?

**Mr White**—As we said, we have estimates here comparing to UEFO but we do not have estimates comparing back to previous estimates updates. We can take that on notice.

**Senator ABETZ**—That would be a very interesting exercise for us. If an explanation can be provided as to why those revenue forecasts, even as late as the last budget, then the mid-year economic financial outlook forecasts—

**Senator CAMERON**—Haven't you heard of the global economic crisis? He is an absolute disbeliever.

**CHAIR**—Thank you, Senator Cameron. Have you finished your questions, Senator Abetz?

**Senator ABETZ**—No, I have not.

**CHAIR**—Please go ahead. Ignore—

**Senator ABETZ**—I would have thought, Chair, you might have asked whether Senator Cameron had finished his interjections; that would have allowed me to proceed. Can you provide us with the basis of the continual changes and downward changes in your forecasts? I must say that if we cannot get the luxury car tax forecasts right from six months to six months then it does raise some—

**Senator Conroy**—Please, Senator Abetz! The largest economic recession in 70 years. You guys are still waiting to see what happens. You guys are still saying, 'Let's wait and see what happens.'

**Senator ABETZ**—I turn to the CPRS. Who can tell me whether the CPRS is a tax or not a tax?

**Ms Mrakovcic**—For the purposes of preparing the budget statements it was treated as a tax. However, I would note that the precise classification arrangements around the CPRS are still under discussion in international forums. There has been a preliminary view reached that it is likely to be a tax revenue, but as I understand it that matter is still being actively discussed internationally.

**Senator ABETZ**—As I understand it, the international discussion on this is quite settled, under the 2008 SNA, the UN's system of national accounts, the international statistical standard on which the Australian Bureau of Statistics GFS framework is based. 'Under the 2008 SNA, payments for permits under cap-and-trade schemes are recorded as taxes and permits constitute assets that are valued at their market price.' So that is settled, isn't it, in the international fora?

**Mr Parker**—That is settled in the national accounts, the UN SNA.

**Senator ABETZ**—But I heard Ms Mrakovcic say that in the international forums there was still discussion. I thought internationally, courtesy of the UN system of national accounts, that had in fact been settled.

**Ms Mrakovcic**—The best thing for me to do is to take that on notice. I certainly know there was advice under the 2008 SNA. I am not certain of the status of that advice, whether it is in fact a final determination.

**Senator ABETZ**—In your very own budget document, paper No. 1, on page 534, at the very bottom of the page we are told 'under the 2008 SNA payments for permits'—exactly what I read out is a direct lift out of the budget document. Now I am being told that that is not settled. When are we going to settle this within Australia for domestic purposes?

**Ms Mrakovcic**—I will take the question on notice. I do not mean in any way to mislead you. I simply note that the wording is:

However, some guidance has been issued under the UN System of National Accounts ...

The best thing that I can do is actually clarify the nature of that guidance and then follow through in terms of the best advice we can give you in relation to the Australian treatment.

**Senator ABETZ**—Thank you for that. You do not dispute that under the 2008 SNA, payments for permits under cap-and-trade schemes are recorded as taxes?

**Ms Mrakovcic**—No. I think that is what I tried to indicate at the beginning by saying that we in fact treated them as taxes in this budget, consistent with the 2008 SNA guidance.

**Senator ABETZ**—I go to the Department of Climate Change, discussing CPRS with them, and I ask in relation to the statement on page 12 of the Carbon Pollution Reduction Scheme Bill 2009: in case the charge for Australian emissions units issued as a result of an auction or for a fixed charge is at some time in the future considered to be taxation, how does the department envisage this potential change in definition taking place? I am told in a written answer:

The Commonwealth does not consider that the charges for the auction of Australian emission units or for the issue of units at a fixed charge under the price cap are taxes for constitutional purposes.

It seems as though, in the rush to get in the CPRS, one department does not seem to know what the other is doing. I welcome the acknowledgement in the Treasury portfolio that this is in fact a tax. It now, I think, has exploded that issue. It would be interesting to know whether Treasury has had discussions with the Department of Climate Change as to how they should answer questions of this nature.

**Mr White**—It is not unusual for classifications of transactions to be different under the GFS framework and for legislative or constitutional purposes. The CPRS would not be unique in that instance.

**Senator ABETZ**—If it is not unique, why are we then saying in the document the chances are that is what is going to happen?

**Mr White**—The document is saying this is how it is treated under GFS and for budget accounting purposes. It is not saying how it is treated by the constitution or necessarily in legislation.

**Senator ABETZ**—In other words, we still cannot be told whether it is a tax?

**Mr White**—For the purposes of the budget we are saying that we have put it in as a tax because that is what the budget accounting framework looks like.

**Senator ABETZ**—We are going to put it in as a tax, but we do not know whether it is a tax. That seems very clear to me. I am sure that will be of great assistance to businesses as they try to adjust to this scheme.

**Mr White**—There are different rules for classifying things under the constitution and in GFS.

**Senator ABETZ**—Thank you.

**CHAIR**—Senator Birmingham is not here. Senator Pratt.

**Senator ABETZ**—Senator Coonan, did you have questions?

**Senator COONAN**—Yes.

**CHAIR**—All right. Senator Coonan.

**Senator COONAN**—Thank you. I want to ask a couple of questions about the changes to youth allowance, the changes to the workforce participation criterion. As far as I can understand from the website, about 30,700 prospective claimants would not qualify in 2010, and 3,600 existing recipients would not qualify for a higher payment as independent recipients. Do you know how those figures were arrived at?

**Mr Parker**—It is not in our bailiwick.

**Senator COONAN**—Is that DEWHA?

**Mr Parker**—Yes, and Fiscal Group may be able to assist you in that as well.

**Senator COONAN**—I think this is probably in your bailiwick. Many potential students have delayed study and are currently undertaking a gap year based on the old rules. Can Treasury tell me how many young Australians currently in their gap year will be disqualified by the changes to the eligibility criterion for the allowance?

**Mr Parker**—It is the same response.

**Senator COONAN**—Thank you. That is all I needed to ask.

**CHAIR**—Senator Eggleston.

**Senator EGGLESTON**—I just have one question. As part of the 2009-10 federal budget the government has proposed a 50 per cent investment allowance for small business. I understand this allowance is an extension of the 30 per cent allowance proposed in the second stimulus package. The question is: has the Taxation Office monitored any level of interest in terms of inquiries on the investment allowance? Are people ringing up or writing in about it?

**Ms Granger**—Yes. There has been some level of interest, obviously, since there has now been royal assent on the act. It is particularly from large and medium businesses.

**Senator EGGLESTON**—Large business?

**Ms Granger**—Yes. We are doing a range of things to bring it to people's attention, including through our normal tax agent mail-outs and activity statement mail-outs to alert business to the measure.

**Senator EGGLESTON**—What funding has the Taxation Office allocated to advertising this allowance?

**Ms Granger**—We received \$14.8 million in funding to do marketing and education. As it has only recently received royal assent we are putting together the marketing and education campaign now. We expect to have that go to the IDCC in the middle of June, because obviously this will go into next year. We have permission to roll that funding over into next year.

**Senator EGGLESTON**—\$14.8 million seems to be quite a lot of money for an advertising campaign. That may be what is required. Thank you.

**Senator CORMANN**—I have some quick questions in relation to the implementation and administration of the proposal to means test the private health insurance rebate. Will this be managed by the ATO?

**Mr D'Ascenzo**—I have not seen the legislation yet, so I do not know what the processes are.

**Senator CORMANN**—You do not know yet who has—

**Mr D'Ascenzo**—It is likely to be administered by us. What I am saying is that I do not know what the details are, but we did have some funding for implementation once that becomes law.

**Senator CORMANN**—Can you talk us through how this will work in practice? How will you know or how will people with private health insurance know whether they are in one of the income brackets where they are eligible for a reduced private health insurance rebate?

**Mr D'Ascenzo**—We are working with Treasury and others. At the moment, until the law is a bit clearer I have no precise details about how that is going to occur.

**Senator CORMANN**—It has not been finalised whether people have to self-assess, whether health funds have to provide you with the information or whether you are going to administer it? You do not have any information?

**Mr D'Ascenzo**—I think our people have certain proposals based on the current state, but that state is still moveable at the moment. Therefore, I might be misleading you.

**CHAIR**—Pass the bill and they will be able to tell you.

**Senator CORMANN**—In passing the bill we would want to know how it would be administered. The administration in itself can have an impact on the cost of premiums.

**Mr D'Ascenzo**—Yes. I agree that administration is quite relevant to the overall costing. All I am saying is that it is at a preliminary stage in terms of our design.

**Senator CORMANN**—We are asked to endorse a piece of legislation where you are not able to tell us how it will be administered in practice. Who is going to be responsible to make the assessment of which income bracket somebody is going to be in so that they can make a judgement as to which rebate they are going to be eligible for? How will that work?

**Mr D'Ascenzo**—Treasury might be able to provide more details about how the law is going to—

**Senator Conroy**—Mr D'Ascenzo has made the point a couple of times. It has not been finalised.

**Senator CORMANN**—You have to be able to tell us how—

**Senator Conroy**—I am sure there will be a Senate inquiry into this—as sure as night follows day.

**CHAIR**—We are doing it, I think.

**Senator Conroy**—I am sure that, if you wish, you will have the opportunity, when the legislation is presented to the parliament, to call Mr D'Ascenzo to answer these questions.

**Senator CORMANN**—There is a very simple question.

**Senator Conroy**—It is not finalised.

**Senator CORMANN**—How can we deal with a Senate inquiry into this over the next week? By 16 June we are asked to do that. Will you finalise by 16 June 2009?

**Mr D'Ascenzo**—Basically, I have to apply whatever the law says is the procedure to be followed.

**Senator CORMANN**—Let us just assume that the law says that, if you earn more than \$75,000 per annum, you will no longer be eligible for the 30 per cent rebate but you will be eligible for the 20 per cent rebate. That is the legislation that is in front of us. That is in the budget and we are asked to assess the budget and whether what is in it will work. How will you know whether somebody will be eligible for the 20 per cent rebate, the 10 per cent rebate or no rebate at all?

**Mr D'Ascenzo**—Again, I could take that on notice and come back and provide you with what we have available at this point in time.

