

# SENATE SELECT COMMITTEE ON FUEL AND ENERGY

## Questions on Notice

Canberra Tuesday 13 July 2010

Department of the Treasury

QoN No.	Hansard Page Reference	Senator	Question
1	30-31	Cormann	<p><b>CHAIR</b>—Let us get straight into it, then. Are you now in a position to provide answers to all the questions you took on notice last Monday?</p> <p><b>Dr Henry</b>—I have, as you know, provided the committee with responses to all of the questions taken on notice. In respect of a number of those questions, having referred the questions to the Treasurer for his consideration, I gave a response to the effect that that sort of information is not generally provided. I presume your question is whether at this point I am able to provide such information, notwithstanding that it is not general practice for such information to be provided. I would, of course, wish to take that question on notice and refer it to the Treasurer for his consideration, since I would want to inquire of the Treasurer whether he wishes to reconsider whether the committee should be provided with additional information. However, that is essentially by way of background, because I am able to say to the committee that it is my understanding that the Treasurer will shortly be putting more information into the public domain, some of which information goes very much to the questions that I took on notice at the last committee hearing.</p> <p><b>Answer:</b></p> <p>Information was provided by the Treasurer in the Government's <i>Economic Statement July 2010</i> to clarify how the revenue estimates for the revised resource taxation arrangements differ from those for the RSPT (released on 2 May 2010).</p>

2	34	Cormann	<p><b>CHAIR</b>—Are you in a position today to tell us what your commodity price assumptions are and what your assumptions are around production volumes at the basis of the assessment of the fiscal impact of the MRRT expanded PRRT?</p> <p><b>Dr Henry</b>—No, I am not and, as I did on the last occasion that we met, I would refer that question to the Treasurer for his consideration.</p> <p><b>Answer:</b></p> <p>Information was provided by the Treasurer in the Government’s <i>Economic Statement July 2010</i> to clarify how the revenue estimates for the revised resource taxation arrangements differ from those for the RSPT (as announced on 2 May 2010). Page 5 of this document notes expected movements in iron ore and coal prices.</p>
3	35	Cormann	<p><b>CHAIR</b>—So what are the actual mineral price and volume assumptions used in the MRRT impact calculations, given that you consider them to have strengthened since the budget?</p> <p><b>Dr Henry</b>—As I have already indicated, that is a question that I will refer to the Treasurer.</p> <p><b>Answer:</b></p> <p>Information was provided by the Treasurer in the Government’s <i>Economic Statement July 2010</i> to clarify how the revenue estimates for the revised resource taxation arrangements differ from those for the RSPT (as announced on 2 May 2010). Page 5 of this document notes expected movements in iron ore and coal prices.</p>

