



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

STANDING COMMITTEE ON ECONOMICS

ESTIMATES

(Budget Estimates)

TUESDAY, 3 JUNE 2008

CANBERRA

BY AUTHORITY OF THE SENATE

INTERNET

Hansard transcripts of public hearings are made available on the internet when authorised by the committee.

The internet address is:

<http://www.aph.gov.au/hansard>

To search the parliamentary database, go to:

<http://parlinfoweb.aph.gov.au>

SENATE STANDING COMMITTEE ON**ECONOMICS****Tuesday, 3 June 2008**

Members: Senator Hurley (*Chair*), Senator Eggleston (*Deputy Chair*), Senators Mark Bishop, Bushby, Joyce, McEwen, Murray and Webber

Participating members: Senators Abetz, Adams, Allison, Barnett, Bartlett, Bernardi, Birmingham, Boswell, Boyce, Brandis, Bob Brown, George Campbell, Carol Brown, Chapman, Colbeck, Jacinta Collins, Coonan, Cormann, Crossin, Ellison, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Heffernan, Hogg, Humphries, Hutchins, Johnston, Kemp, Kirk, Lightfoot, Lundy, Ian Macdonald, Sandy Macdonald, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Moore, Murray, Nash, Nettle, O'Brien, Parry, Patterson, Payne, Polley, Ronaldson, Scullion, Siewert, Stephens, Sterle, Stott Despoja, Troeth, Trood, Watson and Wortley

Senators in attendance: Senators Abetz, Bernardi, Birmingham, Boswell, Brandis, Bob Brown, Bushby, Colbeck, Coonan, Cormann, Eggleston, Fierravanti-Wells, Heffernan, Hurley, Johnston, Joyce, McEwen, Milne, Murray, Parry, Ronaldson and Webber

Committee met at 9.02 am**INNOVATION, INDUSTRY, SCIENCE AND RESEARCH PORTFOLIO**

Consideration resumed from 2 June 2008

In Attendance

Senator Carr, Minister for Innovation, Industry, Science and Research

Department of Innovation, Industry, Science and Research**Executive**

Mr Mark Paterson, Secretary
Ms Patricia Kelly, Deputy Secretary
Mr Tim Mackey, Deputy Secretary

AusIndustry

Mr Bill Peel, Executive General Manager
Mr Chris Birch, General Manager, Research, Development and Venture Capital
Mr Paul Sexton, General Manager, Customer Services
Mr Sam Skrzypek, General Manager, Small Business, Tourism and Commercialisation
Branch and Business Development Branch
Ms Judith Zielke, General Manager, Innovation
Ms Robyn Foster, General Manager, IP Australia, Trade Marks and Design

Australian Institute of Aboriginal and Torres Strait Islander Studies

Dr Luke Taylor, Acting Principal
Ms Di Hosking, Acting Deputy Principal, Collections
Mr Jeff Hobson, Director, Corporate Services

ECONOMICS

Australian Nuclear Science and Technology Organisation

Dr Ron Cameron, Acting Chief Executive Officer
Mr Steve McIntosh, Senior Adviser, Government Liaison
Mr Doug Cubbin, Chief Financial Officer
Mr Andrew Humpherson, General Manager, Public Affairs

Australian Research Council

Prof Margaret Sheil, Chief Executive Officer
Mr Len Marsden, Chief Operating Officer
Ms Leanne Harvey, General Manager, Quality and Evaluation
Mr Andrew Cameron, Director, Resources

Commonwealth Scientific and Industrial Research Organisation

Dr Geoff Garrett, Chief Executive
Dr Alastair Robertson, Deputy Chief Executive, Science Strategy and Investment
Mr Mike Whelan, Deputy Chief Executive, Operations
Dr Jack Steele, Chief of Staff, Business Services
Mr Allan Gaukroger, Chief Financial Officer
Dr Joanne Daly, Group Executive, Agribusiness

Corporate Division

Ms Melissa McClusky, Chief Financial Officer and Head of Division
Ms Cherie Ellison, General Manager, Business and Ministerial Services Branch
Ms Michele Clement, Manager, Strategy and Communications Branch
Ms Susan Charles, Manager, Strategy and Communications Branch
Mr Brad Medland, General Manager, Corporate Finance Branch
Mr Richard Byron, General Manager, Human Resource Management Branch
Mr John Dicer, General Manager, Legal and Procurement Branch

eBusiness Division

Mr Ken Pettifer, Head of Division
Mr Mike Sibly, General Manager, Online eBusiness Services Branch
Mr Steve Stirling, General Manager, ICT Operations Branch
Ms Trish Porter, General Manager, VANguard Branch

Industry and Small Business Policy

Ms Sue Weston, Head of Division
Mr Peter Chesworth, General Manager, Small Business and Deregulation Branch
Ms Ann Bray, Acting General Manager, ABN/Business Names Project
Mr Ken Miley, General Manager, Trade and International Branch
Mr Tony Greenwell, General Manager, Business Conditions Branch
Mr Richard Snabel, General Manager, Industry Policy and Economic Analysis Branch

Innovation Division

Mr Craig Penniford, Head of Division
Mr John Dean, General Manager, Enterprise Connect
Mr Tony Weber, General Manager, Innovation Analysis Branch
Ms Tess McDonald, General Manager, Enabling Technologies
Mr Michael Schwager, General Manager, Pharmaceuticals and Biotechnology Branch
Ms Tricia Berman, General Manager, Innovation Policy Branch