**Senator CORMANN**—That would be very much appreciated. In your information on notice could you also tell me how you will be dealing with one-off income events, such as capital gains, eligible termination payments on loss of jobs, and final entitlements on retirements? These are all things that could take you over and above a particular income bracket.

**Mr D'Ascenzo**—I understand.

**Senator CORMANN**—Do you understand the problem?

**Mr D'Ascenzo**—I understand the issues.

**Senator CORMANN**—How is that going to be assessed?

**Mr D'Ascenzo**—These are the sorts of issues that we have to work out ultimately to make the legislation work.

**Senator CORMANN**—At this point in time these are not things that you have sorted out yet?

**Mr D'Ascenzo**—We have preliminary designs. This is why I am saying that perhaps there is some material that I can provide you of what we have in mind. But that is going to be based, at the end of the day, on what the legislation says.

**Senator CORMANN**—Thank you very much.

**Senator Conroy**—I would like to correct the record on something that Senator Cormann said a little earlier. I am looking at the budget overview, which quite clearly has a chart, which I have in front of me, that shows the PHI calculated out to 2019-20 in the budget papers. I am sure that you were just not aware—

**Senator CORMANN**—What does it say over the forward estimates?

**Senator Conroy**—I asked specifically in the budget if it was costed over the 10-year period and you specifically said no. I just wanted to correct the record for the committee, because it is quite clear in the budget overview that it is costed out over 10 years.

**Senator CORMANN**—We could get into a whole debate now about how credible those costings are.

**Senator PRATT**—I would like to take our discussion back some hours and return to the question of the employee share schemes. We did have some evidence outlined in relation to the sorts of compliance problems that the ATO has been experiencing. I wanted a proper outline of those issues, because we only touched on them earlier.

**Mr Konza**—We have been saying publicly for some time that we commenced a project to check the taxation compliance of high-income individuals. In doing that, we examined the affairs of 1,300 high-income individuals. They are people who have earned more than \$1 million per annum. In doing that, we found approximately eight per cent of them had substantial compliance issues. The majority of those compliance issues related to employee share schemes. Other compliance issues that we identified were not systemic in the way that the employee share schemes issues were. We went back to those eight per cent and we had voluntary disclosures in 48 per cent of those cases. When we went back to them on review,

the high-income individuals and their advisers realised that clearly a breach of the taxation laws had occurred.

In examining those eight per cent, \$27 million in liabilities were established. As my Treasury colleague said earlier tonight, I have said that it is a minority of taxpayers involved. I said that deliberately to recognise that. Having raised \$27 million in liabilities on those eight per cent, that raised grave concerns in our mind. We have been raising this as a compliance issue, to my knowledge, for the last 18 months publicly and before parliamentary committees. I might just add that we estimate that we have only examined between five and 10 per cent of the high-income individual market. If you look at that \$27 million there is still a considerable amount of income potentially at risk.

**Senator PRATT**—I am interested in exactly what people are doing. What sort of tax minimisation activities are we concerned about?

**Mr Konza**—As I outlined before, the main issue has been either the non-return of income that has been received under an employee share scheme; that is perhaps either a matter of deliberate evasion or due to the fact that these employee share schemes do go over a very long period of time.

**Senator PRATT**—Can you give me an example of a couple of case studies?

**Mr Konza**—Yes, if you can bear with me for a moment.

**Ms Granger**—While Mr Konza is finding those, in the most straightforward of cases it has simply been not including at all in returns. You have an option to include in the year in which they are granted or when it is crystallised. In some cases when the options are exercised it has been incorrectly calculated as a capital gain. That gives you an advantage because you can claim the 50 per cent discount. Those are straightforward cases.

**Senator PRATT**—Are these high-wealth individuals avoiding paying their tax?

**Ms Granger**—We think there are a number of different scenarios. We think part of the problem is exactly what Mr Konza said, that these happen over a long time and people may have misconstrued it, but we also think there were some deliberate cases. We have certainly found that since we have focused on it, once we prompt people, they very quickly agree that that is incorrect and adjust. There have been a number of voluntary disclosures. We have also noticed some pattern of improvement in the second year of this project in relation to the group that we first looked at, which was senior executives and directors of public companies. But we have now extended that project to include a broader range, private companies as well as—

**Senator PRATT**—So a director of a public company does not know their own personal tax rules and is not playing by the rules; is that what you are telling me?

**Mr Konza**—That could be the case. I think in other cases I regret to advise that the employee share schemes give quite comprehensive advice to their participants on what it means to be involved in their employee share scheme and that advice appears to have been ignored. The type of cases that we are looking at are where people have participated in a scheme over a number of years and have purported to exercise discretion to elections to defer the taxation on the value of the discount. As I alluded to before, in one particular case the taxpayer ceased employment and exercised all their remaining options—essentially retired—



but then failed to include any of the discounted amount. I am not quite sure what the person's motivation was but the additional tax in that case was \$439,000, so over a four-year period they had received a great deal of their income in the form of employee shares and had not dealt properly with them.

In other cases we have seen where we had the CEO of a publicly listed company who acquired options in the 2004 year. They did not elect to pay tax immediately, instead deferring to a future time. When they exercised their options and sold their shares they then decided to apply the capital gains tax discount to the profits that they had made, and they were not entitled to do so having not paid the tax up front on the discount that they had received in 2004. As a result of that, additional tax of \$580,000 was payable. Those couple of case studies underline the fact that, while we are talking about a minority of the total population, the tax value is very high.

**Senator PRATT**—I can understand people making simple mistakes if they are on a low to medium income but I find it pretty incredible that you have people with those kinds of assets mismanaging their tax affairs so blatantly. Can you take me through the compliance measures that the ATO has been going through again?

**Mr Konza**—Under the high income individuals project we have been identifying those whom we believe are earning more than \$1 million in salaries or other professional earnings and then examining those taxpayers individually. But we have also been examining the annual reports of public companies. Public companies are required to make some statements about the share schemes that they operate for executives, so we have been able to use that to identify cases where we want to make sure that the income has been returned. But I might just add that part of the problem is of course that we are operating off the tax returns and so we have found that you do not always identify the total population off the tax returns because they have engaged in some form of income minimisation with the result that the income in their return is less than \$1 million.

For example, I know of a particular case in which we undertook an FBT audit of a large corporation and, in looking at the FBT dealings of that entity, we realised that there were many more high income individuals working for that organisation than would have been apparent from the tax returns because of a variety of arrangements that they had in place. When we believe that there is a potential issue with the employee share scheme we contact the taxpayer, provide them with some basic information about the operation of the employee share scheme and invite them to consider their position. As I said, a substantial percentage of them review their affairs and the taxation law does provide for incentives in the form of penalty reductions if people make voluntary disclosures and arrange their affairs themselves and so they do often take that up. But we do not prefer to spend our time chasing taxpayers and auditing them, so what we have done in the second year of the project is that we have begun writing in advance to high income individuals and cautioning them to take particular care with this. As Ms Granger has already indicated, we are finding that a higher level of compliance is the result.

**Ms Granger**—As Mr Konza mentioned, this project started with publicly listed companies simply because we had more information on them. We have now extended it to private corporations and also to executives and directors who work for foreign multinationals as well.

There are more challenges in terms of compiling the information but the other opportunity we have these days with improved data matching is that we can of course match back from share sales as well on that particular issue. But there is a broader range of issues we are looking at around the compliance of highly paid individuals as well.

**Senator PRATT**—I think you said there was \$27 million in liabilities identified in that eight per cent. I am not sure if it was you, Mr Konza, who said that. Is that an illustration of the kind of revenue that is at risk here, or how do you assess what kind of revenue the government is forgoing?

**Ms Granger**—That was the 2008 audit results. We have also got figures to date for this year, 2008-09, and the adjustments there on the liability level. That is \$34 million. However, as I indicated, we are broadening the range of issues we are looking at, including offshore transactions as another part of that.

**Senator PRATT**—Are you just uncovering more issues as you go along?

**Ms Granger**—We do expect that there will be some issues around offshore transactions, yes.

**Mr Konza**—There is also some temptation amongst some high-income individuals to divert their income to trust structures if they can—for example, to enable them to divert their income to lower taxed people associated with them. We believe that those arrangements are largely ineffective and we have been communicating to taxpayers and professional groups to make sure they understand that that is our view.

**Senator PRATT**—I do not think it is normal to undertake consultation before the release of a budget measure. I know it was widely criticised that there were no announcements made before the budget in relation to restricting access to tax concessions. What would the effect of a prior announcement or consultation on a measure like this have been?

**Senator COONAN**—Many, many times you can have very targeted and confidential consultations—

**CHAIR**—Thank you for that answer.

**Senator COONAN**—It is not a proper premise.

**Mr Parker**—It is not formally part of the budget process, particularly where you have large integrity measures, to consult. It is not part of the government's framework in response to the tax design review panel, whereas—

**Senator PRATT**—To consult with people about their tax evasion?

**Mr Parker**—Yes.

**Senator PRATT**—That does not make much sense to me.

**Senator COONAN**—But you did it informally—

**Senator PRATT**—There is a policy options paper currently being developed, as I understand it. When is that due for release? I am sorry; I missed that part of the questioning.

**Mr Parker**—It is later this week.

**Senator PRATT**—I assume on that basis that you have been meeting with industry to discuss their concerns?

**Mr Parker**—Yes. There have been extensive discussions with industry. As I think I laid out before, industry have provided extensive information on the operation of their schemes, supportive of an argument that they have put to the government that there would be an alternative way to deal with these issues, and the government is considering those and will be putting out a paper.

To link back to the earlier discussion on the audit approach, one of the underlying policy rationales of a changed measure in this area is to take employee share schemes out of the audit space—that is, out of the space where the ATO has to go and find these areas of avoidance, evasion or confusion, or whatever, and into the normal day-to-day operation of the tax system so that the information is there so that people can comply with this automatically.

**Senator JOYCE**—We are talking about \$26 million or something that you are trying to track down—is that it? How much is it?

