

The Senate

Standing Committee on Economics

Budget estimates 2007–08

June 2007

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Budget Estimates

Report to the Senate

Introduction

1.1 On 9 May 2007 the Senate referred to the committee for examination and report the following documents in relation to the Industry, Tourism and Resources, and Treasury portfolios:

- Particulars of proposed expenditure in respect of the year ending on 30 June 2008 [Appropriation Bill (No. 1) 2007-2008];
- Particulars of certain proposed expenditure in respect of the year ending on 30 June 2008 [Appropriation Bill (No. 2) 2007-2008];
- Particulars of proposed supplementary expenditure in respect of the year ending on 30 June 2007 [Appropriation Bill (No. 5) 2006-2007]; and
- Particulars of certain proposed supplementary expenditure in respect of the year ending on 30 June 2007 [Appropriation Bill (No. 6) 2006-2007].¹

General comments

1.2 The committee received evidence from Senator the Hon George Brandis SC, representing the Minister for Industry, Tourism and Resources; Senator the Hon Richard Colbeck, representing the Treasurer and the Minister for Revenue and Assistant Treasurer; Senator the Hon Helen Coonan, representing the Treasurer and the Minister for Revenue and Assistant Treasurer; Senator the Hon Nick Minchin representing the Treasurer, the Minister for Revenue and Assistant Treasurer, and the Minister for Industry, Tourism and Resources; 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 four days of hearings, from 28 to 31 May 2007, and examined the Industry, Tourism and Resources portfolio and the Treasury portfolio. In total the committee met for 36 hours and 11 minutes, excluding breaks.

Questions on notice

1.4 The committee draws the attention of all departments and agencies to the deadline of Friday, 27 July 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 responses. The secretariat has prepared indexes for questions taken on notice during

1 *Journals of the Senate*, No. 143, 9 May 2007, pp 3753–3754.

and after the hearings and these will be available on the following website http://www.aph.gov.au/Senate/committee/economics_ctte/estimates/bud_0708/index.htm.

Changes to agency output structures

1.5 The committee notes that there was only one change to the output structures of the departments and agencies in the Industry, Tourism and Resources and Treasury portfolios since the last budget estimates round.

1.6 The Australian Taxation Office has changed the wording of its output 1.1.4. Previously the output read:

Compliance assurance and support for transfers and regulation of superannuation funds compliance with retirement income standards.

The words 'compliance with retirement income standards' have been removed so the output now reads:

Compliance assurance and support for transfers and regulation of superannuation funds.²

1.7 There were no other changes to agency output structures in the Industry, Tourism and Resources or Treasury portfolios from the previous year.

Record of proceedings

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

1.9 Copies of the Hansard transcripts are available through the internet at http://www.aph.gov.au/Senate/committee/economics_ctte/estimates/bud_0708/index.htm. Copies are also tabled with this report for the information of the Senate.

Examination of issues raised in previous committee inquiries

1.10 The committee examined several issues that were raised in previous inquiries undertaken by the committee. These issues [and the associated committee reports] included:

- springboarding provisions for agricultural chemicals [report into the provisions of the Intellectual Property Laws Amendment Bill 2006 – August 2006];
- proportioning rule related to retirement income, and tax treatment of non-super additional income for retirees [report into the provisions of the Tax Laws Amendment (Simplified Superannuation) Bill 2006 and related bills – February 2007]; and

2 *Portfolio Budget Statements 2007-08*, Treasury portfolio, p. 207.

- allegations of unconscionable conduct in retail tenancy agreements [report into the effectiveness of the Trade Practices Act 1974 in protecting small business – March 2004].

Matters raised - Industry, Tourism and Resources portfolio

1.11 On 28 May 2007, the committee examined the estimates for the:

- Department of Industry, Tourism and Resources;
- IP Australia; and
- Tourism Australia.

1.12 Matters examined included the following:

Department of Industry, Tourism and Resources³

Industry

- Australian Building Codes Board – disability access standards and building energy efficiency ratings (pp 4–14);
- departmental, AusIndustry, Invest Australia and Office of Small Business advertising campaigns (pp 21–30);
- 'Global Integration' industry statement (pp 30–35);
- Global Opportunities programme (pp 35–37);
- Intermediary Access programme (pp 37–40);
- establishment of Australian industry productivity centres (pp 40–41);
- R&D tax concession, including the beneficial ownership test and how companies qualify for the 175% premium concession (pp 42–52 and 61–62);
- the department's response to the Productivity Commission report entitled 'Public support for science and innovation' (pp 52–53);
- structural adjustment packages for the textiles, clothing and footwear industries, including Blundstone Footwear (pp 53–56);
- Commercial Ready and Commercial Ready Plus programmes (pp 56–58);
- defence industry policy statement, including the Government's response to the Senate Foreign Affairs, Defence and Trade Committee's report into naval shipbuilding (pp 58–60);
- Commercialising Emerging Technologies (COMET) programme (pp 60–61);

3 Transcript page numbers for the Department of Industry, Tourism and Resources, IP Australia and Tourism Australia refer to *Proof Hansard*, 28 May 2007 (see the index at Appendix 3 of this report).