Global Opportunities Division

Barry Jones, Head of Division

IP Australia

Mr Philip Noonan, Director General

Ms Fatima Beattie, Deputy Director General

Ms Yvonne Laird, Chief Financial Officer

Manufacturing Division

Mr Steve Payne, Head of Division

Mr Peter Clarke, General Manager, Automotive, TCF and Engineering Branch

Mr Ivan Donaldson, General Manager, Australian Building Codes Board

Dr Michael Green, General Manager, Manufacturing Innovation Branch

Mr Mike Lawson, General Manager, Aerospace, Defence and ICT Branch

Mr Geoff Lewis, Manager, Automotive Review Taskforce

Ms Cecilia Wood, Acting Manager, TCF Review Taskforce

Mr Mark Durrant, General Manager, Automotive, TCF and Engineering Branch

National Measurement Institute

Dr Laurie Besley, Chief Executive and Chief Metrologist

Office of the Chief Scientist

Dr Jim Peacock, Chief Scientist

Questacon

Professor Graham Durant, Director

Ms Lorraine Neish, General Manager, Operations

Mr Graham Smith, Acting General Manager, Development

Science and Research Division

Ms Jessie Borthwick, Head of Division

Mr Steve Irwin, General Manager, Science and Technology Policy Branch

Ms Mary Finlay, General Manager, International Science Branch

Ms Stella Morahan, General Manager, Science Collaboration and Awareness Branch

Ms Anne-Marie-Lansdown, General Manager, Research Infrastructure

Dr Anne Byrne, General Manager, Compacts, Quality and Policy Coordination Taskforce

Ms Helen Fullgrave, Manager, Compacts and Quality Team

Dr Terry Bowditch, Manager, Research Policy and Funding Team

Consideration resumed from 2 June 2008

CHAIR (Senator Hurley)—I declare open this meeting of the Senate Standing Committee on Economics. The Senate has referred to the committee the particulars of proposed expenditure for 2008-09 and certain other documents for the portfolios of Innovation, Industry, Science and Research, Resources and Energy and Tourism and Treasury. The committee may also examine the annual reports of the departments and agencies appearing before it. The committee is due to report to the Senate on 24 June 2008 and has fixed Friday, 1 August 2008 as the date for the return of answers to questions taken on notice. Today the committee will begin by continuing its examination of the Department of Innovation, Industry, Science and Research, and then continue in the order shown on the revised agenda.

Under Standing Order 26, the committee must take all evidence in public session. This includes the answers to questions on notice. I remind all witnesses that in giving evidence to

the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to the committee and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee.

The Senate by resolution in 1999 endorsed the following test of relevance of questions at estimates hearings. Any questions going to the operations or financial positions of the departments and agencies seeking funds in the estimates are relevant questions for the purposes of estimates hearings. I remind all officers that the Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise. The Senate has also resolved that an officer of a department of the Commonwealth or of a state shall not be asked to give an opinion on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits only questions asking for opinion on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground which is claimed. Any claim that it would be contrary to the public interest to answer a question must be made by the minister and should be accompanied by a statement setting out the basis for the claim.

I again welcome Minister Carr, Minister for Innovation, Industry, Science and Research, and officers of the department. Mr Paterson, do you wish to make an opening statement?

Mr Paterson—No, thank you. But I would like to respond to some questions raised by Senator Abetz yesterday and to correct one answer that I gave in response to a question by Senator Abetz yesterday. Senator Abetz asked a question in relation to reg 10 approval from the Minister for Finance, and I reported back to the committee yesterday that there were none. I was wrong in responding in that way. There was a request made of the Minister for Finance for reg 10 approval with respect to the Innovation Investment Fund round 3, and we had received that approval back only just prior to the hearing. I was not aware of it, so I correct that part of the record.

There were also a number of questions in relation to Commercial Ready that were asked by Senator Abetz. The first was the number of committee meetings held between 29 April and 13 May. There were two. The number of applications considered in this period was 10. The value of the applications considered during that period was \$5.7 million. The number of applications accepted between 29 April and 13 May was 15. The value of applications accepted was \$12.2 million. The percentage of customer service manager recommendations agreed by the board or committees for 1 July 2005 to 13 May 2008 was an average of 82 per cent.

There was an outstanding question of how many customers were contacted concerning their applications during the period 29 April to 13 May. That does require us making contact with all of our customer services managers around Australia and we have not concluded that

inquiry so I am unable to respond to that part of the question. But that covers all of the other parts of that question that you raised.

Senator Carr—Senator Eggleston asked me yesterday of the number of doctorates per thousand in the labour force. He asked for an Australia-United States comparison. I have here seven altogether: in Argentina it is 0.5; in Portugal it is 2.6; in Australia it is 7.8; in Canada it is 8.2; in the United States it is 10.7; in Germany it is 20.1; and in Switzerland it is 27.5. I would like to table *Labour market characteristics and international mobility of doctorate holders, results of seven countries*, OECD, Science, Technology and Industry Working Papers, February 2007. That is an OECD document.

Senator EGGLESTON—Thank you very much.

Mr Paterson—There was a question raised by Senator Milne yesterday concerning the regulation of refrigerators containing nanosilver. Refrigerators for sale in Australia are subject to the provisions and protection afforded under part 5A of the Trade Practices Act, which relates to product liability. The Trade Practices Act is administered by the Australian Competition and Consumer Commission, which is appearing before the committee later today.