**Ms Granger**—How much is it that we received in audit judgements?

**Senator JOYCE**—Yes.

**Ms Granger**—It was \$27 million in the 2008 year and \$34 million to the end of March for this year.

**Senator JOYCE**—Over \$119,000 million in total—

**Senator PRATT**—Senator Cameron has been waiting very patiently.

**CHAIR**—Yes, indeed.

**Senator CAMERON**—Did you get the impression from some of the questioning from the opposition that farmers were being unfairly treated in the tax system? As I understand it, there are a number of concessions made to farmers in terms of tax. If they are having difficulties, they are allowed more time to lodge; they will get time to pay off any debt; they can pay off in instalments; they can remit penalties; and you can fast track the refunds. Is that still the situation?

**Mr D'Ascenzo**—That is the situation for all businesses and individuals where the circumstances warrant that sort of treatment.

**Senator CAMERON**—It seems to me, Mr Parker, that some of the questions you have had from the opposition would really indicate that they do not understand what is happening in terms of the tax receipts. The downward revision in the budget is \$210 billion. Could you just walk us through why that \$210 billion would be lost from tax receipts?

**Mr Parker**—There is a short answer to that and a long answer. The short answer is—

**Senator CAMERON**—I will have the middle answer.

**Mr Parker**—The short answer to it is the very substantial effects from the global financial crisis, the global recession and the slow-down of the domestic economy plus the falling commodity prices which have led to a reduction in nominal income growth in the economy. The details of that are spelt out in the budget. Broadly speaking, the difference in the

economy from year to year, if you look at last year's budget to this year's budget—I think I would have to go back and look at the precise numbers again—is that in 2010-11 I think it is a nine percentage point difference, both real and nominal, because of the fall in the terms of trade. That then flows through to a very substantial reduction in tax revenue. As the year progressed, going through 2008-09, we have seen the effects of that progressively flow through the different tax spaces. Early on in the year we first saw those effects come through in the company tax base and the capital gains tax area. As the economic slow-down has broadened, we have seen GST receipts flatten off; we have seen wage and salary payments that have been withheld slow down as well, so there has been a bit of a flow-through starting in the corporate sector and progressing to wages and salaries.

There is a substantial discussion of this in statement 5 this year, a much more substantial discussion of the tax story than we have usually done. There are a couple of quite interesting dimensions in that in terms of how the numbers have evolved through the year. In the first quarter of the year—that is, the September quarter—tax receipts were tracking broadly as expected in the budget. You then come to October and the receipt numbers then fall very sharply. That was at about the time, obviously, that we had the first stimulus package come through. Then again, the tax revenue numbers fell very sharply below expectations in the early part of the year.

One other important feature which is drawn out in statement No. 5 is that for several reasons we have seen tax revenue decline earlier in this downturn than in previous downturns. To quickly pick up a couple of those—

**Senator JOYCE**—Where are they in the report?

**Mr Parker**—In statement 5. If you have a look at the beginning of that statement, I will take you to particular pages. There is a box on page 5-13 which tells the story. There are three factors which we have flagged there. One is that the capital gains tax has before the downturn lifted to a fairly significant part of the tax base. That then fell very early in the downturn because financial markets turned down before we had an effect on the real economy.

Secondly, we have seen the corporate tax share rise over the historical period and that has fallen quite significantly and early in the downturn because you tend to see the income effects of recessions flowing to the corporate sector before they flow into employment. Then the third thing which is substantially different this time compared with earlier recessions is that the tax system is now more closely linked in time with the real economy, particularly in the corporate area. It used to be the case that companies paid tax effectively in the year after the income was earned, and that is now more contemporaneous.

If you have a look at the two charts at the bottom of that box on page 5-13, they tell the story, first as to the CGT fall and then over on the right-hand side you can see that in the previous two downturns, that is the top lines in that chart, in the first year of the downturns previously the tax to GDP ratio rose because of the lag in the tax system, whereas this time around we have seen it fall so that the big falls in revenue have come earlier in this cycle than in previous ones.

**Senator CAMERON**—The short answer is: the global financial crisis?

**Mr Parker**—The short answer is the global financial crisis.

**Senator CAMERON**—In terms of other economies and other countries facing these issues, they are outlined in box one on 5.8, the decline in receipts in other economies. Other economies have to deal with the same issue that we are facing here, a decline in tax receipts. How are they handling this decline in tax receipts? Are there any lessons for us in terms of what is happening overseas?

**Mr Parker**—Those countries have somewhat different tax systems to us. The United Kingdom and the United States, for example, have some different arrangements in the loss carryback area, and that has led to a more significant fall in revenue in those countries. They have also obviously been more directly impacted by the global financial crisis than we have because that is the epicentre of the problems in financial markets, and that has led to very significant falls.

All of these countries have seen their tax base fall by more than the fall in the nominal economy. That is because all of those countries, including our own, have progressive tax systems. The tax system in all of those cases acts as what we technically call an automatic stabiliser; that is, it provides a buffer to cushion the real effect on the economy because tax revenue falls by more than the fall in the economy. The essential story in that box and that chart is that Australia compares relatively well to these other countries, but that in the broad all countries are experiencing very much the same.

**Senator JOYCE**—I think they work unbelievably well compared to your overall position on page 5.37.

**Senator CAMERON**—On page 1-13 of Budget Paper No. 1, when it talks about the fiscal stimulus to the economy, about half-way down it says, ‘The measures taken prior to this budget include the \$10.4 billion economic security strategy, the \$15.2 billion Council of Australian Government reform package, the Nation Building Package, and the \$0.2 billion Nation Building and Jobs Plan. The stimulus packages are expected to raise the level of GDP by 2.75 per cent in 2009-10 and 1.5 per cent in 2010-11, supporting up to 210,000 jobs.’ Is there a rule of thumb in terms of tax receipts compared to a decline in GDP or is that just a theoretical thing? Can that be calculated?

**Mr Parker**—There is a rule of thumb and we can provide that to you. In so far as the stimulus packages have led to those results there which have been built into the forecasts, those forecasts then feed into the tax estimation. As a result of those stimulus packages there is a benefit in terms of heightened revenue.

**Senator CAMERON**—If we had done nothing, as some were advocating, then we could have been 2.75 per cent of GDP down to 2009-10 and 1.5 per cent of GDP down in 2010-11; 210,000 jobs less in the economy and a diminishing of tax receipts in the forward estimates? Is that correct?

**Mr Parker**—Yes, that is correct.

**Ms Granger**—I would also refer you to appendix A in statement 3, which gives you some information on the sensitivity of the budget estimates. In particular, it takes you through the impacts you might have from changes in GDP, so it might provide you with some guidance on that relationship.

**Senator CAMERON**—In relation to some of the questions on the income tax exemption for overseas workers, Senator Joyce spoke about people becoming tax exiles. As I understand it, the average tax saved by a worker overseas is about \$9,000. Has Treasury done any analysis on whether we have \$9,000 tax exiles? Is that a practical proposition that has been put to us?

**Senator JOYCE**—If you could interpret that for us, that would be great.

**Senator CAMERON**—If you are unsure, I will try again.

**Senator JOYCE**—We are all unsure. We have not got a clue what you are talking about.

**Senator CAMERON**—Senator Joyce said that people would make themselves tax exiles basically because of the government initiative in terms of bringing some fairness into the tax system on overseas tax. I understand the average tax that workers are getting a benefit from by being overseas is \$9,000. Are there any estimates as to how many workers are making themselves tax exiles for a \$9,000 gain? It just seems a nonsense to me?

**Mr Parker**—In terms of your figuring, I do not have those numbers in front of me. It may well be that you could get a number of around about \$9,000 by taking the costing and dividing that by the number of people affected. That would be a simple arithmetical exercise. As to whether that \$9,000 leads to tax exiles, I could only speculate.

**Senator CAMERON**—As to managed investment schemes, the government released its review on non-forestry MIS in May 2009. Are you aware of the key findings of the non-forestry MIS report?

**Mr Parker**—The key findings were that in terms of the tax space it found that if you look at the economic substance of the transactions involved and compare that with a relevant benchmark, which is effectively whether someone has done the investment themselves directly, it can be seen that the way non-forestry MISs have been arranged in many cases look to have been structured so that there is an additional up-front deduction compared with other arrangements. On the other hand, of course, in this area there are a range of other tax benefits which can accrue to people doing this directly in terms of deductions for capital expenditure and so forth. The bottom line that was found in that report is that for non-forestry schemes—that is, where it is taxed under general law as opposed to the forestry regime where there is a specific one—the tax arrangements could be viewed as suboptimal. The government has, as you mentioned, put that report out. From here there are effectively two streams. The government has said that it will consider whether to make any movement in this area in the context of broader recommendations coming out of the Henry review. We are also aware, of course, that there is a joint committee process, which has been started in parliament. Naturally, we will make ourselves available to that process and no doubt the government will take account of the findings of that report.

**Senator CAMERON**—Was the collapse of Timbercorp and Great Southern related to more than simply the tax treatment of the MISs?

**Mr Parker**—I think the fundamental point about Great Southern and Timbercorp was that the structure of those schemes was essentially an underlying economic issue. It is not at all clear that tax was a significant issue.

**Senator CAMERON**—Has the tax treatment of managed investment schemes changed significantly over the last few years?

**Mr Parker**—No.

**Senator CAMERON**—Does the collapse of these schemes impact upon investors' ability to claim deductions relating to their investments?

**Mr Parker**—No, it does not.

**Senator CAMERON**—Thank you, that is it.

**CHAIR**—Thank you. We are close to a scheduled break so we might take the 15-minute break.

**Senator BUSHBY**—We could break shortly.

**Senator CAMERON**—No, we are happy to have the break.

**CHAIR**—No, I think we have all been sitting around for a long time and Hansard and Broadcasting are stuck in the chair even more than I am, so I think we need a break.

**Mr Parker**—Madam Chair, Just before we break, Senator Bushby asked us before a particular question on GST revenue and we undertook to provide those numbers. We can do so now.

**Senator BUSHBY**—Excellent, thank you.

**Ms Mrakovic**—Senator, for the four years commencing in 2008-09 on a cash basis, the difference between the 2008-09 and 2009-10 budgets is \$4.1 billion in 2008-09, \$6.9 billion in 2009-10, \$7.3 billion in 2010-11 and \$7.2 billion in 2011-12. On an accrual basis, it is, respectively, \$3.8 billion, \$6.3 billion, \$6.7 billion and \$6.9 billion.

**Senator BUSHBY**—I thought it might have been in answer to earlier, the drop. Thank you very much for the timely response as well, it is much appreciated.