4	36	Cormann	<p><b>CHAIR</b>—Sure. Over what period do the ABARE long-term minerals price and volume forecast go which you considered for the purposes of the budget?</p> <p><b>Dr Henry</b>—I do not know, I am sorry; I would have to take that question on notice.</p> <p><b>CHAIR</b>—Does somebody here know? I would like to minimise the number of questions you take on notice, for understandable reasons.</p> <p><b>Dr Henry</b>—I understand, but I can assure you that with respect to that question I can get you an answer to that question very quickly.</p> <p><b>CHAIR</b>—Even though you might not know the specific period, they are long-term forecasts which will go up to a decade with obviously reducing accuracy moving forward—that is fair to say, isn't it? Long-term: it is not just over the next 12 months; it is over an extended period of time, isn't it?</p> <p><b>Senator HUTCHINS</b>—Can I just ask a question?</p> <p><b>CHAIR</b>—Hang on, can we just get the answer?</p> <p><b>Dr Henry</b>—Senator, perhaps I should know the answer to that question, but I do not. I would like to check it; I would not like to mislead the committee.</p> <p><b>Answer:</b></p> <p>Treasury uses a range of data sources as inputs to inform its preparation of costings of policy measures. ABARE commodity forecasts and projections, which span the period to 2014-15, were one such source of information used to prepare the costings of the Government's revised resource taxation arrangements. The relevant ABARE document is <i>Australian Commodities (March 2010)</i>.</p>
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5	37-38	Cormann	<p><b>CHAIR</b>—You are, of course, spot-on in that last part of your answer. However, we have not been able to find any evidence in the market whatsoever of improvements in the commodity price outlook that might have happened between 1 May and 1 July 2010. On what data are you basing your assessment that, in the final two years of the forward estimates period, commodity prices are likely to increase significantly?</p> <p><b>Dr Henry</b>—A mix of forecasts internally generated and information supplied by the companies themselves.</p> <p><b>CHAIR</b>—So the companies themselves have said to you that they expect significant increases in commodity prices in the last two years of the forward estimates period.</p> <p><b>Dr Henry</b>—I think so. Certainly generally that is correct. The only reason I am hesitating is because your question relates to both of those years. I think it is the case that in both of those years the companies indicated higher commodity prices than we had been thinking previously.</p> <p><b>CHAIR</b>—Can you share the data with us? Have those companies released that data publicly? Have they advised the market of expectations of significantly higher—</p> <p><b>Dr Henry</b>—I do not know whether and to what extent the companies have published that information. I would have to take that on notice. As to whether the information can be shared with the committee, again that is a question I would wish to refer to the Treasurer.</p> <p><b>Answer:</b></p> <p>Treasury is not aware of any official media release being issued in the period 1 May 2010 to 1 July 2010 by BHP Billiton, Rio Tinto or Xstrata indicating significantly increased price expectations over the relevant period. However, an official Xstrata media release, dated 5 May 2010, (available on their website) announced that higher contract coal prices have been settled upon.</p> <p>BHP Billiton, Rio Tinto and Xstrata indicated to Treasury that they expect a significant increase in prices received, in part due to a progressive shift from pricing under long term contract arrangements to shorter term pricing linked more closely to movements in the spot market.</p> <p>Treasury is not in a position to release the pricing information provided by the companies as it was provided on a confidential basis.</p>
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6	38-39	Cormann	<p><b>CHAIR</b>—The question really is whether anything happened between 1 or 2 May and 2 July which can give you cause to significantly change your commodity price forecasts. What is the event that happened, other than information from the companies? Is there anything else, other than information provided directly to you by the companies?</p> <p><b>Dr Henry</b>—As I indicated, I will have to take on notice the first part of that question. As I have already indicated, in revising our commodity price forecasts we did some work internally, which did lead to upward revisions in our commodity price forecasts. We relied on publicly available information and we spoke to the companies. As I understand it, in discussions with the companies there was a further but relatively modest upward revision to the forecast we had already come to. I do not have with me the price decomposition of those two upward revisions to commodity prices and will have to take on notice that question.</p> <p><b>Answer:</b></p> <p>Changes to commodity price and exchange rate assumptions contributed positively to the parameter revisions over the forward estimates (which accounted for a \$6.0 billion increase in resource tax revenue), while changes to expense assumptions made a negative contribution to the overall parameter revisions. The changes to commodity price assumptions reflect internal Treasury advice that iron ore and coal prices should be revised up, as well as company advice, including that prices received would be positively influenced by the shift toward shorter term pricing of sales.</p>
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7	40	Cormann	<p><b>CHAIR</b>—Will you be able to provide us on notice—I know that you will have to check with the Treasurer, but I consider this information to be in the public interest—a table with all of the changes in assumptions about all of the variables that have led to the fiscal outcome of a \$10½ billion revenue projection for the 2012-14 budget forward estimates period? If the Treasurer is listening, he might want to consider making that part of his announcement. We would be very grateful.</p> <p><b>Dr Henry</b>—I will certainly take it on notice and consult with the Treasurer.</p> <p><b>Answer:</b></p> <p>Information was provided by the Treasurer in the Government’s <i>Economic Statement July 2010</i> to clarify how the revenue estimates for the revised resource taxation arrangements differ from those for the RSPT (released on 2 May 2010).</p> <ul style="list-style-type: none"> <li>• Policy changes accounted for a \$7.5 billion decrease in revenue, after taking into account parameter revisions.</li> <li>• Parameter revisions accounted for a \$6.0 billion increase in resource tax revenue, with changes to commodity price and exchange rate assumptions contributing positively to the overall increase and changes to expense assumptions detracting from the overall increase.</li> </ul>
8	40	Cormann	<p><b>CHAIR</b>—If you had not changed your assumptions on commodity prices and volumes, what would have been the net fiscal impact of the MRRT expanded PRRT deal then?</p> <p><b>Dr Henry</b>—As I have indicated previously, I think you have asked that question previously.</p> <p><b>CHAIR</b>—No, the question I asked previously was how much you would have raised under the RSPT if you changed all of your assumptions equally. My question now is a bit different.</p> <p><b>Dr Henry</b>—It is a different question; you are quite right. But I provide the same answer.</p> <p><b>Answer:</b></p> <p>The Government’s <i>Economic Statement July 2010</i> indicates that the improved resource taxation arrangements would have raised \$4.5 billion in the absence of any parameter revisions.</p>