Senator ABETZ—I thank Mr Paterson for coming back with those answers and also the minister and the department for agreeing to extend the questions on the department this morning, albeit for a brief period. I will try to keep my question short. I invite respondents to do likewise. I refer to the Bracks automotive inquiry. Minister, can you confirm or clarify the statement you made yesterday morning to this extent? Are you now confirming that your office or department had email communication with Mr Bracks in December regarding his undertaking the automotive review?

Senator Carr—Yes.

Senator ABETZ—Can I ask, in relation to the appointments of the chair, Mr Bracks, Nixon Apple and one other, whether they were handpicked by the government as opposed to being selected from a panel?

Senator Carr—I am sorry, Senator. By definition the government selects people. The government has made a deliberative decision.

Senator ABETZ—Let us go straight to the point.

Senator Carr—That would be good.

Senator ABETZ—In relation to the microeconomist Dr Elizabeth Webster, the government was provided with a list to choose from, was it not?

Senator Carr—I would have to take that on notice. When you say ‘the government’, it may be another department is involved in a question of that type.

Senator ABETZ—What I want to put to you is that in fact the government did have a panel, a list of names submitted to it, in which a Dr Elizabeth Webster’s name appeared, and, for whatever reason, she was chosen. Can you confirm to us that Treasury was asked to have a look at that list and an email went around the department on Monday, 11 February saying, ‘Dear all, Below is a list of microeconomists in Australia who in my view might be suitable as

panel members on the review of the automotive industry', and then there were seven names mentioned.

Senator Carr—You are quoting from an email, did you say, from the Department of Treasury?

Senator ABETZ—That is right.

Senator Carr—I suggest you might want to take that up with the Department of Treasury, which is appearing before the committee later today.

Senator ABETZ—It is very interesting that you should invite me to do that, because the Department of Treasury also tells me:

Minister Carr's office wish to contact Dr Elizabeth Webster. Would you please be able to provide me with her contact details.

So you or your office was intimately involved with Treasury in Dr Elizabeth Webster's selection, were you not?

Senator Carr—Senator Abetz, it might surprise you to know that, if you appoint people to a panel, there is a novel practice of contacting them and asking them whether they are available to serve.

Senator ABETZ—Yes, and it is interesting, is it not, that for the microeconomist, Treasury, at 3.15 pm on 11 February, is asking, 'Does anybody know about the credentials of Elizabeth Webster?' By 6.06 pm the very next day, only 27 hours later, Dr Elizabeth Webster has been appointed ready for the public announcement—a very robust review of 27 hours.

Senator Carr—How long do you think we need? How many hours would you take?

Senator ABETZ—You are the one who has to answer the questions, not me. I would be more than happy to change roles with you.

Senator Carr—You had your chance.

Senator ABETZ—And you have had your chance on this side as well. It beggars belief that you want to return to it—but there you go. Can you confirm that Dr Elizabeth Webster accepted the invitation to be part of a review panel before 6.06 pm on 12 February?

Senator Carr—You have a document there, do you?

Senator ABETZ—I do indeed have a document—many documents.

Senator Carr—Then why are you asking me the question?

Senator ABETZ—I am asking you to confirm—

Senator Carr—I am sorry, I do not have access to Dr Webster's email service.

Senator ABETZ—Part of it is a service that in fact has requests from your office seeking the telephone number of Dr Webster. Clearly, it seems that the microeconomist was selected from a panel within the 24 hours before the official announcement; the other people that had been handpicked had been chosen well before—that is correct, is it not?

Senator Carr—I would have to take that on notice.

Senator ABETZ—Can you also take on notice whether the letter that you wrote to Mr Bracks was a confirmation of appointment or an invitation to accept appointment?

Senator Carr—I will have to take that on notice.

Senator ABETZ—It was on 20 February 2008 that I understand you wrote to Mr Bracks saying, ‘It is with great pleasure that I invite you to accept the appointment,’ et cetera, and ‘You should note that the appointment is conditional upon you accepting the offer of appointment and agreeing conduct,’ et cetera. You made the announcement on 13 or 14 February. You write a letter inviting somebody to accept an appointment and remind them that their appointment is conditional upon their accepting the offer of appointment. When did Mr Bracks accept the offer of appointment?

Senator Carr—I would have to take that on notice.

Senator ABETZ—There seems to be some disarray in the appointment procedures, I would suggest. I move on to the Cutler review: the innovation review. How much is Dr Cutler being paid for being chair of this review, and on what date was he appointed?

Senator Carr—Two thousand dollars a day.

Senator ABETZ—When was he appointed? When was that agreement entered into with him? February some time—or just ‘in the month of February’ will do? I do not need an exact date for this.

Senator Carr—We will get the date for you—22 January.

Senator ABETZ—Even earlier—22 January. Thank you very much. Do we know how many days Dr Cutler has sat thus far? If not, take it on notice. That is fine.

Ms Berman—I would like to take that on notice.

Senator ABETZ—That is fine. In relation to this national innovation review, have any consultancies been let or given out?

Ms Berman—There are no separate consultancies aside from a number of international expert advisers who are visiting Australia as part of input to the review.

Senator ABETZ—You tell us there are no consultancies associated with it. Can you therefore advise me about the NIS review, the consultancy innovation, that has been let to Cutler & Co. Pty Ltd? Is Cutler & Co. Pty Ltd Dr Terence Cutler’s company?