**CHAIR**—The ATO and Treasury will leave us now. Thank you very much for your cooperation today.

**Proceedings suspended from 9.07 pm to 9.20 pm**

**Australian Office of Financial Management**

**CHAIR**—The meeting will reconvene with the Australian Office of Financial Management.

**Senator Conroy**—Before we do, may I add to an answer I gave earlier?

**CHAIR**—Yes, go ahead.

**Senator Conroy**—I asked a question about whether or not the public health initiative, PHI, private health reforms were in the budget papers and I think Senator Cormann insisted that they were not. For the committee's benefit I point to page 137 of the Budget Paper No. 1, where there is a chart. I also point to page 31 of the budget overview, which quite clearly demonstrates the 10-year figure. So the actual information is contained in two separate budget papers.

**Senator CORMANN**—If you call that a budget forecast or an estimate—that just lacks any credibility whatsoever. A little picture is not a credible forecast.

**CHAIR**—Senator Cormann, I understand that you are interested in speaking to this agency and I was about to welcome them here this evening and ask Mr Hyden if there is any opening statement he wishes to make.

**Mr Hyden**—No, thank you.

**CHAIR**—We will begin questioning with Senator Joyce.

**Senator JOYCE**—Mr Hyden, back in February you told me about the \$200 billion facility:

I think that would take us several years—

to draw down—

so probably about 2012 or 2013, four or five years time.

Do you still stand by that statement that that is when we will have this \$200 billion facility drawn down?

**Mr Hyden**—I am not quite sure that I caught all of that, but obviously circumstances have changed since that time.

**Senator JOYCE**—Have circumstances changed that dramatically that a prediction that you made on the draw down for four to five years time is now for the end of this year?

**Mr Hyden**—What was being drawn down?

**Senator JOYCE**—That \$200 billion worth of bonds and notes will be fully drawn by the end of this year. That is basically the situation now, is it not?

**Mr Hyden**—The latest figures would show that the \$200 billion limit would be reached in 2010-11, so I think that is still consistent with what we are saying.

**Senator JOYCE**—You say now that the \$200 billion, instead of being drawn down in 2012-13, will now be drawn down in 2010—is that correct?

**Mr Hyden**—In the 2010-11 financial year.

**Senator JOYCE**—Are we sticking to that prediction, or are we going to review that one as well?

**Senator Conroy**—That is a hypothetical, Senator Joyce.

**Senator JOYCE**—What are we currently drawn to at this very moment?

**Mr Hyden**—We do not make predictions in the AOFM in terms of bond issuance; we use the budget figures, the forecasts of budget outcomes, to deduce how much debt we will need to issue. I think your underlying question goes to the budget figures themselves, for which we do not have any direct responsibility.

**Senator JOYCE**—The question I am asking is: as of today, as I am walking in here, what are we currently drawn down to in bonds, notes and other forms of securities to finance our debt?

**Mr Hyden**—It is \$73 billion.



**Senator JOYCE**—In total?

**Mr Hyden**—For Treasury bonds.

**Senator JOYCE**—What about notes?

**Mr Hyden**—We have Treasury notes of \$13.6 billion.

**Senator JOYCE**—Is there any type of other paper out there that finances?

**Mr Hyden**—Not that counts against the \$200 billion dollar ceiling.

**Senator JOYCE**—So we are at \$86 billion now. You are saying 2009-10 is when the other \$114 billion will happen, even though we have got a so-called \$125 billion black hole in the budget, so we have been told?

**Mr Hyden**—Yes.

**Senator JOYCE**—That will be an interesting one to watch. I am backing you out on that one. It was also stated by Dr Gruen that we have a net debt of 5.2 per cent of GDP at the end of the projection period. Do you think that figure is still relevant?

**Mr Hyden**—No, the figures of CGS on issue have gone up quite substantially because of the change in the budget circumstances.

**Senator JOYCE**—These changes are all since February this year.

**Mr Hyden**—Yes, there has been an increase in the forecast budget outcomes over that period.

**Senator JOYCE**—So in four months we can make a two-year adjustment in figures. Are we still on that trajectory on draw down? Is it plateauing out? Can we rely on where we are at the moment?

**Mr Hyden**—As I said, we are dependent on Treasury for their forecasts of what the budget outcomes will be—more specifically, what the underlying cash surplus or deficit will be. Those figures have changed significantly since UEFO in February.

**Senator JOYCE**—Can you not see, with such a vast change in four months, it starts to call into question the whole reliability of what Treasury is presenting to us?

**Mr Hyden**—We do not make a judgment on Treasury's reliability; we use their figures to determine estimates of future bond and other issuance.

**Senator JOYCE**—Unfortunately, we do rely on what Treasury tells us and these are the same figures that Treasury tells us are going to bring a 4½ per cent growth in the economy in a couple of year's time, which is also highly unbelievable. Also, the current appropriations move towards a possible bill limit—I think it is \$300.8 billion in the budget, but I now believe that it is up to \$315 billion. Have you entered into any sorts of negotiations as to when you expect that to be fully drawn?

**Mr Hyden**—The \$300 billion figure is an estimate of the CGS on issue at the end of June 2013.

**Senator JOYCE**—So that is now the June 2013 figure.

**Mr Hyden**—Yes.

**Senator JOYCE**—About \$4 trillion worth of bonds is going to be issued in the world this year—is that correct?

**Mr Hyden**—I do not have a particular figure in mind.

**Senator JOYCE**—What is your anticipation of the total market that will be out there of extra bonds looking for a home.

**Mr Hyden**—I do not have a figure, but there is clearly a very large increase in issuance by a number of sovereign countries.

**Senator JOYCE**—How are we going to rate in the market now—and I am looking back on what you told me last time—in regard to the attractiveness of our security, considering the trajectory of debt we are on?

**Mr Hyden**—I think our securities are attractive in the global market.

**Senator JOYCE**—Why?

**Mr Hyden**—That reflects a number of factors, such as the Commonwealth's high credit rating—

**Senator JOYCE**—At the moment.

**Mr Hyden**—the relatively small volume of debt which we have on issue and will build up and which remains—

**Senator JOYCE**—We have just shown that that is falling out of bed.

**CHAIR**—Senator Joyce, you asked a question and you are listening to an expert. Rather than giving your own answers, can you listen to—

**Senator Conroy**—Let the officer finish his reply before you add to your questions; otherwise, I will start adding to the answers.

**CHAIR**—Let's continue, and please allow Mr Hyden to finish.

**Mr Hyden**—Even with the foreshadowed volumes of debt that we expect to issue, the level of debt proportionate to GDP is still low relative to that of many other countries. The yields on our debt are a little higher than in some other countries, so that makes them attractive. And I think many investors have an optimistic view of the prospects for the Australian economy so that they see it as attractive to invest in our issuance.

**Senator JOYCE**—A premium makes them attractive. What do you foresee is the cost of funds to maintain that attractiveness in the market so that we are able to move these bonds? What do you foresee as the face value that you will have to give to these things to move them?

**Mr Hyden**—The yield on our bond is determined by the market; we do not determine that.

**Senator JOYCE**—What do you determine the yield to be? What would you presume the yield to be?

**Mr Hyden**—It will be whatever the market makes it, but historically our yields have been somewhat higher than those, say, in the United States.

**Senator JOYCE**—A one per cent, two per cent, premium?

**Mr Hyden**—It has been of that order.

**Senator JOYCE**—Two per cent. What is the US at the moment?

**Mr Bath**—US 10-year Treasury bond yields are around about 3½ per cent.

**Senator JOYCE**—3½ and we are about two, so about 5½. That is interesting because the interest on ours seems to be working out that we are getting the funds at less than four per cent, so something is coming unstuck.

**Mr Bath**—These are 10-year bond yields currently.

**Senator JOYCE**—Do you think you can move them better in the short term?

**Mr Bath**—We do not just issue 10-year bonds.

**Senator JOYCE**—What we are getting at is: what is going to be the cost of funds on the money that we are borrowing? That is vitally important for how our budget works.

**Mr Hyden**—Yes, and we have estimates in the budget of the cost of that. Those forecasts or estimates of the cost of our debt are based on assumptions, of which the key assumption is that the yield curve that applied shortly before the budget would continue to apply over the whole forward estimates period. That is a curve so that there are different rates for bonds of different maturities but that those rates themselves would remain unchanged. The four per cent you referred is an average, not a specific figure.

**Senator JOYCE**—An average. That yield curve is over the total period, but obviously if you are saying the yield curve is consistent you are looking at consistency based in a recession and yet in the same budget papers we are looking at 4½ per cent growth. So it cannot possibly be a consistent yield curve out there otherwise we will not be coming out of recession, we will be staying in recession.

**Mr Hyden**—This is a technical assumption that has been used consistently for many years to avoid the need to try and forecast interest rates, which is a particularly difficult task.

**Senator JOYCE**—It is a technical assumption, but the assumption obviously is wrong if factors change and in the same time we are talking about a 4½ per cent growth in the economy. The yield curve is completely innocuous with that set of conditions that will be apparent at that point. There would have to be a tightening of funds as people start looking for money to invest.

**Senator Conroy**—That is your opinion, Senator Joyce.

**Senator JOYCE**—It is stating the bleeding obvious. Who are the main buyers of our funds at the moment? Who is out there buying our bonds and our notes?

**Mr Hyden**—We do not have detailed knowledge of that. We have some perceptions, but—

**Senator JOYCE**—Okay, give me a perception.

**Mr Hyden**—Broadly, more than half of our bonds are taken up by overseas investors.

**Senator JOYCE**—Predominantly?

**Mr Hyden**—Predominantly investors that are looking for a high degree of security in the investments they make, and that includes central banks and—

**Senator JOYCE**—Such as predominantly China?

**Mr Hyden**—I do not think I want to name specific central banks or other countries' reserve assets—conservative provident funds, all sorts of insurance companies and the like, sovereign wealth funds.

**Senator JOYCE**—Sovereign wealth?

**Mr Hyden**—Yes.

**Senator JOYCE**—Predominantly Asian—

**Mr Hyden**—I am describing the type of investor that we understand to be important.

**Senator JOYCE**—I imagine there are not going to be many purchases from England or from the United States, they will be dealing with their own, so one would have to suspect Asia would be high on the list?

