

The Senate

Standing Committee on Economics

Additional estimates 2006–07

March 2007

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Additional Estimates

Report to the Senate

Introduction

1.1 On 8 February 2007 the Senate referred to the committee for examination and report the following documents in relation to the Treasury and Industry, Tourism and Resources portfolios:

- Particulars of proposed additional expenditure in respect of the year ending on 30 June 2007 [Appropriation Bill (No. 3) 2006-2007];
- Particulars of certain proposed additional expenditure in respect of the year ending on 30 June 2007 [Appropriation Bill (No. 4) 2006-2007];
- Statement of savings expected in annual appropriations made by Act No. 66 of 2006 (Appropriation Act (No. 1) 2006-2007) and Act No. 67 of 2006 (Appropriation Act (No. 2) 2006-2007);
- Final budget outcome 2005-06; and
- Issues from the Advance to the Finance Minister as a final charge for the year ended 30 June 2006.¹

General comments

1.2 The committee received evidence from Senator the Hon Nick Minchin representing the Treasurer, the Minister for Revenue and Assistant Treasurer, and the Minister for Industry, Tourism and Resources; Senator the Hon Helen Coonan, representing the Treasurer and the Minister for Revenue and Assistant Treasurer; Senator the Hon Richard Colbeck, representing the Treasurer and the Minister for Revenue and Assistant Treasurer; and officers from the Treasury and Industry, Tourism and Resources portfolios. The committee thanks the ministers and officers who attended the hearings for their assistance.

1.3 The committee conducted three days of hearings, from 14 to 16 February 2007, and examined the Treasury portfolio and the Industry, Tourism and Resources portfolio. In total the committee met for 24 hours and 27 minutes, excluding breaks.

Questions on notice

1.4 The committee draws the attention of all departments and agencies to the deadline of Thursday, 5 April 2007 for the receipt of answers to questions taken on notice from this round. As the committee is required to report before responses to questions are due, this report has been prepared without reference to any of these

1 *Journals of the Senate*, No. 129, 8 February 2007, p. 3414.

responses. The secretariat has prepared indexes for questions on notice during and after the hearings and these are available on the following website http://www.aph.gov.au/Senate/committee/economics_ctte/estimates/add_0607/index.htm.

Record of proceedings

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

1.6 Copies of the Hansard transcripts are available through the internet at http://www.aph.gov.au/Senate/committee/economics_ctte/estimates/add_0607/index.htm. Copies are also tabled with this report for the information of the Senate.

Matters raised - Treasury portfolio

1.7 On 14 February 2007, the committee questioned:

- Treasury – outcome 1: sound macroeconomic environment;
- Treasury – outcome 3: effective taxation and retirement income arrangements;
- Australian Taxation Office;
- Australian Accounting Standards Board;
- Corporations and Markets Advisory Committee;
- Treasury – outcome 2: effective government spending arrangements;
- Treasury – outcome 4: well functioning markets; and
- Australian Bureau of Statistics.

1.8 On 15 February 2007, the committee examined:

- Australian Competition and Consumer Commission;
- Australian Prudential Regulation Authority;
- Australian Securities and Investments Commission; and
- Financial Reporting Council.

1.9 Matters examined included the following:

*Treasury*²*Outcome 1: Sound macroeconomic environment*

- modelling of the economic impact of commodity prices returning to their historical levels (pp 4–5);
- potential impact of climate change on the Australian economy and whether any modelling has been done (p. 5);
- the effects of changes to the industrial relations laws on productivity, including the link between employment protection legislation and unemployment (pp 6–8);
- factors that are driving the Australian economy and impacting on productivity; reasons for relatively weak GDP growth compared with strong employment growth; productivity in the mining sector; effect on other sectors, including construction, manufacturing and rural; exchange rate developments (pp 8–20, 28–30 and 32);
- the impact of the current resources boom; identification of substantial risks to the commodities price boom; OECD modelling of the effect of temporarily high commodity prices (pp 20–25 and 30–32);
- implications for the Australian economy of shutting down the coal industry (pp 25–27);
- recent developments and trends in Australia's domestic inflation; difference between Treasury and Reserve Bank's measures (pp 33–34);
- impact of the drought, last year's oil price spike, increasing housing rents and exchange rate appreciation on inflation (pp 34–36);
- flow-on effects of the drought to the rest of the economy, including water storage issues; how Treasury factors this into its forecasts for the economy (pp 36–39);
- current level of housing affordability and debt servicing in Australia (pp 39–43);
- macroeconomic implications of climate change; Treasury's view of the Stern report (pp 43–45);
- emissions trading issues (pp 45–46); and
- reason for the increase in corporate borrowing and corporate leverage; macroeconomic consequences of a major collapse of a highly leveraged Australian company; Treasury's view of Reserve Bank's warnings about debt leveraged buyouts in Australia (pp 46–49).