Ms Berman—It is Dr Terence Cutler’s company, and that is the contract by which we employ him. We are paying for his services.

Senator ABETZ—We were told that he was paid \$2,000 per day and that that was an arrangement entered into on 22 January 2008.

Ms Berman—He was identified and selected and announced on 22 January 2008.

Senator ABETZ—Yes, and he was to be paid per diem or per day?

Ms Berman—Yes, \$2,000 per day.

Senator ABETZ—When was that finalised with him?

Ms Berman—The contract involved a little bit of negotiation backwards and forwards. I will take on notice the exact date.

Senator ABETZ—We have a consultancy, ‘procurement method, direct’, entered into on 8 April. The contract period is from 8 April to 27 June. Are we to believe that he was not paid from 22 January until 8 April 2008 for his services?

Ms Berman—He was. He was back-paid once that contract was signed. He will be paid from 22 January through until 31 July.

Senator ABETZ—Do we know how many days he will devote to this task?

Ms Berman—I have taken that on notice.

Senator ABETZ—No, you have taken on notice how many days he has served thus far. How many days will he take to undertake this review?

Ms Berman—I can also provide that to you.

Senator ABETZ—Or we do not know because no certain—

Ms Kelly—The number of days is 124 days.

Senator ABETZ—Somebody help me: multiply that by \$2,000. That would give us a contract of \$248,000.

Ms Kelly—\$248,000 plus GST, which would bring it to \$272,000.

Senator ABETZ—We are told that it is in fact a \$280,000 contract.

Mr Paterson—\$272,000.

Senator ABETZ—I was told \$272,000, but contract notice CN7127, which was published on 16 April, tells us that the contract value is \$280,000. So we have appointed somebody without having finalised all the commercial arrangements with them for another three months that they continue to undertake the review. That shows once again, does it not, a government in disarray, with people starting to undertake work without any contracts in place? We were just told that negotiations were continuing to take place whilst the review is taking place; is that right? We had negotiations on the contract still being undertaken whilst the review was already underway?

Mr Paterson—That is correct.

Senator ABETZ—If the contractual negotiations were to fail, we would have been up the proverbial creek without a paddle, would we not, and Dr Cutler had you by the proverbials, did he not? You would have to agree to his commercial terms, otherwise the government would have been left in huge embarrassment?

Mr Paterson—I would not adopt your description. But the negotiations did continue and, if no contract had been entered into, I suggest to you that the reverse would have been the case, not the proposition that you put.

Senator ABETZ—Why? You were in a particularly vulnerable position. Let us use more delicate language. You had started engaging somebody. You had brought him out with fanfare into the public arena saying what a wonderful individual this person was, with all of the capabilities and assets to undertake this review, but you had not even finalised it. If Dr Cutler

had walked away from this review because you were unable to finalise the negotiations, can I suggest to you the egg would have been all over Minister Carr's face and not over Dr Cutler's face.

Mr Paterson—I am not sure that we can comment in relation to hypotheticals. The reality of life is that there is a contract entered into with Dr Cutler. The negotiations were undertaken and maintained in good faith between the Commonwealth and Dr Cutler. They were resolved appropriately. The rate for the performance of those duties changed at no stage during those negotiations. We understood from day 1 what the nature of the commercial terms in relation to that contract would be and they are the contract terms that were entered into and finally signed off on the contract that you refer to. There was negotiation in relation to some of the terms of that contract, and there was some toing and froing in relation to those issues.

Senator ABETZ—That is right.

Mr Paterson—But they were not in relation to the commercial terms or the per diem or the maximum payment or the duration of the contract. There were some issues in relation to intellectual property that, by its very nature, were issues that there was some toing and froing on. But Dr Cutler fulfilled his side of the arrangement from the day of the announcement of his appointment and continues to do so. There is no speculation about this thing not having come to a conclusion, because there is a contract issued that is in terms satisfactory to the Commonwealth and in terms satisfactory to Dr Cutler and his company.

Senator ABETZ—Of course it is now, and I would have thought very satisfactory to Dr Cutler, because we have \$8,000 that has been taken on notice in this contract. We will undoubtedly find out what that was paid for, given that it is on the website at \$280,000, not \$272,000.

Mr Paterson—I am not sure that we did take that on notice. But I am happy to do that now.

Senator ABETZ—Can you please take it on notice, unless you have an explanation for us now?

Mr Paterson—I will endeavour to get an explanation for you while we are having this conversation.

Senator ABETZ—Or was it the little bonus in relation to IP that helped resolve and smooth certain things?

Mr Paterson—No, there was no little bonus in relation to issues, and we do not do that. I do not like the suggestion. We have indicated to you what the maximum payment—

Senator ABETZ—If you do not —

Mr Paterson—I will provide you with an explanation as to why we have published \$280,000. I said I am happy to take that on notice.

Senator ABETZ—That is right.

Mr Paterson—But it was not a little sort of side payment.

Senator ABETZ—Can you tell us why Mr Bracks is worth \$500 a day and Dr Cutler \$2,000 a day? Why was Mr Bracks appointed under the Remuneration Tribunal and Dr Cutler was not? Why do we have these two different approaches to these two important inquiries?

Mr Paterson—Dr Cutler is working full time on this inquiry. Mr Bracks is not. Dr Cutler is essentially suspending his commercial business for at least six months to undertake this review, and was engaged on very different terms in an inquiry which is very different in its nature.