**CHAIR**—Norway is still doing okay, last I heard.

**Mr Hyden**—We have substantial take-up in Asia but also from Europe and the United States.

**Senator JOYCE**—On our budget figures, our long-term budget liabilities are at half a trillion dollars. Has there been any discussion about how you are going to finance them?

**Mr Hyden**—We are only concerned with financing the government's funding requirement. We do not look to other elements of the government's balance sheet.

**Senator JOYCE**—The current global environment with the trajectory of funds is established in the budget papers. Do we have the capacity in the future to finance half a trillion dollars?

**Senator Conroy**—Sorry, Senator Joyce, could you ask that question again.

**Senator JOYCE**—Do we have the capacity, as a nation, to finance half a trillion dollars? Do we have the capacity to move bonds in the market to the value of half a trillion dollars?

**Senator Conroy**—That would be a hypothetical.

**Senator JOYCE**—No, I do not think it is hypothetical at all.

**Senator Conroy**—That is entirely a Senator Joyce hypothetical.

**Senator JOYCE**—Has there been any run-off or exit strategy given to you on how you will start paying off these bonds?

**Mr Hyden**—The government has spoken of its fiscal objectives for returning the budget to surplus—

**Senator JOYCE**—In the cycle. So when would the cycle happen?

**Mr Hyden**—That is a matter of government fiscal policy.

**Senator Conroy**—Those are Treasury fiscal policy forecasts.

**Senator JOYCE**—Has anybody got a rough idea when these cycles come to an end? It could go on forever?

**Senator Conroy**—It is called the Fiscal Policy Group. They are on tomorrow.

**CHAIR**—Senator Coonan.

**Senator COONAN**—Mr Hyden, I will try not to be repetitious but there are a few things I would like to start off with, please. Could you tell the committee what the total size of the Commonwealth government securities borrowing program will be—that is, what your program is for issuance?

**Mr Hyden**—For next year, we intend to issue about \$60 billion of Treasury bonds. In addition, we would issue some Treasury notes over the course of the year which will be used to maintain the stock of Treasury notes and to allow for within-year financing. But we are not envisaging that there would be an increase in the volume of Treasury notes on issue over the course of the year—that is, from the beginning to the end—so that that would not add to the volume of stock on issue at the end of the year compared to the start of the year.

**Senator COONAN**—Just so I understand you, and leaving aside the notes, the figures I have noted here are that the government expects to increase the amount of Commonwealth bonds on issue from \$30 billion in June 2008 to \$79 billion this financial year, then to almost double it again in 2009-10 to \$133 billion and then rising quickly to \$30 billion in 2013. Is that about right?

**Senator Conroy**—Sorry, what figure in 2013 did you say, Senator?

**Senator COONAN**—\$300 billion in 2013.

**Senator Conroy**—Yes, we did confirm that earlier for Senator Joyce.

**Mr Hyden**—Yes, those figures are correct.

**Senator COONAN**—What will be the impact of this supply on the level of bond yields? I am interested in the shape of the yield curve. Could you address that? In other words, will issuance activity include activity right across the yield curve?

**Mr Hyden**—We do not make any attempt to forecast movements in interest rates ourselves, so we are not making any predictions about the impact of that on interest rates. There will be many factors impinge on interest rates, both globally and domestically. The supply of bonds is one, but obviously things that influence demand are also important.

**Senator COONAN**—I might come to that shortly. I understand that absolutely. Will it cover everything from 13-week Treasury notes to reintroduction of long-dated inflation-linked bonds?

**Mr Hyden**—We are considering resuming the issuance of indexed bonds but have not reached any conclusions on that. Similarly, we are considering the introduction of longer maturity bonds but have not reached any conclusions on that. Those elements of a potential issuance for the year ahead are minor add-ons, if you like, or variations to the basic program. We do not see them as contributing a particularly large amount of the total borrowing requirements.

**Senator COONAN**—Would it be a fair characterisation to say that they are in contemplation but no decision has been made?

**Mr Hyden**—They are under consideration, yes.

**Senator COONAN**—I absolutely understand your answer that you are dealing with forecasting and budget outcomes and the assumptions contained in that, but it seems to me looking at the 2010-2011 year that there will be some significant challenges for the budget because \$17 billion falls due when tax cuts of about \$13.9 billion come off the bottom line.

**Senator Conroy**—What year is that?

**Senator COONAN**—2010-2011, Minister.

**Mr Hyden**—A substantial volume of bonds will mature in the 2010-11 financial year. Normally our Treasury bond lines are spaced a year apart but not exactly a year apart so two maturities will occur within the same financial year. Also some indexed bonds will mature, so we have a particularly large maturity schedule for that year. That will add to the bond issuance task in that year.

**Senator COONAN**—It also coincides with the tax cuts taking effect that year?

**Mr Hyden**—The tax cuts are one of the factors that influence the underlying cash balance or the budget outcome. That is already included in those budget figures.

**Senator COONAN**—Could financing requirements go above \$70 billion that year?

**Mr Hyden**—That depends on what happens to the budget.

**Senator COONAN**—If they did, it would require Treasury to issue bonds of more than \$1.3 billion a week.

**Senator CAMERON**—That is a bit of speculation again, is it not?

**Senator COONAN**—No, it is based on the budget.

**Mr Hyden**—I think what you are doing is just an arithmetical calculation.

**Senator COONAN**—Yes.

**Mr Hyden**—I might point out that we are currently issuing more than \$1.3 billion a week. We are, in fact, issuing about \$1.4 billion in Treasury bonds.

**Senator COONAN**—That was my next question.

**Mr Hyden**—That is not an increase over what we are currently doing.

**Senator COONAN**—How long could Treasury sustain a rate of \$1.4 billion per week?

**Mr Hyden**—It is a matter of what the market can sustain. Since we commenced issuing at this rate in February, we have been proceeding for three months without experiencing any difficulties. We have had good results from our tenders in terms of coverage and the range of bids accepted. Circumstances always can change. Markets are volatile. But the experience so far is quite positive.

**Senator COONAN**—I appreciate all of that and absolutely accept what you say. There have not been any higher interest rates as a result of the \$1.4 billion?

**Mr Hyden**—There have been movements in yields over that period, but it would be hard to say what portion of that might have been influenced by the increased issuance, if it had any influence at all. Interest rates globally have moved up over that period. Our experience is not exceptional.

**Senator COONAN**—I acknowledge the upward trend. Has AOFM given consideration to what would happen if the government's debt forecasts were too optimistic?

**Senator Conroy**—That is clearly hypothetical, Senator Coonan. Perhaps you might like to ask has the AOFM given consideration to a possibility that the government's estimates are too optimistic.

**Senator COONAN**—If you are going to say tomorrow that we are unable to ask questions about the macro settings because it is hypothetical we might as well —

**Senator Conroy**—I was suggesting you might perhaps care to rephrase the question.

**Senator COONAN**—Just let me make this point, Senator Conroy, so that we will get on a bit better, I hope. There are lines of questioning which clearly go to hypothetical questions the answers to which are not within the knowledge, realm, expectation or expertise of a witness, but witnesses who do forecasting and people who issue bonds based on assumptions in the budget are of a slightly different character and some latitude ought to be appropriate otherwise you could never really ask them any questions.

**Senator Conroy**—I was perhaps inviting you to rephrase the question. I am sure we will be able to get you an answer.

**Senator COONAN**—All right, then. How confident are you that future deficits will be covered by the government raising \$315 billion in gross debt and \$203 billion in net debt by fiscal 2014?

**Mr Hyden**—Let me say that those figures, which are not in the budget, are total debt on issue. Some of that represents debt that is already on issue now. The increment that we have to make over that period is less than that. Obviously markets are volatile and we cannot be totally confident about what is happening or what may happen in the future, but, as I have already said, the issuance that we are undertaking at present has gone without any difficulty. The current rate of issuance is around 12 times the volume that we were issuing a year ago. Indeed, for the current year at the beginning of the last budget we anticipated issuing something a bit over \$5 billion. We are now planning to issue over \$60 billion, and, of course, at a weekly rate it is rather more than that. We will be issuing in a few weeks almost as much as we were planning to put out in the whole year if we also take account of the T notes that we are issuing. We are not experiencing problems at the moment. The estimates do provide for a higher level of issuance in 2010-11 than in 2008-09. We are reasonably confident that that can be achieved. Thereafter, as I recall, the figures slow a little. There is nothing in our current experience which would indicate that we are at the limits of what can be achieved.

**Senator COONAN**—How high can you go? Could you go to \$350 billion if required—say, by 2016?

**Mr Hyden**—I do not think it is a matter of the cumulative amount on issue being a constraint so much as the amount of issue each year. It is how much the market can absorb. The market may have an interest in the total balance sheet of the government but, as I said, even with the volumes now contemplated, our position will remain relatively good compared to other AAA-rated sovereign issuers. The cumulative amount on issue would still remain a

very small proportion of the total sovereign debt on issue globally, so I do not think we are anywhere near the limits of capacity of investors to absorb our debt.

**Senator COONAN**—Thank you. Treasury told the committee in February in another context that cost of funds was about four per cent. Once again going to the budget figures, based on the scale of the lending program over the next four years, public debt interest expenses will increase—I think I have got this right—from \$6.3 billion in 2009-10 to \$12.5 billion in 2013, which is 4.15 per cent of the \$30.8 billion in securities on issue that year. What kind of effect will this have on the likely increase in bond yields given the upward trend in the bond market?

**Mr Hyden**—The figures you quote are based on the assumptions we have used for calculating PDI, as I explained earlier in answer to Senator Joyce's question. That makes the standard assumption of a fixed yield curve. It is not intended to represent a forecast of, or to have implications for, what might happen.

**Senator COONAN**—Are you aware that the government has proposed that Aussie infrastructure bonds will be issued in relation to the National Broadband Network?

**Mr Hyden**—Yes.

**Senator COONAN**—Why have estimates of issuance to fund the National Broadband Network been omitted from the budget?

**Mr Hyden**—I am not sure that I can answer the question as to what the treatment of those funds has been. My recollection is that there is some provision in next year's budget for some appropriation for the Broadband Network, and that would be part of the budget funding on which we are basing our issuance plans next year.