- extension of the Building Entrepreneurship in Small Business programme (pp 62–63).

Resources and Energy

- wind turbine industry assistance package (pp 92–93);
- ethanol production funding (pp 93–95);
- grants to HIsmelt (pp 95–98);
- nuclear energy and uranium mining, including the Prime Minister's announcement on nuclear energy, the work of the uranium industry framework implementation group and nuclear strategy inter-departmental committee, and Australia's intended participation in the Generation IV Nuclear Reactor International Forum (pp 98–113);
- Prime Ministerial Task Group on Emissions Trading (pp 113–114);
- Low Emissions Technology Demonstration Fund (pp 114–115);
- Renewable Energy Development Initiative (pp 115–116);
- Commercial Ready programme (pp 116–117);
- Carbon Capture and Storage programme (pp 117–120); and
- rail infrastructure issues and coal-loading and export problems (pp 120–122).

IP Australia

- springboarding provisions for agricultural chemicals – following up on a recommendation arising out of the committee's report into the provisions of the Intellectual Property Laws Amendment Bill 2006 (pp 14–18 and 41–42); and
- media release issued on 25 May 2007 by the Hon Bob Baldwin MP, Parliamentary Secretary to the Minister for Industry, Tourism and Resources, entitled 'Reducing red tape for patent applicants' (pp 18–21).

Tourism Australia

- Australian Tourism Development programme, in particular, the administration of grants under the programme (pp 63 and 66–70);
- Tourism Australia's marketing activities and international advertising campaigns (pp 63–64, 70–72, 86–89 and 90–91);
- Tourism Australia's cost recovery activities (p. 64);
- budget and expenditure relating to various Tourism Australia programmes and activities (pp 64–65 and 72–77);
- cost of rolling out the Brand Australia campaign in 14 overseas markets (p. 65);
- domestic tourism campaigns (pp 65 and 91);

-
- Tourism Conservation Partnerships Initiative (p. 67);
 - business ready programme for indigenous tourism (p. 67);
 - Tourism Australia media releases (pp 77–81);
 - recent challenges relating to the Japanese tourism market (pp 81–82);
 - the proposal for Ms Yoshino Kimura to star in a new Australian soap opera to be screened in Japan (pp 82–84);
 - business events and business tourism campaign (pp 84–85);
 - ministerial visit to the United States as part of the G'day USA campaign (pp 85–86);
 - changes to the tourist refund scheme (pp 89–90); and
 - Tourism Australia websites (pp 91–92).

Matters raised - Treasury portfolio

- 1.13 On 29 May 2007, the committee examined the estimates for the:
- Treasury – outcome 3: effective taxation and retirement income arrangements;
 - Australian Taxation Office;
 - Inspector-General of Taxation; and
 - Australian Prudential Regulation Authority.
- 1.14 On 30 May 2007, the committee examined the estimates for the:
- Australian Competition and Consumer Commission; and
 - Australian Securities and Investments Commission.
- 1.15 On 31 May 2007, the committee examined the estimates for the:
- Treasury – outcome 1: sound macroeconomic environment;
 - Corporations and Markets Advisory Committee;
 - Australian Accounting Standards Board;
 - Treasury – outcome 2: effective government spending arrangements; and
 - Treasury – outcome 4: well functioning markets.
- 1.16 Matters examined included the following:

Treasury – Outcome 3: Effective taxation and retirement income arrangements and the Australian Taxation Office⁴

- forestry and non-forestry management investment schemes (pp 4–10);
- R&D tax concession (pp 10–17);
- ATO staff employment arrangements (pp 17–18 and 39–40);
- Australian Valuation Office – departure of general manager, and employment arrangements (pp 18–22);
- effect of private equity bids on revenue (pp 22–28 and 55–56);
- accuracy of budget surplus calculations and revenue estimates (pp 28–37);
- recent decision of the ATO to remove charitable status from Aid/Watch (pp 37–39);
- closure of ATO debt legal unit in Tasmania, and general ATO staffing levels in Tasmania (pp 40–45 and 84–85);
- superannuation fund estimates and projections (pp 45–46);
- modelling of personal income tax cuts (pp 46–52);
- revenue forgone figures under budget measure 'Iraq — continued funding for stabilisation and reconstruction activities' (pp 52–53);
- New Business Intensive Assistance programme (pp 53–55);
- share buy-backs (pp 56–57);
- update on Wickenby project (pp 57–58);
- corporate rights issues (pp 58–59);
- repayment of HECS and HECS-HELP debts (pp 59–60);
- ANAO Audit Report No. 16, *Administration of Capital Gains Tax Compliance in the Individuals Market Segment* (pp 60–62);
- ATO marketing and advertising campaigns (pp 62–67);
- superannuation compliance, level of uncollected superannuation guarantee and lost members register (pp 67–71);
- regulation of self-managed superannuation funds (pp 71–73);
- return of excise for damaged alcoholic products (pp 73–74);
- entrepreneurs tax offset (pp 74–76);
- simplified tax system (pp 76–79);
- withholding tax changes (pp 79–80);