Senator ABETZ—Excuse me, we were just told that Mr Bracks was paid \$500 per day and Dr Cutler \$2,000 per day. I would have expected that to be the case; that they actually work in relation to the particular reviews. Can I tell you that 140 days does not equate to six months. On my calculations, I would have thought about 182 days might be six months, half a year. So, now we have a shortfall already of 40 days, Mr Paterson. What, does Mr Bracks only work a half a day or a quarter of the day when he is working on this review?

Mr Paterson—No, I did not suggest that. He is paid on a per diem basis, which is different from that paid to Dr Cutler. But I indicated to you that Dr Cutler was essentially working full time on this inquiry and had suspended his commercial business for the duration of this inquiry. It is a different inquiry with different time domains. Yes, he has had some international travel that he was precommitted to which takes some of those days out in that six-month period.

Senator ABETZ—For which he is not being paid?

Mr Paterson—For which he is not being paid.

Senator ABETZ—There you go; so he is being paid on a daily basis?

Mr Paterson—There is no doubt that he is being paid on a daily basis.

Senator ABETZ—Yes, thank you.

Mr Paterson—That is the evidence I gave you. We said \$2,000 per day plus GST.

Senator ABETZ—Yes, but we were then told six months.

Mr Paterson—I said over that period.

Senator ABETZ—Can I move on to the luxury car tax.

Mr Paterson—We did indicate to you that it was 142 days maximum.

Senator ABETZ—Sorry?

Mr Paterson—We indicated to you 124 days maximum.

Senator ABETZ—Sorry, 124 days?

Mr Paterson—It is 124 days maximum.

Senator ABETZ—Well, 124 days is even less, is it not, than the 140 days I suggested. So, we are well off the six month mark, are we not?

Mr Mackey—I think we are talking about working days, and there are roughly 130 working days in a six-month period.

Senator ABETZ—Really? Is that set out in the contract as well? I move on to the luxury car tax.

Senator Carr—Senator Abetz, if we might just compare on today's dollars, Commissioner Cole, for the royal commission into the building industry, was paid at a rate of \$3,280 per day. And even by—

Senator ABETZ—This is a royal commission, is it?

Senator Carr—Even by 2002 it was \$2,750 a day. In today's dollars, it is \$3,280 per day.

Senator ABETZ—Is this a royal commission that we are having into the national innovation review?

Senator Carr—It is not an unusual amount of money given the type of work that is being undertaken. The review into the Bureau of Meteorology was paid at a higher rate again than Dr Cutler is being paid. This is well within the normal scope of undertaking a review of this complexity and this importance.

Senator ABETZ—It is nice to know that you put these reviews on the standard of a royal commission, but I do not think anybody else will buy it. Can I move on to the luxury car tax. Was any modelling done by the department to assist the government to come to this quite ludicrous decision in relation to the luxury car tax?

Mr Paterson—Chair, could you give me some guidance as to how I should answer that question? There is a proposition put which is Senator Abetz's judgement about a particular measure. I am happy to respond to the first half of his question as long as the second half of the question is removed from the question.

Senator ABETZ—Very droll, Mr Paterson. You know we are under a time constraint.

CHAIR—Senator Abetz, I do take Mr Paterson's point of view. If he directly answers your question, it seems as if he accepts the fact that taxes of one description or another—

Senator ABETZ—So you do not accept my proposition about it being a ridiculous or ludicrous tax. Did you do any modelling in relation to the luxury car tax?

Mr Paterson—No.

Senator ABETZ—Minister, what industry policy end is achieved by the luxury car tax?

Senator Carr—You would be aware, Senator Abetz, that the luxury car tax applies only to vehicles that cost more than \$57,123, and the threshold has been adjusted annually in line with the CPI. The tax is payable only on the value of the car that exceeds that threshold. There is a very limited range of Australian made vehicles, principally the Holden Statesman, the Caprice, the Ford Territory Ghia and specialist models produced by Holden Special Vehicles and the Ford Performance Vehicles that it applies to. The tax affects around 10,000 Australian made vehicles sold in the domestic market. It represents just three per cent of the Australian made vehicles produced and five per cent of the Australian made vehicles sold locally last year. The Treasury analysis that was conducted lifting the tax rate would have no significant effect on the Australian automotive industry. Unlike similar taxes in many other countries, Australian luxury car tax is non-discriminatory. It applies in exactly the same way to imports and locally produced vehicles. In fact, the luxury car tax has been fixed at 25 per cent for

many years and the government is increasing it to 33 per cent from 1 July. This is significantly lower than the 45 per cent rate that applied under the wholesale sales tax regime prior to 2000, and nine out of 10 cars in Australia will be totally unaffected by the change.

The tax is payable only on the most expensive 10 per cent. If I might compare what the effect is, a luxury car tax on a Ford Territory Ghia will increase the price of the vehicle by less than \$500, whereas on a Porsche 911, currently retailing at over \$300,000, it will increase that by \$14,600. This is a balanced measure and it makes the tax system fairer by requiring a greater contribution from those with an ability to pay. It is expected to raise an additional \$555 million over four years, which is an important contribution to the financial and fiscal discipline of the budget.

