

## EDUCATION, SCIENCE AND TRAINING

### SENATE LEGISLATION COMMITTEE – QUESTIONS ON NOTICE 2003-2004 BUDGET ESTIMATES HEARING

**Outcome:** CSIRO  
**Output Group:** CSIRO

#### DEST Question No. E229\_04

Senator Carr asked on 4 June 2003.

#### Question:

- (a) Is it correct that CSIRO has no financial exposure to its \$70 million loan to AMC, using Commonwealth loan funds?
- (b) In the event of AMC defaulting on these debts, who bears the financial cost?
- (c) Can you confirm that it will be borne, as suggested by CSIRO staff on Wednesday, 4<sup>th</sup> June, some other government department and not CSIRO?
- (d) Can you please provide a copy of the terms of the loan to CSIRO of the \$70 million of commonwealth funds used for this purpose?

#### Answer:

CSIRO has provided the following response.

#### *Australian Magnesium Corporation (AMC) – Financial Exposure*

- (a) CSIRO has not made any loans to AMC [see answer to part (b)].
- (b) The Commonwealth has provided non-recourse loans totalling \$70 million to CSIRO for it to contribute to the development and commercialisation of new magnesium production technology with AMC (including its subsidiary, Australian Magnesium Operations AMO). In the event of AMC defaulting on the payment of \$70m of royalties then the financial costs of this loss of royalty revenue will be borne by the Commonwealth. Funding was provided to CSIRO as an appropriation from Budget and has already impacted on the fiscal balance.

As part of the loan agreement between the Commonwealth and CSIRO, royalties paid by AMC to CSIRO are required to be returned by CSIRO to the Commonwealth as its loan repayments.

In the event of AMC's insolvency, CSIRO would need to revalue the royalty receivable from AMC with a corresponding impact on the Commonwealth's net worth.

- (c) As noted above in answer to part (b), the Commonwealth and not CSIRO would bear the loss.

- (d) The 1991 arrangement under which the Commonwealth provided \$20 million to enable CSIRO to contribute to the R&D program contained the following terms:
- CSIRO would repay the \$20 million in real terms, that is, CPI adjusted to take account of inflation
  - CSIRO's liability to repay the Commonwealth would be limited to 80% of the royalties and other revenues actually received by CSIRO in relation to the transaction over a 20 year period (with the other 20% being payable by CSIRO to the Queensland Government under a similar arrangement)
  - CSIRO to retain for its own use any receipts in excess of the \$20 million plus CPI.

The 2001 loan arrangement under which the Commonwealth provided \$50 million to enable CSIRO to contribute to the R&D program contained the following terms:

- CSIRO would repay the \$50 million plus interest set at the 10.00am swap reference mid rate published by the Australian Financial Markets Association for a term of 1 year converted to an annual compounded rate at June 1 each year. The Department of Finance have advised that the interest rate applicable for the period June 1, 2003 to 31 May, 2004 is 5.62%
- CSIRO's obligation to repay the Commonwealth would be limited to royalties and other revenues actually received by CSIRO in relation to the transaction over a period beginning 7 years after the commencement of commercial production of magnesium metal; but with a minimum of \$50 million to be repaid (if received by CSIRO) 20 years from the date of first commercial production
- CSIRO's obligation to repay any amount to the Commonwealth would be limited to amounts paid to it by AMC/AMO (less CSIRO's legal, accounting and consultancy costs in the relevant periods).