**Senator COONAN**—The equity injection, I suppose.

**Mr Hyden**—I am not clear on what assumptions have been made in the subsequent years in the budget, but I am aware that there is still a long way to go on the National Broadband Network company and the arrangements surrounding it. There is perhaps not complete finality on that.

**Senator COONAN**—Yes, it seems that the economics of the network are not yet quantified and it is difficult to know what it is about. What will be the total amount of Aussie infrastructure bonds to be issued?

**Mr Hyden**—I cannot answer that either. My knowledge of Aussie infrastructure bonds is essentially what has been announced by ministers.

**Senator COONAN**—So you are obviously not in a position at this stage to enlighten us as to what the rate or the yield would be or if there is a premium for risk, for example?

**Mr Hyden**—It is a question of what the nature of those bonds would be: would they be any different in substance from our other issuance? They may have some different features or characters, but the cost of them may be very similar to the cost of our other issuance. In that case it will not make a lot of difference to the estimates, assuming that our projections represent the total government borrowing requirement.



**Senator COONAN**—At this stage it is very difficult to do any calculations of what debt will be raised in relation to Aussie infrastructure bonds. Senator Joyce asked you some questions about some Commonwealth government securities owned offshore. The figure I have is that they have risen to about 60 to 65 per cent, largely as a result of Asian central banks, compared with about 50 per cent earlier this decade. Are you able to confirm that?

**Mr Hyden**—I could not say where the increase in overseas holdings is coming from in terms of that proportion. Clearly the total amount of issuance that we are doing is increasing. I think all sectors of our investor base are increasing their investment, but it is not easy to get figures on the relative shares.

**Senator COONAN**—Information is provided and published by the RBA on the estimated non-resident holders of government securities. How is this information compiled and by whom?

**Mr Hyden**—The RBA gets its information from the Bureau of Statistics, which undertakes a survey quarterly.

**Senator COONAN**—Does it survey you, the AOFM? Who does it survey?

**CHAIR**—We have ABS next, Senator Coonan.

**Mr Hyden**—Yes, you could ask them that, but I can try to answer your question in general terms. The bonds that we issue are in the registry which is maintained by the Reserve Bank. Ninety-nine per cent of those are in one account, which is held by Austraclear, and the others are retail or small holders. Austraclear, which is an Australian resident, is the holder so far as the bank is concerned. Within Austraclear the holdings of those bonds are held on behalf of various companies, many of which are nominee companies that are mostly—I think all—Australian residents. To get closer to the ultimate investor, the ABS has to survey those nominee companies. My understanding is that it pursues the track as far as it can to get as clear a picture as it can. In the course of that, it has to give various confidentiality assurances, which makes it difficult to provide more detail than is published so that it can give a break-up of non-resident and resident holdings. If one tries to get further detail, one runs into those sorts of limitations.

**Senator COONAN**—We might ask the ABS. Thank you for that information. Do you know what happens in other countries—for example, the United States or New Zealand? I may not have this information to hand in any detail, but I understood that some other jurisdictions are better able to identify this information even if it is not to the point of identifying individuals; they can identify countries or nationals who are investors.

**Mr Hyden**—I think in the United States the data is collected by the Federal Reserve and the United States Treasury in joint operations, and they are able to publish it in much finer detail than the bureau does in Australia.

**Senator COONAN**—I am sorry, I just missed the beginning of your answer.

**Mr Hyden**—In the United States the Federal Reserve and the United States Treasury prepare and publish this data in finer detail—that is, by individual country of investor. I do not have any information on how accurate that data is.

**Senator BUSHBY**—Mr Hyden, would that include details of central banks from other nations holding US securities?

**Mr Hyden**—I do not think they publish that data, but I am not totally familiar with their statistics.

**Senator BUSHBY**—But presumably they would indicate the country that it comes from, which may leave open to supposition who in that country may have bought it?

**Mr Hyden**—They publish figures by country of residence, but there are questions about how meaningful those sorts of figures are. For example, you may find that there are substantial holdings in some small offshore islands, which may represent nominee companies—

**Senator BUSHBY**—I guess it is certainly open to manipulation.

**Mr Hyden**—located in those countries rather than giving you the true residence of the ultimate investor. That is why it is very difficult to evaluate how good these figures are.

**Senator BUSHBY**—You are not aware of the depth to which the US holds details in its register of bondholders.

**Mr Hyden**—I do not think the registry is a particularly fruitful source of information on this; one has to use a survey approach. I think the United States puts a lot more resources into it than we are able to in Australia. I do not have a view on how good the results are.

**Senator COONAN**—Are there additional risks to the Australian government's sovereign credit rating in providing this AAA credit rating to support issuance by state governments and banks?

**Mr Hyden**—I do not think I can answer that from the point of view of the responsibilities of the AOFM.

**Senator JOYCE**—But you may have knowledge of the state debt.

**CHAIR**—I think Mr Hyden has given the answer. Senator Coonan.

**Senator JOYCE**—The federal government underwrites the whole lot.

**Senator COONAN**—Yes, I would have thought the witness might have been able to make a comment. Is there any risk that investors will be attracted to high yields in state government bonds? For example, we have looked critically at a proposal to establish Ruddbank, colloquially speaking. There has been a suggestion that funding would be three percentage points above market rates.

**Mr Hyden**—I cannot comment on the Ruddbank proposition because I am not—

**Senator COONAN**—I am just using it as an example.

**Mr Hyden**—But if your question is if issuance by the states at high yields will have an impact on our ability to issue, that is not a new situation.

**Senator COONAN**—They love that infrastructure.

**Mr Hyden**—The states have been issuing and paying higher yields than we have for a long time. Their volume of issuance, of course, will increase, but ours is increasing as well. I do

not see that as overstretching the market. Some investors will be attracted by the higher spreads that they get on state debt, particularly if they are guaranteed by the Commonwealth. Some investors prefer to have the greater assurance of the sovereign owned debt. We see both sorts of investors in the market. Ultimately, what happens to those spreads is a matter of market forces, of supply and demand.

**Senator BUSHBY**—Thank you to the officers of AOFM. Mr Hyden, in February you stated:

There is certainly a question as to how far the appetite of investors will continue as the amount of stock on issue is increased.

What has happened to the amount of stock on issue internationally in the past six months? Has it increased, decreased or remained fairly static? What have you observed?

**Mr Hyden**—The amount on issue has certainly increased and is in prospect of increasing more. The figures are now larger than were foreseen in February. At the same time I think we were all expecting that if there were any risk it would be on the upside rather than the downside.

**Senator BUSHBY**—That is true. I do not want to put words in your mouth. I left it up to you to point out the direction. Given that we have seen a substantial increase in the amount of stock being issued by sovereign nations, what is the general experience of national governments selling bonds into the international market over the past six months? Are issues being filled consistently or are there notable instances of issuances not being filled?

**Mr Hyden**—I think the general picture is that governments have been able to issue the volume of debt that they are needing to issue, but there have been some problems in some fairly isolated cases. In Britain, for example, one tender was not fully subscribed, and there has been a similar experience in the United States. They are single tenders amongst many and overall their programs are being achieved.

**Senator BUSHBY**—Given that most issuances are still being filled, you would say that the appetite of investors is not yet satiated?

**Mr Hyden**—That is right.

**Senator BUSHBY**—But you made that statement that at some point it will be. You questioned the extent to which the appetite of investors would continue.

**Mr Hyden**—I cannot say that there is any ultimate end point where satiation occurs, but we are a long way from that happening.

**Senator BUSHBY**—Has the ability of countries to fill their issuances been better enabled by some of them offering high yield curves? Have they had to offer higher yield curves to continue to fill them? Is that an apparent trend?

**Mr Hyden**—Issuers generally do not offer yield curves. The yield curves are set by the market. In other words, issuers are not price takers.

**Senator BUSHBY**—Are yield curves increasing, though, in response to the quantity of securities on offer?

**Mr Hyden**—There have been movements in interest rates over recent months.

**Senator BUSHBY**—And they are up?

**Mr Hyden**—There are always movements in interest rates because the market is always moving.

**Senator BUSHBY**—Is the trend up, though?

**Mr Hyden**—There have been some general upward movements. That reflects a variety of factors.

**Senator BUSHBY**—That would reflect a variety of factors but presumably, to use your analogy, to continue to satiate or to meet the appetite of the investors might—

**CHAIR**—I think that is your analogy.

**Senator BUSHBY**—No, I was quoting Mr Hyden. He used those words. I did not put it forward at the time. Presumably one of the factors that may well lead to an upward trend in yield curve may well be the quantity of stock on offer?

**Mr Hyden**—That is one factor, but another factor is the demand.

**Mr Hyden**—We have seen over the past couple of years a huge change in investor appetites away from risk and towards safer securities, and that has brought a big increase in demand for such securities. Indeed, for most of this financial year up until February our problem in Australia was that the increase in demand for our stock was running ahead of the issuance and—

**Senator BUSHBY**—But we were not issuing anywhere near as much as we are now.

**Mr Hyden**—we had to issue more stock to keep the market running smoothly.

**Senator BUSHBY**—I will move on from there slightly. In February you also noted that the United States ‘clearly have a large challenge’ in raising their \$790 billion in bonds. How have they gone? Does the AOFM have any idea where the money is coming from to purchase the US bonds?

**Mr Hyden**—I do not think I can attempt to answer that.

**Senator BUSHBY**—Are you aware whether there is any evidence that money printed by the United States Treasury is being used to purchase US bonds either directly or indirectly?

**Senator Conroy**—US bonds?

**Senator BUSHBY**—Yes.

**CHAIR**—I think again Mr Hyden has indicated that he cannot—

**Senator BUSHBY**—It is a different question.

**Senator Conroy**—He shook his head, which *Hansard* would not have picked up but—

**Mr Hyden**—No, I cannot.

**Senator Conroy**—I am sure he was simply saying he could not possibly venture a guess.

**Mr Hyden**—That is correct.

**Senator JOYCE**—In an Australian context, would quantitative easing in Australia have dire effects on the price or yield of our securities?