9	42	Cormann	<p><b>CHAIR</b>—We had Western Australian treasury here this morning. They tell us that they expect between 60 and 65 per cent of the revenue to come from Western Australia. I refer you also here to the quote by Mr Parker on page 15 of the <i>Hansard</i> transcript from last week's hearing where he said that it 'would not be a difficult piece of analysis' to identify how much of the \$10½ billion would come from Western Australia, Queensland or other states. Are Western Australian treasury right when they tell us that around \$6.8 billion of revenue from the MRRT would come from Western Australia?</p> <p><b>Dr Henry</b>—I do not know and I would have to take that question on notice.</p> <p><b>Answer:</b></p> <p>See answer to Question 10.</p>
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10	42-43	Cormann	<p><b>CHAIR</b>—Please do. I table the Western Australian treasury methodology and their assumptions—for your purpose—because the Western Australian treasury and the Western Australian government are being entirely transparent and they are very keen for this information to be scrutinised by yourselves. In fact, this morning WA treasury officials explained to us that they have not had an opportunity yet to talk to anyone in the federal government about the way the MRRT and the expanded PRRT arrangements are going to work out for them and a whole range of associated issues. I did offer to provide you with the acting undertreasurer’s mobile number, but I think you are making separate arrangements. But if you can please on notice review the conclusions of the Western Australian treasury, particularly where they come to the conclusion that nearly \$7 billion conservatively—out of \$10½ billion—would come out of Western Australia and tell me whether you agree and if you do not agree why and on what basis you come to a different view. Is that something you can take on notice?</p> <p><b>Dr Henry</b>—I can. I am curious to know—I guess I can find out for myself—whether the Western Australia treasury has indicated where the \$7 billion is going to come from.</p> <p><b>CHAIR</b>—I am not going to go through all of the evidence but I invite you to review their evidence this morning.</p> <p><b>Answer:</b></p> <p>MRRT is a profits-based tax with tax assessed on a project by project basis and with losses transferable between projects operated by the same company. As the level of profits from mining projects is not available on a State by State basis, and there is no information available on how many mining companies might elect to transfer losses between taxable projects (which may be located in different states), it is not possible to determine the distribution of MRRT profits by State with any certainty.</p>
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11	46-47	Hutchins	<p><b>Senator HUTCHINS</b>—Mr Chairman, you will get your chance again. Would there have been any other government departments, like the Queensland Treasury? Let us go back to Western Australia. As I understand it, the collection of the royalties in Western Australia is not done by Treasury; it is done by the Department of Mines and Petroleum. They actually administer the tax. Would it be more appropriate for, say, your body, the consultative committee, to speak to them in addition to Treasury?</p> <p><b>Dr Henry</b>—It may be. I do not know. I was not a member of that panel and I simply cannot recall. I do not know whether anyone else can. No. I am sorry, Senator. I would have to take that on notice.</p> <p><b>Senator HUTCHINS</b>—Could you take that on notice, Dr Henry.</p> <p><b>Dr Henry</b>—Yes, certainly.</p> <p><b>Senator HUTCHINS</b>—It would be interesting to see how many of the state bureaucracies—not just, say, the cover letter of Western Australian government or New South Wales government but whether or not their variety of government departments—were involved in the discussions. If you could take that on notice it would be appreciated.</p> <p><b>Answer:</b></p> <p>At least 10 State and Territory departments had some engagement with Treasury on RSPT related matters. This included the Treasury departments of all States and Territories (other than the ACT) who met with the Panel in Canberra (Victoria and WA attended by phone).</p>
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12	49-50	Cormann	<p><b>CHAIR</b>—Whose idea was the 25 per cent extraction allowance?</p> <p><b>Dr Henry</b>—I indicated last time that officials were not party to the face-to-face discussions that occurred between the government and the mining executives.</p> <p><b>CHAIR</b>—Does that mean that you do not know?</p> <p><b>Dr Henry</b>—Well, I cannot be sure. I have a view, but I cannot be sure.</p> <p><b>CHAIR</b>—So we do not know whether it was an idea that came from the government or whether it was an idea that came from the companies themselves?</p> <p><b>Dr Henry</b>—I think it was an idea that came from the companies, but I cannot be sure.</p> <p><b>CHAIR</b>—But it was certainly not an idea that came from Treasury?</p> <p><b>Dr Henry</b>—I can confirm that it was not an idea that came from Treasury.</p> <p><b>CHAIR</b>—Who came up with the 25 per cent figure?</p> <p><b>Dr Henry</b>—Again, I do not know.</p> <p><b>CHAIR</b>—So you do not know how that was determined?</p> <p><b>Dr Henry</b>—No, I do not.</p> <p><b>CHAIR</b>—Do you know what the effect on the budget is going to be of the 25 per cent extraction allowance?</p> <p><b>Dr Henry</b>—I am not sure that it is possible to answer that question. But I do not, no.</p> <p><b>CHAIR</b>—Perhaps you could take it on notice and see whether you can answer what the fiscal impact specifically of the 25 per cent extraction allowance is going to be.</p> <p><b>Dr Henry</b>—Yes. I am certainly happy to take it on notice. I am just indicating that I am not sure that the question can be answered, but we will see.</p> <p><b>Answer:</b></p> <p>It is not usual practice for government to release estimates of the revenue impacts of the individual components that make up revenue estimates for policy measures. To do so would be potentially misleading due to important interactions between components in determining the overall revenue implications of a measure.</p>
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	51	Cormann	<p><b>CHAIR</b>—In your analysis, in your modelling of the fiscal impact, have you assessed how the state royalty credit arrangements interact with revenue from coal versus revenue from iron ore?</p> <p><b>Dr Henry</b>—Yes.</p> <p><b>CHAIR</b>—Can you share your conclusions with us?</p> <p><b>Dr Henry</b>—I will have to take that question on notice.</p> <p><b>Answer:</b></p> <p>Net MRRT revenue is determined as a residual amount after the payment of royalties. Net MRRT revenue will be lower where royalties account for a higher proportion of MRRT assessable mining profits.</p>
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13	52	Cormann	<p><b>CHAIR</b>—My judgment relies on the judgment of the West Australian Treasury and the West Australian government, because their assessment is that, because of the interaction between state royalties and the MRRT as it relates to coal as opposed to iron ore, that the larger share of revenue will come from iron ore. I would like to know how much of the share would come from iron ore as opposed to coal.</p> <p><b>Dr Henry</b>—I understand. We will, as I indicated, take that question on notice and see if we are able to provide the committee with that level of detail.</p> <p><b>CHAIR</b>—By five pm on Friday?</p> <p><b>Dr Henry</b>—I will ask the Treasurer and we will provide an answer to the question by five pm on Friday.</p> <p><b>CHAIR</b>—I do not mean to be cute here but obviously we are running hard now against political cycles and pre-election deadlines. If the Treasurer and the Gillard government were of a mind not to answer that question, they are actually under an obligation to state the public interest reasons as to why they think it is not in the public interest for that information to be provided. So next time round I do not want to have just a one-line answer which says, ‘The government does not provide this level of detail consistent with usual budget practice.’ The next time round either we would like to see the answer to that question or, if the government does not think it is in the public interest for an answer to be provided, a clear explanation as to why they think that is the case so that the government can be judged on that assessment.</p> <p><b>Answer:</b></p> <p>It is not usual practice for government to release estimates of the revenue impacts of the individual components that make up revenue estimates for policy measures. To do so would be potentially misleading due to important interactions between components in determining the overall revenue implications of a measure.</p>
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14	53	Cormann	<p><b>CHAIR</b>—Who was the most senior Treasury official directly involved in the negotiations between the government and BHP, Rio and Xstrata?</p> <p><b>Dr Henry</b>—As I have indicated, there was no Treasury official directory directly involved in the negotiations as such. There were Treasury officials who were, during that time, having discussions with senior executives of those companies about numbers and design issues.</p> <p><b>CHAIR</b>—So those Treasury officials were waiting in the Treasurer’s office and somebody would come in and out of the negotiations with BHP, Rio and—</p> <p><b>Dr Henry</b>—No. I would have to check, but I think that most—and maybe all—of those consultations occurred during that period by phone. I think the Treasury officials, on all occasions—I would need to check—would have been in the Treasury building.</p> <p><b>Answer:</b></p> <p>Treasury officials involved in the negotiation process were in the Treasury building and all engagement with them was conducted by phone.</p>
15	53-54	Cormann	<p><b>CHAIR</b>—When did you first see the final negotiated agreement?</p> <p><b>Dr Henry</b>—When did I first see it?</p> <p><b>CHAIR</b>—Yes.</p> <p><b>Dr Henry</b>—It was finalised rather late. It was finalised not long before the announcement. All I can say in response to that is that I saw it shortly before the announcement.</p> <p><b>CHAIR</b>—How shortly before the announcement?</p> <p><b>Dr Henry</b>—I would need to check, but I think the night before the announcement.</p> <p><b>CHAIR</b>—Like at 9 pm, 10 pm?</p> <p><b>Dr Henry</b>—I really do not know.</p> <p><b>CHAIR</b>—Was it early evening or late evening?</p> <p><b>Dr Henry</b>—I do not know.</p> <p><b>Senator HUTCHINS</b>—Had you eaten?</p> <p><b>Dr Henry</b>—That is a very good question.</p> <p><b>CHAIR</b>—It is not that long ago. You say you cannot recall it.</p> <p><b>Dr Henry</b>—I simply cannot recall. I am not trying to be unhelpful. I simply cannot recall.</p> <p><b>Answer:</b></p> <p>Dr Henry first saw the final negotiated agreement early in the evening of 1 July 2010.</p>