2 Transcript page numbers for the Treasury, ATO, AASB, CAMAC and ABS refer to *Proof Hansard*, 14 February 2007 (see the index at Appendix 3 of this report).

Outcome 2: Effective government spending arrangements

- carbon trading and the design of a possible emissions trading scheme (pp 102–105);
- Treasury involvement in the preparation of the Prime Minister's recent water policy announcement (pp 105–106);
- Access Economics report on the costs of inefficient federalism (p. 107);
- Social Policy Division's involvement in the national reform agenda group on human capital (pp 107–108); and
- assessment of the Productivity Commission's work on the potential economic benefits of greater investment in human capital (p. 108).

Outcome 3: Effective taxation and retirement income arrangements

- cost to Australian tax revenue of the capital gains tax exemption for overseas investors in relation to non-real property assets (pp 58–59);
- amount of capital gains revenue to be lost in the Qantas sale (pp 59–60);
- forestry and non-forestry management investment schemes (pp 68–71);
- tax deductibility of political donations (p. 77);
- Treasury's personal tax microsimulation model used to model tax measures affecting personal tax; difference between this and the ATO model (pp 83–85);
- changes to revenue forecasts contained in the Mid-Year Economic and Fiscal Outlook (pp 86–87);
- OECD modelling of the effect of temporarily high commodity prices (pp 87–88); and
- long-term implications of the simplified superannuation reforms, particularly in relation to participation rates in the workforce and revenue gains; costings (pp 95–99).

Outcome 4: Well functioning markets

- budget and review of the Financial Literacy Foundation (pp 109–110);
- Foreign Investment Review Board's (FIRB) review of Qantas takeover bid (pp 109–110, 112 and 115);
- Financial Industry Complaints Service (FICS) review of rules and monetary limits (p. 112);
- release of the Insurance Contracts Act reform package (p. 113); and
- regulation of financial services currently being considered by State governments; introduction of State legislation in relation to mortgage brokers; State and Commonwealth division of responsibilities (pp 113–115).

Australian Taxation Office (ATO)

- update on Project Wickenby (international tax evasion and money laundering investigation) (pp 49–52 and 54–55);
- update on the High Wealth Individuals Taskforce (pp 52–54);
- compliance activities in respect of the GST, including compliance in the adult services industry (pp 55–58);
- use of independent selection advisory committees for recruitment (p. 59);
- superannuation simplification project; implications for the Change Program; additional resources (pp 60–61, 65–68 and 75);
- update on the Change Program; budget; skill shortages; size and complexity of project; associated risks (pp 61–64);
- ATO rulings on forestry and non-forestry management investment schemes (pp 71–72);
- tax treatment of employees sacked for operational reasons (pp 72–74);
- lodging of tax returns via e-tax (pp 85–86);
- lack of data collection on taxpayers' deductions for home office expenses (pp 89–90);
- superannuation: increase in staffing levels; proposed media advertising campaign for the budget changes on superannuation; research into the general public's understanding of superannuation (pp 91–93); and
- superannuation guarantee issues, including lost files, complaints by individuals, and prosecutions (pp 99–101).

Australian Accounting Standards Board (AASB)

- policy paper on public sector accounting standards (p. 78);
- adoption of AASB 1049 which covers financial reporting of general government sectors by governments (pp 78–79);
- accounting treatment of unfunded public sector superannuation liabilities and its effect on the yield of government bonds (p. 79);
- introduction of the International Financial Reporting Standards – impact on the not-for-profit sector and small and medium enterprises (SMEs) in Australia; application of the IFRS in the UK and Europe (pp 79–81); and
- development of consistent accounting standards for emission rights (p. 81).

Corporations and Markets Advisory Committee (CAMAC)

- impact of the High Court decision in the Sons of Gwalia case, particularly in relation to creditors' rights (p. 82); and
- update on the long-tail liabilities inquiry (pp 82–83).

Australian Bureau of Statistics (ABS)

- discussion of a complaint from a constituent in relation to providing information for an ABS survey (pp 115–116).

Australian Competition and Consumer Commission (ACCC)³

- prospects for the rollout of a fibre to the node network in Australia (pp 8–16);
- ACCC's interim determination in the access dispute between Chime Communications and Telstra; ACCC's view on what an access seeker should pay Telstra to use the line-sharing service (pp 16–21);
- impact on the operations of the ACCC of Telstra's recent High Court challenge in which Telstra will argue that Part XIC of the *Trade Practices Act 1974* is beyond the legislative power of the Commonwealth (pp 21–22);
- competition notice that the ACCC issued to Telstra in relation to wholesale line rental (pp 22–27);
- ACCC's decision not to oppose the acquisition of Federal Publishing Company Community Media Group by News Limited (pp 27–30);
- cases before the ACCC relating to predatory pricing and unconscionable conduct (p. 31);
- competition in the fuel market (pp 32–35); and
- proposed takeover of Qantas by Airline Partners Australia (pp 35–37).