4 Treasury – outcome 3 and the Australian Taxation Office were heard together. Transcript page numbers for the Treasury – outcome 3, ATO, Inspector-General of Taxation and APRA refer to *Proof Hansard*, 29 May 2007 (see the index at Appendix 3 of this report).

- criminal syndicates and tax fraud (pp 80–83);
- Inspector-General of Taxation's review into the time taken by the ATO to issue public rulings (pp 83–84 and 92–94);
- scam emails on ATO letterhead (pp 83–84 and 90);
- development of the e-tax system (pp 85–89 and 90–91);
- tax agents complaints line (pp 89–90);
- ATO compliance programmes, including high-wealth individuals taskforce (pp 91–92);
- total tax debts (pp 94–96); and
- proportioning rule related to retirement income, and tax treatment of non-super additional income for retirees – following up on recommendations outlined by the committee in its report into the Tax Laws Amendment (Simplified Superannuation) Bill 2006 (pp 96–100).

Inspector-General of Taxation

- Inspector-General of Taxation's review into the time taken by the ATO to issue public rulings (pp 100–101); and
- ongoing consultation arrangements between the Inspector-General and the ATO (pp 101–102).

Australian Prudential Regulation Authority

- recruitment and retention of APRA staff (pp 102–103);
- foreshadowed changes to APRA's powers (pp 104–105);
- recent disqualification of four trustees and an auditor and the extent of APRA's disqualification powers (pp 105–107);
- proposal for card access to superannuation funds through teller machines (pp 107–109);
- lending policies of banks (p. 109);
- extent of APRA's focus on superannuation issues in the coming financial year (pp 109–110);
- regulation of custodians in Australia, such as Northern Trust (pp 110–112);
- new prudential standards and guidance for the life insurance industry and friendly societies (pp 112–113); and
- solvency of defined benefit funds (pp 113–114).

Australian Competition and Consumer Commission (ACCC)⁵

- allegations of petrol price fixing in Victoria, in particular, the implications of the recent decision of the Federal Court in the 'Geelong case' (pp 4–25);
- adequacy of the regulatory framework in relation to the development of a fibre-to-the-node internet network in Australia, and ACCC involvement in Telstra and G9 fibre-to-the-node proposals (pp 25–44 and 56–64);
- allegations of unconscionable conduct in retail tenancy arrangements, including discussion of a recommendation on this matter in the committee's March 2004 report into the effectiveness of the Trade Practices Act 1974 in protecting small business (pp 44–52 and 53–54); and
- ACCC interest in private equity deals (pp 52–53 and 54–56).

Australian Securities and Investments Commission

- ASIC's response to the collapse of Fincorp, Australian Capital Reserve and Westpoint (pp 64–80 and 96–100);
- issues relating to ASIC litigation success rate, its staffing and funding levels and measures to ensure there is no internal systemic corruption in investigations (pp 80–84);
- James Hardie – progress of prosecutions, and ASIC's role in the development of a model for compulsory public indemnity insurance (pp 84–86);
- level of foreign ownership in relation to recent Qantas takeover proposal and the regulatory issues this might pose for ASIC (pp 86–87);
- implementation of the Uhrig Review (pp 87–89);
- ASIC's supervisory role of the ASX, cooperation between ASIC and the ASX, and matters referred to ASIC by the ASX since 2000 (pp 89–93);
- ASIC's May 2007 financial services reform policy statements and similarities with the Corporations Legislation Amendment (Simpler Regulatory System) Bill 2007 (pp 93–94);
- ASIC's ongoing operational surveillance of financial planners (pp 94–95);
- research houses and the role they play in property structures (pp 95–96);
- Northern Trust and ASIC's licensing requirement for a custodian entity (p. 101);
- ASIC's work on companies' internal dispute processes and upgrade of ASIC's public register systems (pp 102–103);

5 Transcript page numbers for ACCC and ASIC refer to *Proof Hansard*, 30 May 2007 (see the index at Appendix 3 of this report).