16	55	Fifield	<p><b>CHAIR</b>—To confirm: the advice we are going to get from the Treasurer imminently will clearly separate any changes to revenue projections due to parameter variations from those that are due to policy changes?</p> <p><b>Dr Henry</b>—Yes. That is my understanding. As I indicated earlier, I have not seen the final version of any such document, but I understand that that is the Treasurer’s intention.</p> <p><b>Senator FIFIELD</b>—Dr Henry, you say you have not seen the final version of that document. You would have seen a draft version. I assume it has been drafted within Treasury or is it a document which requires input from the Department of Finance and Deregulation as well?</p> <p><b>Dr Henry</b>—I am going to seek the Treasurer’s counsel on how I should answer that question.</p> <p><b>Answer:</b></p> <p>The document at issue, <i>Economic Statement July 2010</i>, was released on 14 July 2010.</p>
17	55-56	Fifield	<p><b>Senator FIFIELD</b>—If I might phrase the question in a different way: are we talking about an earlier than usual MYEFO being released?</p> <p><b>Dr Henry</b>—I have no knowledge of an earlier than usual MYEFO. I can confirm that.</p> <p><b>Senator FIFIELD</b>—You can confirm that?</p> <p><b>Dr Henry</b>—I can confirm that I have no knowledge of an earlier than usual MYEFO, but one has to be careful.</p> <p><b>Senator FIFIELD</b>—Do you not have knowledge of that because a decision has not been taken, as opposed to preparations currently under way to provide that option?</p> <p><b>Dr Henry</b>—I feel I am in a difficult position without the Treasurer’s guidance. I do not want to put him in a difficult position by answering these questions. So I think I will refer these questions to the Treasurer.</p> <p><b>Answer:</b></p> <p>The document at issue, <i>Economic Statement July 2010</i>, was released on 14 July 2010.</p>