**Senator Conroy**—A quantitative easing of what?

**Senator JOYCE**—The printing of money, Senator Conroy. I will help you out there.

**Senator Conroy**—If the money supply tightened, that would mean interest rates went up.

**Senator JOYCE**—The question has been asked.

**CHAIR**—I think I will allow Senator Bushby to continue on with his line of questioning. That might make life easier.

**Mr Hyden**—It is a hypothetical question. It obviously would depend on the parameters.

**Senator BUSHBY**—There is currently in place a legislative ceiling of \$200 billion that you can issue up to. We have had a lot of talk about peak debt rising to more than \$300 billion. Will there need to be a revision in the legislative framework to allow you to meet that issuance?

**Mr Hyden**—That is correct, yes.

**Senator BUSHBY**—That \$200 billion relates to peak debt, not to net debt?

**Mr Hyden**—No, the \$200 billion ceiling under the legislation applies to the total amount that we can have on issue at any time.

**Senator BUSHBY**—It does not take account of investments, as net debt would?

**Mr Hyden**—No, that is right. It is gross CGS debt.

**Senator BUSHBY**—That is my understanding, but I wanted to clarify that.

**Mr Hyden**—The definition of it is slightly more complicated. It is set out in the legislation, but in substance it is the total amount.

**Senator BUSHBY**—For us laymen senators that will suffice.

**Mr Hyden**—Perhaps I could just say that the budget papers stated that the government intends to make a legislative change at an appropriate time.

**Senator BUSHBY**—Which obviously it will need to. How far away are we in time from needing to make that legislative change, given your projection of the debt trajectory that you will need to put in place?

**Mr Hyden**—I think that goes to the question we were looking at before as to when the stock of debt would reach \$200 billion, which we said would be about 2010-11.

**Senator BUSHBY**—Would you be comfortable if the legislation was not changed until then or do you think it would need to be changed in advance?

**Mr Hyden**—It needs to be changed in advance of the figure reaching \$200 billion, but that depends on when one thinks that might occur. Perhaps I might add that the ceiling applies to treasury notes as well as to Treasury bonds. As I said in answer to I think Senator Coonan's question, we will be using treasury notes for within-year financing so that the volume of treasury notes may increase within a year to, say, \$20 billion, \$30 billion or even more. That is relevant to when that \$200 billion ceiling would be reached. The figures in the budget papers on CGS on issue relate to the market value of the debt on issue at the end of each financial year. What the ceiling relates to is the face value of debt on each day, so that might

mean it would come a little earlier. But I think in general our current estimates are that the \$200 billion ceiling might be reached in the first half of 2011.

**Senator BUSHBY**—When you approach decisions on the timing and the quantum of issuances what degree of consultation do you have with Treasury and/or Finance?

**Mr Hyden**—We get advice from Treasury on the budget figures and the government's forecasts, which are basically the forecast in the budget and MYEFO. Essentially we undertake the borrowing program using that data as a starting point on our own judgement of market conditions.

**Senator BUSHBY**—That is your starting point. You look at the budget papers and from then on you plan your own trajectory for how and when you will issue and how much?

**Mr Hyden**—We plan our issuance yearly for a financial year based on the latest forecasts by the government. We want flexibility in that to respond to changing market conditions, particularly in the choice of the bond lines and the maturities that we will offer. We plan to give a general indication of that to the market each quarter, but then we will announce to the market each week what we plan to do in the following week. That is the practice we have been following since February.

**Senator BUSHBY**—You mentioned planning on a different line to bonds. Are you able to provide full details of the lines of bonds that you have issued and the volume and quantum of bonds issued in each line? I am not sure whether you have that information with you today. You could take it on notice if you do not.

**Mr Hyden**—That information is published periodically on our website and, of course, is in our annual report.

**Senator BUSHBY**—Could you just provide for the use of the committee the latest copies of that? Given that you judge which lines to issue based on your assessment from week to week of where the demand is greatest, has the demand for each or any of these lines varied in the past 18 months? If so, what are the trends telling you about where the demand is heading in terms of the characteristics of each line?

**Mr Hyden**—It is a little hard to talk about demand for lines in an absolute sense because it is relative to the supply. Our judgements are between different lines where the issuance that we want to make will be best absorbed. Since February I think we have issued into each of the 10 bond lines that we undertake. We have increased that by one by starting a new line. All of them have had some additional issuance, so that it is spread over all of them.

**Senator BUSHBY**—There are no trends apparent as to which ones are more attractive to investors at this point?

**Mr Hyden**—In the market there is clearly a very strong demand for the shorter bond lines. That is not peculiar to Australia. It is evident worldwide. We wanted to issue across all our bond lines to get a better managed portfolio and to reduce the rollover task that we would have if all the stocks we issued were very short.

**Senator JOYCE**—Mr Hyden, would you have any hope at all of supplying bond lines if any of the government's contingent liabilities, such as for underwriting the banks, were called

upon? We are looking at \$600 billion of contingent liabilities. Would you have the vaguest hope of being able to go to the market to obtain those sorts of funds?

**Senator Conroy**—That is a very serious hypothetical based entirely around a set of circumstances.

**Senator JOYCE**—The contingent liability is certainly not hypothetical.

**Senator Conroy**—It is entirely a hypothetical question, Senator Joyce.

**CHAIR**—Senator Bushby, have you finished your questions?

**Senator BUSHBY**—I have not finished my questions.

**CHAIR**—Senator Bushby, then.

**Senator JOYCE**—The realisation of that is hypothetical or the capacity to pay it would be hypothetical?

**Senator BUSHBY**—I am not too far from finishing my questions.

**CHAIR**—Senator Bushby, can you continue.

**Senator BUSHBY**—You mentioned that there is probably a more noticeable demand for the shorter term bonds, but in terms of risk management and spreading the risk, I take it that you are actually issuing longer terms as well, is that an accurate interpretation of what you just said?

**Mr Hyden**—We have bond lines out to 2021, and we have issued into all of those bond lines.

**Senator BUSHBY**—Is there any consideration of expanding the bond lines further?

**Mr Hyden**—Yes. We have indicated that we consider issuing a new 2022 bond next financial year. That is more or less following our standard practice. We have one bond line mature each year, so we start a new bond line, and they age as the years progress. As indicated in the budget papers, we are giving consideration to the possibility of commencing some bond lines with maturities even longer than that.

**Senator BUSHBY**—What is the thinking behind the ‘even longer than that’ bond lines?

**Mr Hyden**—Many other sovereigns do have much longer yield curves than we do. Some go out 30 or 50 years. In an international sense, Australia has a relatively short maturity range in its issuance. Just by looking at what others do, we might say, ‘Is that a part of the market that we are not tapping at the moment that we could?’ So we have said we will look at that.

**Senator BUSHBY**—Is it more to expand the potential, basically so that you can issue more debt or obtain more funds for the government. In a climate where we are actually issuing \$1.4 billion a week, do you anticipate that, at some point, we may need to offer with characteristics that we currently are not able to continue to fill the issuances that we do?

**Mr Hyden**—I think the object is that if we can tap a wider range of investors, we will have more options in our issuance and therefore we may be able to do it more cheaply or in a way that gives us better risk characteristics.

**Senator BUSHBY**—So more options and potentially at a cheaper cost?

**Mr Hyden**—We do not have predetermined views on that. We are consulting with the market to make an assessment of whether it is worth doing.

**Senator BUSHBY**—Interestingly, I guess if you did do longer than that, you would be issuing bonds that would mature after the date that the Treasurer tells us we will have negative net debt again?

**Mr Hyden**—That could well be, and certainly that has been the case in the past. We have had negative net debt but still positive gross debt, because the gross debt has been more than outweighed by assets that the Commonwealth has held. It may be an efficient management of the debt overall to have longer maturity stocks and it would give priority to paying back shorter debt as it matures or using some of the surplus to invest. Just because a bond is issued with a particular maturity does not stop you from buying it back before that maturity.

**Senator BUSHBY**—No, that is right. It was more an observation, I guess.

**Mr Hyden**—I think it is a matter that the more options you have, then the more flexibility, the better you may be able to manage the stock of debt.

**Senator BUSHBY**—My final group of questions is on the ownership of the debt, which previous questioners have already touched on. When was the most recent release of the ABS publication catalogue 5302.0 which contains information on the amount of Commonwealth government securities held by non-residents?

**Mr Hyden**—I think the last one was in the December quarter.

**Mr Bath**—It would be almost exactly a quarter.

**Senator BUSHBY**—In February you indicated the last one was December at that point. It has been four months since then. I would think that we have had another one since?

**Mr Bath**—The March quarter is due out either this week or next week. December might have been the answer to the question, ‘What is the next available quarter?’ but in February it might not have been available.

**Senator BUSHBY**—In a pack of information they have given me, my staff have given me a copy of the latest one which came out today.

**Mr Bath**—Right, it was released today.

**Senator BUSHBY**—You are not going to be able to questions for me on that here because you will not have had a chance to analyse it.

**Mr Hyden**—I have not seen it as yet, Senator.

**Senator BUSHBY**—I could give it to you; I have a copy here if you like, but they have highlighted some things here, and I am not really sure what they have highlighted. In February you indicated that the percentage of securities held by non-residents was over 60 per cent, and in answer to a question on notice, you actually indicated it was actually 68 per cent. I have not had a look through this, but just on a quick glance it does not seem to have that figure poking out. I think it requires some analysis. Can you take on notice what is the current percentage of securities held by non-residents and provide that figure for me?



**Mr Hyden**—All right, I can do that. I might say that there is quite a lot of variation from quarter to quarter in those figures. It is not a monotonic series; it is one that goes up and down. I am not sure if there is any clear reason for it.

**Senator BUSHBY**—Would you be able to provide an historical chart or information showing what those figures were over, say, the last three or four years?

**Mr Hyden**—Yes, certainly.

**Senator BUSHBY**—So that would give us an indication of how it does go up and down, as you say. In an answer given earlier, you indicated that you had an idea of the nationality of the ultimate holders of a lot of the securities issued by Australia. You also indicated that you were not keen to put on the record the central banks that may be holding Australian securities or the nature of their investments. You also indicated that there was a substantial take-up of our bonds by US and Europe. Does that suggest that the US and some European central banks hold Australian securities, or is that an assumption that you cannot make on the basis of the fact that they are held by US entities?

**Mr Hyden**—I cannot comment on the US central bank, but I can say that there are substantial holdings by European central banks.