Australian Prudential Regulation Authority (APRA)

- ongoing wind-up of superannuation funds that did not meet, or did not seek, licensing (pp 37–38);
- asset backing of defined benefit funds (pp 38–39);
- eligible rollover funds (pp 39–41);
- distribution of APRA press releases (pp 41–42);
- APRA's involvement in efforts to reduce the regulatory burden on entities, including the timetable for any legislative changes (pp 42–44);
- effect of the increasing attention on private equity, particularly international private equity, on APRA's activities (pp 44–45);
- APRA staffing matters (pp 45–47);
- regulation of banking entities, including mortgage brokers (pp 47–49);
- transfer of funds between superannuation entities (pp 49–51);
- disqualification of an actuary (pp 51–52);

3 Transcript page numbers for ACCC, APRA, ASIC and FRC refer to *Proof Hansard*, 15 February 2007 (see the index at Appendix 3 of this report).

-
- APRA licensing process (pp 52–53);
 - political donations to parties by superannuation entities (pp 53 and 54);
 - enhanced role of external auditors in identifying integrity issues, particularly with respect to large corporations (pp 53–54);
 - Wall and Ceiling Superannuation Fund (pp 54–55);
 - collection of superannuation fee data (pp 55–56); and
 - effect on staffing and resources of the conclusion of the superannuation licensing process (pp 56–57).

Australian Securities and Investments Commission (ASIC)

- proposed takeover of Qantas by Airline Partners Australia (pp 57–62 and 64);
- Alinta – allegations of impropriety (pp 62–64);
- Primary Health Care Limited (p. 64);
- AMP's announcement that it will now be checking 35,000 cases in relation to the enforceable undertaking it entered into with ASIC, rather than 7,000 cases as originally estimated (64–65);
- Rabobank (pp 65–66);
- Westpoint: allocation of staff and resources; judicial involvement (pp 66–68);
- Financial Industry Complaints Service (pp 68–69);
- ASIC's involvement in the development of the professional indemnity insurance regime for financial planners (pp 69–71);
- time share products (pp 71–72);
- James Hardie: proceedings in the Supreme Court of New South Wales, including potential impact on compensation arrangements for asbestos victims; indemnification of James Hardie officers and directors (pp 72–76 and 77–80);
- 'shorting' in share market dealings and share lending (pp 76–77);
- ASIC's response to a survey showing that a quarter of companies in the ASX200 have increased working capital levels over the last two years without an increase in earnings (pp 80–81);
- ASIC's new share-trading surveillance system for detecting insider trading and market manipulation (pp 81–82);
- disqualification of directors pursuant to section 206D of the *Corporations Act 2001* (pp 82–83)
- ANAO Audit Report No. 18 of 2006/07 relating to the proportion of complaints by external administrators investigated by ASIC (pp 83–84);
- 2006/07 budget measures: surveillance and enforcement funding (p. 84);
- Sovereign Capital Limited (p. 85);

- transfer of funds between superannuation entities (p. 85);
- ASIC press releases (p. 86); and
- Firepower Technology Limited (p. 86).

Financial Reporting Council (FRC)

- the Simpkins Report on a sector-neutral approach for accounting standards (p. 86);
- non-audit services provided by auditors (pp 86–87);
- FRC funding arrangements – government and non-government (pp 87–88); and
- 2007 Ken Spencer Memorial Lecture (p. 88).

Matters raised - Industry, Tourism and Resources portfolio

1.10 The committee questioned the Resources and Energy area of the department on 15 February 2007. The Industry and Tourism areas of the department, and Tourism Australia, were examined on 16 February 2007.

1.11 Matters examined included the following:

Department of Industry, Tourism and Resources

Resources and Energy⁴

- Task Group on Emissions Trading (pp 91–93);
- ethanol and biodiesel: Ethanol Production Grants Program; Ethanol Distribution Program (pp 94–98, 100–102 and 104);
- Renewable Energy Development Initiative (pp 98–100);
- LPG Conversion Rebate Scheme (pp 102–103);
- Low Emissions Technology Demonstration Fund (pp 104–106);
- clean coal technology, including geosequestration (pp 106–107);
- Australia's involvement in the Asia-Pacific Partnership on Clean Development and Climate (pp 107–108);
- uranium mining and nuclear energy: implementation of the Uranium Industry Framework; work of an IDC examining the Framework, the Uranium Mining, Processing and Nuclear Energy (Switkowski) Review and a House of Representatives committee report into uranium mining (pp 108–110);
- energy demand management and energy efficiency programs (pp 110–111);

4 Transcript page numbers for the Department of Industry, Tourism and Resources (DITR) Resources and Energy area refer to *Proof Hansard*, 15 February 2007 (see the index at Appendix 3 of this report).