18	56	Fifield	<p><b>Senator FIFIELD</b>—Perhaps you could answer this question. Have previous treasurers released earlier than usual MYEFOs shortly before elections or perhaps even after an election has been called but before the caretaker period starts?</p> <p><b>Dr Henry</b>—I am hesitating on the ‘earlier than usual’ bit. In my experience—and I think I am right here—MYEFO is a document which can be released at any time between the start of October and the end of January. MYEFOs published in that period would be regarded as usual timing, these days anyway. They have been published only since the Charter of Budget Honesty was enacted. It is certainly the case that MYEFOs were published after the government—that is, the former government—indicated that it was calling an election.</p> <p><b>Senator FIFIELD</b>—That is true, but before the caretaker period formally commences?</p> <p><b>Dr Henry</b>—I would need to check that. I think there is an instance of MYEFO having been published during the caretaker period.</p> <p><b>Answer:</b></p> <p>The document at issue, <i>Economic Statement July 2010</i>, was released on 14 July 2010.</p>
19	58	Cormann	<p><b>CHAIR</b>—Sure. But the thing is that you have attempted it and you have done the work—that is what we assessed last time—and you have come up with a conclusion. With all of the provisos that that is a long-term forecast, is your assessment of the impact higher or lower than the Goldman Sachs JBWere assessment of \$35 billion in lost revenue?</p> <p><b>Dr Henry</b>—I will obviously want to refer that question to the Treasurer.</p> <p><b>Answer:</b></p> <p>It is not the usual practice of governments to release the medium and long term revenue impacts of individual measures. The Government is committed to its fiscal strategy to: return the Budget to surplus by 2012-13; achieve budget surpluses, on average, over the medium term; keep taxation as a share of GDP, on average, below the level for 2007-08; and improve the Government’s net financial worth over the medium term.</p>