**Senator BUSHBY**—I am not particularly interested at this point whether central banks of any nation are holding securities, but I am interested in knowing which nations the holders of those securities are from. I sense from some of the things you said that you may have a greater degree of knowledge of that than you have actually—

**Senator Conroy**—I am not sure that the people who hold these bonds necessarily enter into them on the basis that they get to be revealed. There could be issues of confidentiality that we are unaware of but Mr Hyden is aware of.

**Senator BUSHBY**—Mr Hyden, are there any confidentiality clauses contained in the contracts when these securities are purchased?

**Mr Hyden**—The bonds are not purchased under contract. They are purchased in the market. The investor may do so through nominee companies. They normally do buy them through nominee arrangements so that it is not always clear who is the ultimate holder. I would not like to speculate as to the reasons or motives for those arrangements. In some cases it is a matter of convenience and practicality, but in some cases they may not wish to disclose publicly their holdings.

**CHAIR**—It is 10.30.

**Senator BUSHBY**—I am on the last couple of questions on this.

**CHAIR**—It is 10.30, and that was the agreement. I am sure you will be in this position when we get to ABS as well, so I would like to end this session and thank the AOFM for coming in. I do not think there has been this level of intense interest in your activities since Senator Andrew Murray was on this committee. Thank you for your patience here tonight.

**Mr Hyden**—I think I am well on the record of attending estimates committees.

**CHAIR**—That is right. I now welcome to the table the officers of the Australian Bureau of Statistics. Do you have an opening statement that you wish to make, Mr Harper?

**Mr Harper**—No, thank you.

**CHAIR**—I might start off the questioning tonight. There is a blog that I have some interest in, the Pollytics blog, who are talking about some results, and I thought I would get your comment on this. It says:

Remembering back to last month when the unemployment figures were released by the ABS showing a fall from 5.7 to 5.4%, the howls of incredulity from economic firms that guessed wrong on this was deafening. The ABS unemployment figures are actually derived from a poll, albeit an enormous survey of around 41100 people, and it was pretty much lambasted across the economic sector as a “rogue” result and a consequence of the ABS reducing their sample size. The reporting of the issue was just mind numbingly dodgy.

So the poor old ABS got slapped around for weeks on how their small sample size of 41100 was creating all this enormous volatility and uncertainty in their figures, and as a result of this hysterical (and let it be said, mostly ridiculous) gnashing of teeth and stomping of tootsies by private sector economic firms – the ABS has now restored their Labor Force Survey to run on a sample of around 54400.

The blog continues—and I will paraphrase this a little:

Let’s get something straight here - this new sample size will make—

no difference whatsoever. Could you comment on the accuracy of that report?

**Mr Harper**—Okay. There are a lot of things in that statement. In terms of the factual side of things, yes, the ABS Labour Force Survey in recent times has had a sample of about 41,000 households. Because of budgetary pressures, the ABS reduced the size of its labour force sample in June last year from 54,000 to 41,000. Because of additional funding that we received in the budget in May, we will restore the sample size back to the 51,000. We will do that progressively with the aim of having it fully restored by December 2009. The reduction in sample size has created an additional margin of error around the survey results. Every sample labour force survey and every other sample survey that the ABS conducts has a statistical error associated with it. That statistical error can be measured, and the ABS publishes information about that error. The reduction in the sample size for the labour force survey increased the statistical error by approximately 15 per cent. In terms of the estimates for Australia, particularly employment and unemployment, the standard error was still relatively low with the reduction in the survey size. Nonetheless they are there, and they need to be taken into account in interpreting the results.

It is important to note that the reduction in the sample survey did not introduce any bias into the results, so the result for the month of April of 5.4 per cent was an unbiased result, just as the result for the previous month of 5.7 per cent was also an unbiased result. We checked the April estimates extensively to make sure that they were as accurate as we could make them, and we could find no reason to be concerned with them. We do know that when economic circumstances are changing, there is quite often volatility in the labour force survey results. We have gone back and looked at history and we have seen similar sorts of ups and downs in previous times of economic challenge. The other observation is that the ABS would always encourage users to look at the trend which smooths out the month-to-month volatility in the estimates and provides a longer term perspective as to what is happening with those statistics.

**CHAIR**—Thank you. Just to confirm, the blog says:

If we plug in 41100 as the sample size and 5.7 as the result for Poll 1, the margin of error on this survey comes out as 0.22%.

If we plug in the larger sample size that the ABS used to run and will now do so again, a sample size of 54400 with the same result of 5.7 as Poll 2 – the margin of error is 0.19%.

All this outrage has been over a structural improvement of 0.03% in the accuracy of the raw results!

**Mr Harper**—That is the 15 per cent that I talked about, the difference between the 0.19 and 0.22 per cent.

**CHAIR**—Therefore, to a layman, there is very little difference between the actual results?

**Mr Harper**—The reduction in standard error does lead to a more accurate result and therefore users can take somewhat more confidence in the statistics that are produced. But, as is pointed out, even with the return to the previous sample size, there still will be a margin of error around that survey. You need to make a judgment as to the fitness of purpose for the statistic, taking into account the standard error and the particular application that you have for it. It is always a trade-off that the ABS has to make in terms of the sample sizes that you have for collections which, in an ideal world, you would want to be as large as possible to minimise that error, but obviously you need to take into account the costs of conducting surveys, both in terms of the cost to the taxpayer and the cost to the providers of having to provide that information to the organisation.

**CHAIR**—Thank you. In other words, it is much ado about nothing, and I am pleased to have one of my favourite blogs indicate it.

**Senator BUSHBY**—I actually had a number of questions on the labour force statistics, but, Chair, you have asked a question that has elicited most of the answers that I would have been looking for. Can I say, though, that I am very pleased that the government has decided to admit its error in removing the funding from the ABS that led to the decision to reduce the sample size.

**Mr Harper**—Can I make a point of clarification? The budget situation that the ABS found itself in was a combination of an efficiency dividend that was imposed by the government as well as increased costs of the ABS doing business, so it was not entirely attributable or even substantially attributable to a reduction of funding of the ABS.

**Senator BUSHBY**—We have had the ABS before us on a number of occasions, and we have explored that, and I thank you for your clarification. There is testimony in the *Hansard* about this in a number of ways on which I guess we can all make our own judgment. Nonetheless, despite the politics of it, I am pleased to see that you do have the funding now to be able to restore the sample size to a more meaningful level that provides a more reliable series, particularly given the fact that employment figures are likely to jump around a little bit in the next few years due to a number of factors, not least the global financial situation. I will move on from that. The only other line of questions that I have for you is to do with the survey that you conduct that I was asking the AOFM about, and that is ABS 5302.0-Balance of Payments and International Investment Position, Australia, Mar 2009. What information do you gather from the purchases of Australian securities as part of this survey?

**Mr Harper**—Essentially, as I think the officers from AOFM explained, most of the Australian government securities that are held by nonresidents are held via Australian nominee companies, so it is the name of the Australian nominee company that appears on the register of the securities. The Australian Bureau of Statistics conducts a survey of those nominee companies and identifies the first over-the-water beneficial owner of those securities—

**Senator BUSHBY**—When you say you identify the first beneficial owner—

**Mr Harper**—Across the water.

**Senator BUSHBY**—do you get the full details of who they are?

**Mr Harper**—We get information. I am not quite sure of the full detail that we get.

**Senator BUSHBY**—Would you be able to take on notice whether that is the information that you get?

**Mr Harper**—We certainly get information on the country of residence of the first beneficial owner across the water.

**Senator BUSHBY**—Do you know whether you get the name of the beneficial owner?

**Mr Harper**—I would have to take that on notice.

**Senator BUSHBY**—Okay. Do you do that with all securities on the register of the RBA?

**Mr Harper**—We approach nominee companies and we get them to provide us with information about all securities, both Commonwealth and other—

**Senator BUSHBY**—So it is not a sample.

**Mr Harper**—No, it is a complete collection of nominees which act on behalf of non-resident investors.

**Senator BUSHBY**—I note that the ABS will be introducing new standards into a number of surveys, including 5302.0, from the September release. What impact will this have on the ability to compare information contained in past releases of 5302.0 and those released from September 2009? Will they be comparable or will the changes that you are introducing mean that it is hard to compare apples with apples?

**Mr Harper**—The ABS has a policy when it introduces changes to the underlying conceptual basis for compiling its statistics to provide, wherever possible, time series information compiled on the new basis, and where that is not possible, to provide bridging information so that people can understand what the impact of the new standards has been. I think in the case of the balance of payments that we will be endeavouring to recompile the historical time series to be on a consistent basis. The changes from a balance of payments perspective are more marginal rather than substantial as a result of those unchanged standards.

**Senator BUSHBY**—What sort of changes will be evident in the new release?

**Mr Ewing**—I am not across the detail of the balance of payment changes but, as you say, they are essentially marginal modifications to the BPM 5 standard to the BPM 6 standard. As Peter has mentioned, we will be producing backcast series that will enable people to compare

the new series with changes in the past. So we will be backcasting the old series on the new conceptual basis.

**Senator BUSHBY**—Given the uncertain economic times we face, being able to conduct a thorough comparison of how things were and where things are going would be very important, particularly for laymen like the senators around this table.

**Mr Harper**—For the key aggregates such as debt, foreign equity, the current account balance and so forth, I think the new changes have very little, if any, impact. It would be more in terms of the classifications that are adopted for some of the statistics.

**Senator BUSHBY**—Okay. Not that I will necessarily be able to understand it when you give it to me, but would you mind taking on notice to provide me with the details of the changes that will actually show up in this particular survey?

**Mr Harper**—Yes, we can do that. We have actually published information papers over the last few years which foreshadow the changes and describe what the changes will be. Later on this year we will start to publish information as to what the actual statistical impact of those changes will be. So we can certainly give you that information.

**Senator BUSHBY**—That is probably all I am going to ask at this point. Thank you.

**CHAIR**—As there are no further questions, thank you to ABS for coming in and assisting us again. Thank you, Minister. We will see you again tomorrow.

**Senator Conroy**—Absolutely.

**CHAIR**—That concludes Treasury Revenue Group, Australian Office of Financial Management and Australian Bureau of Statistics. The committee will recommence tomorrow morning with the Treasury Macroeconomic Group.

**Committee adjourned at 10.45 pm**