-
- case of Mr Gabriel Pennicott and role of ASIC in relation to apprehension and extradition of individuals under ASIC investigation who have fled the jurisdiction (pp 104–106);
 - ASIC's role in assisting 170 NSW teachers who received misleading switching advice from First Capital Financial Planning (pp 106–108);
 - Little Super Fund (p. 108);
 - On Ground Logistics (pp 108–109); and
 - April Fools' Day website (p. 109).

Treasury – outcome 1: sound macroeconomic environment⁶

- commodity price mining boom and its effect on the terms of trade, the labour market and wages, discussion of agricultural export income (pp 4–13); and
- the economics of ethanol production, including EU and US positions, and the effects of peak oil on the terms of trade (pp 13–20).

Corporations and Markets Advisory Committee

- report into long-tail liabilities (pp 20–23); and
- CAMAC's obligations under the Uhrig reforms (p. 23).

Australian Accounting Standards Board

- the difficulties organisations like the AASB have in attracting staff (pp 23–24);
- convergence of New Zealand and Australian accounting standards (p. 25);
- different tiers of accounting standards applying to different parts of the financial sector; particular discussion on the decision not to proceed with a third tier and the companies that have been affected by this decision (pp 26–29);
- continuous disclosure regime as it applies to companies listed on the ASX (pp 29–31); and
- Government Finance Statistics and Generally Accepted Accounting Principles Harmonisation Project (pp 31–33).

Treasury – outcome 2: effective government spending arrangements

- the Intergenerational Report and several related matters including the report's estimated productivity figures, defence spending as a proportion of GDP, demographics and life expectancy figures (pp 33–42);
- Treasury departmental expenses, Budget Papers No. 1 and No. 3 (pp 42–44);

6 Transcript page numbers for the Treasury – outcomes 1, 2 and 4), CAMAC and the AASB refer to *Proof Hansard*, 31 May 2007 (see the index at Appendix 3 of this report).

- climate change and the establishment of a climate change unit of 4-5 staff in Treasury, a group of 11 staff undertaking modelling of climate change mitigation scenarios and whole of government coordination issues relating to this group (pp 44–53);
- discussion of the appropriations framework (pp 54–56);
- Future Fund – discussion concerning adequacy of assets base and rates of return to meet unfunded liabilities (pp 56–62); and
- revenue foregone as a result of assets sales and the difficulties associated with making such an assessment (pp 62–68).

Treasury – outcome 4: well functioning markets

- adequacy of regulatory arrangements and protection of investors in light of the increasing prevalence of private equity buyouts (pp 68–71); and
- collapse of Westpoint and Fincorp and the implications for the adequacy of the regulatory environment in relation to debentures; the duties of trustees in relation to debenture holders (pp 71–78).

Senator the Hon Michael Ronaldson
Chair

Appendix 1

Documents tabled

28 May 2007

- Received from Ms Patricia Kelly, Deputy Secretary, DITR: Advertisement entitled 'Collective bargaining: making it easier to do business' and table of expenditure on collective bargaining education in 2006-07.
- Received from Mr Craig Pennifold, Head of Division, Innovation Division, DITR: COMET evaluation terms of reference.
- Received from Mr Mark Paterson, Secretary, DITR: Table of departmental program expenditure.
- Received from Mr Mark Paterson, Secretary, DITR: Answers to Senator Carr's questions on the R&D tax concession.

29 May 2007

- Received from Mr Michael D'Ascenzo, Commissioner of Taxation, ATO: Draft Tax Office Remuneration Policy.
- Received from Mr Michael D'Ascenzo, Commissioner of Taxation, ATO: Non SES Australian Workplace Agreements (AWAs) – Draft Guidelines for National Program Managers on the application of non SES AWAs in the Tax Office.
- Received from Mr Michael D'Ascenzo, Commissioner of Taxation, ATO: Full-time equivalent staffing numbers and Tax Office appropriation and GST administration figures.
- Received from Mr Michael D'Ascenzo, Commissioner of Taxation, ATO: ATO staff numbers in Hobart, Tasmania and overall (head count).

30 May 2007

- Received from Mr Tony D'Aloisio, Chairman, ASIC: Opening statement on ASIC's priorities for the next 12 months.
- Received from Mr Tony D'Aloisio, Chairman, ASIC: Statement on Westpoint.
- Received from Mr Tony D'Aloisio, Chairman, ASIC: Statement on Fincorp.
- Received from Mr Tony D'Aloisio, Chairman, ASIC: Statement on Australian Capital Reserve.

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
ACT	Australian Competition Tribunal
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
AWA	Australian Workplace Agreement
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
HECS	higher education contribution scheme
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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