Senator ABETZ—What industry policy end does this serve—not taxation and not Treasury? How does this assist the motor vehicle industry? In particular, can I refer you to the fact that Holden, for example, motor vehicles in the \$35,000 to \$45,000 price bracket have fallen from 60,600 in 2005 to 41,000 in 2007, yet sales of models above \$55,000 have doubled from 6,073 in 2005 to 11,990 in 2007? Moving on to Ford, Ford has seen a fall of 25 per cent in sales in the \$35,000 to \$45,000 bracket, whereas sales in the \$55,000 bracket have remained constant. The area in which the Australian motor vehicle industry has either had constancy or an increase in sales is exactly the area that the luxury car tax is going to impact on. In that context, what industry objective is to be served by this?

Senator Carr—We discussed yesterday the sales figures in regard to the automotive industry and the fact that in some areas there has been a substantial increase in sales, particularly in SUV component of the Australian industry.

Senator ABETZ—That is right.

Senator Carr—There is a considerable body of opinion that suggests that there is a measure of displacement between the big sixes, the family sixes, that Australia produces and the SUV component of the market. There is no doubt that there are increases in the sales for luxury cars in this country, and this measure affects the Australian end of the market to no noticeable effect.

On the other hand, the sales of Lexus, for instance, or cars of that type, even as far up as the Porsche, are affected much more significantly. For the Lexus there is a moderate increase of only \$608, whereas for the Porsche, as I have indicated, there is an increase of some \$15,000. I have read numerous newspapers about people importing Ferraris and the like in the period between now and the measure. There is obviously a considerable appetite for luxury cars among certain sections of the population. This measure is about increasing the revenue of the Commonwealth in the face of the fiscal indiscipline of the previous regime.

Senator ABETZ—Can I invite you to repeat that you are of the view that it will have no—was it—noticeable effect on the sales figures? Is that right?

Senator Carr—The advice that was received—

Senator ABETZ—Was that provided by Treasury or by your department?

Senator Carr—The Treasury analysis concluded that lifting the luxury car tax rate will have no significant effect on the Australian automotive industry.

Senator ABETZ—On this occasion you are happy to provide the Treasury analysis. Thank you for that. Can I ask whether the local car industry was consulted by this department prior to the decision being made?

Senator Carr—It is a taxation measure. It is not the habit of the Commonwealth to ring up and ask people whether or not the taxation measure should change.

Senator ABETZ—But sometimes governments are known to consult. In fact, it helps you not get into the sorts of troubles that you got into with alcopops and other things. But I am just inquiring as to whether you consulted. I think your response is, no, and that is fine.

Senator Carr—And I repeat that it is—

Senator ABETZ—That is fine. Is the luxury car tax a payment for millionaires?

Senator Carr—The luxury car tax is a progressive tax. As you will see, on a Porsche it has an increase in these arrangements of some \$15,000. On Australian-made cars at the high end of the market the market price is an increase of less than \$500.

Senator ABETZ—Can you explain to me the government's thinking in saying that a family that wants a top of the range people mover of, let us say, \$60,000 should be paying a luxury tax but when James Packer buys a private jet he is not subjected to a luxury tax?

Senator Carr—For a start, I am sure you would be aware that the Tarago Ultima, which is at the very top of the range and has a current retail price of \$72,000, does not sell a great many vehicles in this country. In fact, most people buying Tarago buy it at the other models, which are below the luxury car tax. The talk about the Tarago tax is completely misplaced.

Senator ABETZ—No.

Senator Carr—If you would like to discuss specific taxation measures, though, I really do think that is a matter for the Treasury.

Senator ABETZ—How are you able to tell us about these things when you tell us that the department has in fact done no modelling? Minister, given your quite bizarre explanation as to your comment in question time on 14 May that that was in relation to the luxury car tax, and now that you have told us how the luxury car tax works, can you help us contextualise your comment that we had this expectation that we should go on providing assistance to millionaires? That does not make sense in the context of luxury car taxes, does it?

Senator Carr—I will leave you to make your own judgements.

Senator ABETZ—I think everybody else has as well. But I will allow you to take that on notice.

Senator Carr—A Porsche is retailing at \$304,400. The total taxable liability of the luxury car tax is \$60,000. For a Territory Ghia the total tax is \$2,000. This is a highly progressive measure aimed at people who can afford to buy a Porsche at over \$300,000 per vehicle.

Senator ABETZ—Yes, but this was not providing assistance to millionaires. But if we are talking about progressive taxes, people that do want to buy a Toyota Tarago that is worth about \$60,000 are paying a luxury tax, whereas James Packer on his private jet is not. If you consider that progressive taxation, so be it. But can I—

Senator Carr—You can discuss with Mr Packer his taxation arrangements.

Senator ABETZ—I thought the government set the taxation arrangements. Is Mr Bracks examining the luxury car tax in his automotive review?

Senator Carr—The automotive review has a very broad remit. The submissions will canvass a range of views, and I would expect those issues would be considered by Mr Bracks.

Senator ABETZ—Does that very broad remit include the luxury car tax?

Senator Carr—The matter was canvassed in the discussion paper, if I recall rightly.

Senator ABETZ—Was Mr Bracks consulted or made aware of the government's decision in relation to the luxury car tax prior to its announcement?

Senator Carr—Once again, it is not the habit of the Commonwealth to consult widely on increases in taxation measures or on taxation measures generally. These are matters that you should discuss with the Treasury.