-
- Mandatory Renewable Energy Target Scheme (pp 111–112);
 - mine safety, including implementation of the National Mine Safety Framework (pp 112–113); and
 - geothermal energy (pp 113–114).

*Industry*⁵

- budget and expenditure of various programs administered by the department, (pp 2–4);
- R&D tax concessions (pp 4–16);
- resources and coal exports (pp 16–17);
- free trade agreement negotiations with China (pp 17–18);
- Automotive Competitiveness and Investment Scheme (ACIS) (pp 18–20);
- Automotive Market Access Development Strategy (pp 20–21);
- government response to the House of Representatives Standing Committee on Employment, Workplace Relations and Workforce Participation's report entitled *Shifting Gears: Employment in the Automotive Components Manufacturing Industry* (pp 21–22);
- Structural Adjustment Fund for South Australia (pp 22–24);
- development and scope of the 'Global Integration' industry statement (pp 24–26 and 34);
- update on the research project examining structural change in Australian industry (pp 26–27);
- Textile, Clothing and Footwear (TCF) Structural Adjustment Program (pp 28–34);
- funding for electronic authentication validation and notary services (pp 34–35); and
- Commercialising Emerging Technologies (COMET) Program (pp 35–39).

Tourism Australia

- Tourism Australia's view on the current health of Australia's tourism industry (pp 39–40);
- recent challenges relating to the Japanese tourism market; the Japan Action Plan (pp 40–41);

5 Transcript page numbers for the Department of Industry, Tourism and Resources (DITR), Industry and Tourism areas, and Tourism Australia, refer to *Proof Hansard*, 16 February 2007 (see the index at Appendix 3 of this report).

- Tourism Australia's strategic planning and organisational structure (pp 41–42);
- Chinese tourism market (pp 42–43);
- Tourism Australia's international offices (p. 43);
- status of the 'Where the bloody hell are you?' international tourism marketing campaign (pp 44–45);
- proposed redevelopment of Australia's tourism marketing websites (pp 45–46);
- Australia's ability to compete in the global tourism market (pp 46–47);
- delay in the tabling of Tourism Australia's 2005/06 Annual Report (p. 47);
- funding allocated to domestic tourism marketing (pp 47–48);
- Tourism Australia's cost recovery activities, including the sale of tourism-related research (p. 48);
- budget and expenditure relating to various Tourism Australia programs and activities (pp 48–49); and
- possible outsourcing of the Tourist Refund Scheme to the private sector (pp 49–50).

Senator the Hon Michael Ronaldson
Chair

Appendix 1

Documents tabled

14 February 2007

- Received from Mr Michael D'Ascenzo, Commissioner, ATO: Gateway Review Report: Gate 2 – Procurement Strategy Review.

15 February 2007

- Received from Mr Jeremy Cooper, Deputy Chairman, ASIC: Media Release "ASIC commences proceedings relating to James Hardie", dated 15 February 2007.
- Received from Mr Jeremy Cooper, Deputy Chairman, ASIC: Copy of fax from James Hardie to ASX relating to the commencement of civil proceedings by ASIC, dated 15 February 2007.
- Received from Mr Mark Paterson, Secretary, DITR: Media release by the Prime Minister, the Hon John Howard MP, "Biofuels target to be met", dated 22 December 2005.
- Received from Mr John Ryan, Deputy Secretary, DITR: Map of potential CO₂ storage sites.

16 February 2007

- Received from Mr Mark Paterson, Secretary, DITR: Table of departmental program expenditure.
- Received from Mr Bill Peel, Executive General Manager, AusIndustry Division, DITR: Exclusions from the R&D tax concession.

Appendix 2

Abbreviations

AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACIS	Automotive Competitiveness and Investment Scheme
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
CAMAC	Corporations and Markets Advisory Committee
COMET	commercialising emerging technologies
DITR	Department of Industry, Tourism and Resources
FICS	Financial Industry Complaints Service
FIRB	Foreign Investment Review Board
FRC	Financial Reporting Council
GDP	gross domestic product
GST	goods and services tax
IDC	inter-departmental committee
IFRS	International Financial Reporting Standards
LNG	liquefied natural gas
NOPSA	National Offshore Petroleum Safety Authority
OECD	Organisation for Economic Co-Operation and Development

R&D	research and development
SMEs	small and medium enterprises
TCF	textile, clothing and footwear

Appendix 3

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