20	59	Cormann	<p><b>CHAIR</b>—Have you assessed the status quo tax status versus the tax status of mining companies or projects once the MRRT applies? You did that work in the context of the RSPT.</p> <p><b>Dr Henry</b>—I must be a bit slow; I am sorry. Are you asking whether we have assessed the total tax burden—</p> <p><b>CHAIR</b>—Yes.</p> <p><b>Dr Henry</b>—as a proportion of, let us say, accounting profit? That is the sort of thing? I really do not know. For individual companies, you mean?</p> <p><b>CHAIR</b>—Yes, or projects.</p> <p><b>Dr Henry</b>—By individual projects?</p> <p><b>CHAIR</b>—Have you done case studies or have you made an overall assessment as to what the average impact would be?</p> <p><b>Dr Henry</b>—The average impact? I do not know, but that is relatively easy to find out. I will take that one on notice.</p> <p><b>Answer:</b></p> <p>The Treasury has not undertaken company based case study analysis of the MRRT or an analysis of its average impact on companies. A hypothetical example is included in the <i>A New Resource Taxation Regime</i> fact sheet on the Government's future tax website: <a href="http://www.futuretax.gov.au">www.futuretax.gov.au</a>. Its purpose is to show how the MRRT would operate.</p>
21	62	Cormann	<p><b>CHAIR</b>—Out of the \$10½ billion, how much is expected to come from existing projects?</p> <p><b>Dr Henry</b>—I do not know. I do not have that information with me. I will have to take that question on notice.</p> <p><b>CHAIR</b>—Just to put context around the question, I assume that economic rent would be incorporated into a market valuation, would it not?</p> <p><b>Dr Henry</b>—One would hope so. Indeed.</p> <p><b>Answer:</b></p> <p>The answer to this question depends upon how existing projects are defined. If existing projects are defined to include both those that are currently operating and those that are under development or consideration, then it is likely that most, if not all, of the \$10.5 billion in additional revenue from resource projects in 2012-13 and 2013-14 will come from existing projects.</p>