Senator ABETZ—Yes, but what we have in your department are all these reviews, an automotive review looking at the luxury car tax. They are halfway through their review and then you change the boundaries and the parameters by changing the luxury car tax. You have a national innovation review. An important component of national innovation has been the Commercial Ready program. Halfway through that review you have now cut the Commercial Ready program after the time for official submissions has closed. What it shows to me is an adhocery in the decision making. But coming back to the national innovation review, can I ask this: will there be—

CHAIR—Senator Brown has a question on the luxury car tax. If you are moving off that topic—

Senator BOB BROWN—This will only take a second. Would the luxury car tax be paid by the Commonwealth on luxury cars bought for Comcar for the use of members of parliament?

Senator Carr—I would have to take that on notice. I do not think—

Senator BOB BROWN—Would you do so?

Senator Carr—That is a matter for Treasury. It is not a matter for this department.

Senator BOB BROWN—On luxury car taxes, would the luxury car tax apply to the Prius cars—which I note opposition members are not in favour of—that is an alternative to the Comcar fleet? Apparently they like the white leather instead of the planet saving option. I wondered if this luxury car tax might help the incentives go in the way of the Prius.

Senator Carr—The Commonwealth car fleet is aimed at Australian made vehicles. That is a position I strongly support.

Senator BOB BROWN—But the Prius is being trialled at the moment.

Senator Carr—They are not made in Australia.

Senator BOB BROWN—That is correct. But they are still being trialled. We do not have environmentally—

Senator Carr—In any event, the Prius does not retail at \$57,123; as far as I am aware, and the luxury car tax does not apply.

Senator BOB BROWN—So it would be an extra bargain for COMCAR if we were to go in that direction?

Senator Carr—I doubt it.

Senator BOB BROWN—I do not.

Senator ABETZ—As to the national innovation review, will submissions be reopened officially? I understand they are accepting late submissions. But is it officially being reopened? Will those who commented on the Commercial Ready program be invited to make further comments and will the timing of the Cutler review be extended given the changes?

Mr Paterson—We have no advice that there is any contemplation in relation to an extension. The contractual expectations of Dr Cutler are that he will report to the government by 31 July and that continues to be the case. We gave evidence yesterday, I think, that there were in excess of 630 submissions received by the review and there have been something in the order of a further 70 supplementary submissions that are being taken by the review.

Senator ABETZ—That is very good of them and I commend them for doing that. I move to the green car fund. Time is getting very short. Is the government in discussions with Toyota about the local manufacture of a hybrid Camry?

Mr Paterson—Yes.

Senator ABETZ—Is it in discussions with any other car manufacturer in relation to a particular hybrid vehicle?

Senator Carr—We are in discussion with all the automotive companies about ways to actually transform the Australian automotive industry.

Senator ABETZ—Yes, but this is specifically in relation to the green car fund. I prefaced my question with that.

Senator Carr—And I have indicated to you my answer.

Senator ABETZ—Yes, and we want to transform the industry in a whole manner of ways.

Senator Carr—That is right.

Senator ABETZ—But can we concentrate on the green car initiative?

Senator Carr—Yes, that is what I have said.

Senator ABETZ—In that respect, you have spoken with Toyota about a particular hybrid Camry; is that correct?

Senator Carr—We have spoken to all the companies about ways in which we can transform the Australian automotive industry.

Senator ABETZ—Have any offers or promises been made to Toyota or other manufacturers regarding accessing a certain amount of the government's green car fund?

Senator Carr—I am not in a position to be able to comment on those questions.

Senator ABETZ—You either have or you have not. I am not asking for detail which could well be commercial-in-confidence, et cetera, but whether or not such discussions have started or are taking place. I think we are entitled to know.

Senator Carr—Can you repeat the question? I want to be clear.

Senator ABETZ—Have any offers or promises been made to Toyota or any other manufacturer regarding accessing a certain amount of the government's green car fund?

Senator Carr—We are in commercial-in-confidence negotiations.

Senator ABETZ—With—

Senator Carr—I cannot go any further than that.

Senator ABETZ—With one or some, without identifying which one?

Senator ABETZ—I have already indicated to you that I am discussing with all the automotive companies ways in which we can transform the Australian automotive industry.

Senator ABETZ—Have you canvassed as part of that discussion the issue of government fleet deals?

Senator Carr—As to the issues of the Commonwealth fleet, fleets are important to the Australian manufacturing base. In fact, 60 per cent of sales are fleet sales. The issue of fleet sales, therefore, is an important element for the future—

Senator ABETZ—Of course it is.

Senator Carr—and the sustainability of the Australian automotive industry.

Senator ABETZ—Of course it is and so the answer is, yes?

Senator Carr—I have just answered the question.

Senator ABETZ—No, you have not. You have told us how important fleet sales are, but you have not told us whether government fleet deals have been canvassed as an incentive.

Senator Carr—I have already answered the question.

Senator ABETZ—You have not?

CHAIR—I think that the minister indicated commercial-in-confidence discussions.

Senator ABETZ—If we do not get an answer, that will be on the record. You are aware that Holden has indicated that it plans to have a hybrid Commodore in Australia within two years?

Senator Carr—I have seen those reports.

Senator ABETZ—Do you place any credence on those reports?

Senator Carr—We are in discussions with the entire industry about ways in which the industry can be transformed.

Senator ABETZ—Do you place any credence on those reports?

Senator Carr—I do not believe everything I read in newspapers.

Senator ABETZ—I know that. That is why I am asking you specifically about one particular story in a newspaper suggesting that Holden will have a hybrid Commodore within two years.

Senator Carr—I cannot add anything further to what I have already advised the committee on.

Senator ABETZ—If they have that within two years, they will clearly have that on the market and be selling into the Australian market well before any single red cent of the green car fund hits the car manufacturing sector. Is that not correct?

Senator Carr—If you want to rely upon press reports, so be it.

Senator ABETZ—That is why I am asking you whether it has credence, and you are unable to assist us. It nearly seems as though Holden may have gazumped the green car fund in this regard, and I am wondering whether the government has given any consideration to this. The green car initiative is one area for innovation, but what about smart car initiatives such as Volvo is engaged in to try to reduce the number of accidents, for example?

Senator Carr—You would be well aware of the importance of telematics in the automotive industry. These are areas in which we are discussing with the industry, as is the—

Senator ABETZ—So is there a special telematics fund?

Senator Carr—There is an ACIS fund and there is the Green Car Innovation Fund. ACIS, as you also are, I trust, aware, has an R&D component. We also have support through various other research programs in the research budget, with which you are also, I trust, familiar, including a CRC program in our university funding. A range of research capacity building opportunities exist through this department.

Senator ABETZ—Will the green car fund also explore and encourage conversion of motor vehicles to LNG?

Senator Carr—We are discussing with the industry a full range of measures to encourage the transformation of the industry.

Senator ABETZ—We have heard that. Does the full range of measures include LNG? Do you see that as a viable, realistic option to be included in the mix?

Senator Carr—I think if you were to look at the issue of alternative fuels, whether it be LPG, ethanol or even hydrogen, there are technological advances in regard to drive train adaptations and there are aerodynamic innovations.

Senator ABETZ—We know all of that.

Senator Carr—There is a range of matters that can be undertaken and we are in discussion with the industry about all of those matters.

Senator ABETZ—You gave us a long list. Thank you for that. You did not include LNG.

Senator Carr—I think I did. I have said in all matters

Senator ABETZ—Is LNG included in the list? I would have hoped that it was.

Mr Paterson—Often people interchange terms. We just want to be clear: LNG is not normally a transport fuel.

Senator ABETZ—That is right. I am not talking LPG.

Mr Paterson—LPG is.

Senator ABETZ—Yes, I know that.

Mr Paterson—And CNG is. LNG might be used in heavy vehicle transportation but it is not a normal fuel for mass transport.

Senator ABETZ—So you are saying, no matter what innovation takes place, LNG will never be used—

Mr Paterson—No, I am not saying that. I just sought to clarify the nature of the question because, as I said, people often interchange the terms.

Senator ABETZ—Diesel used to be seen as a heavy vehicle fuel. BMW and other motor vehicle manufacturers are praising themselves up and selling themselves on the basis of having clean diesel vehicles. I would have hoped and thought with the surplus of LNG that we have in Australia that LNG and its conversion to the motor vehicle sector may have been part of the mix.

CHAIR—Can I please move to science in the few minutes remaining. Senator Brown has one question.

Senator BOB BROWN—Further to the questions about the green car fund and the range of alternatives, including gas, fuel cells and hybrids, can you give a summary of the government contacts with and stimulus to the industry over the 10 years to 2007 to get the industry on to a green car basis in Australia?

Senator Carr—That is probably a question that the officers may want to deal with. All I can say to you is that in regard to the green car fund, which is what you asked about, which is the forward period, the government is agnostic about the types of technology that should be used in the automotive industry in Australia. What we want to see is the sustainability of the industry and we want to see the industry having the capacity to employ Australians in high-skilled, high-wage jobs. As part of the international industry, Australia has to take its rightful place. Given the acute pressures that are currently facing the industry, it is a matter of some concern that these issues of the sustainability of the industry are very much in question at the moment.

Senator BOB BROWN—But on the issue, for example, of hybrid innovation, that has now been a market reality for a decade. We are, as you said, importing hybrids into Australia. What was done by government in the last 10 years to ensure Australia was not left at the back of the queue and having to catch up as we are now, with the industry moving across to hybrid alternatives in this country?

Senator Carr—I could give you a political response. The reason we have established the Green Car Innovation Fund is that there was a significant gap in the previous government's approach to the automotive industry.

Senator ABETZ—That is why Holden is going to have a—

Senator Carr—You have relied on a press report. The other concern that I have had is that the assumptions that underpin the current ACIS program, which were put together in 2001-02,

are no longer valid because the fundamentals of the industry have changed so dramatically in the period since 2001-02. The dollar has changed its value by 100 per cent since that time, as one example. My concern, upon coming to office, was that Australia had been left in a very vulnerable position. The automotive industry, because of its extraordinary importance, and in left in a very vulnerable position, because the previous government had essentially sat on its hands while these fundamentals shifted so much. The previous government was not able to move with the times. It essentially said, 'There's ACIS. That's the deal you've struck with the industry and that's what's going to stay.' That is why we brought forward the innovation review; that is why we have brought forward the automotive review: there is a desperate need to get to those fundamental issues and address them in a policy sense.

Senator BOB BROWN—It is true, isn't it, that the car market production in Australia was influenced by the need to export what were in fact gas guzzlers at a time when we ought to have been at least looking at green technology?

Senator Carr—It is a more complex picture than that. The fact is that the Australian automotive industry is part of an international industry. Not all options are available. Not all options can be taken, because the international firms that all dominate the industry here make decisions outside of Australia about what is produced in Australia and what role Australia plays within the international supply chains. As a consequence, decisions have been taken in the past that excluded some companies from export development, specifically excluded them. On other occasions, there were trade agreements entered into which were not carefully thought through in my judgment, to the point where there were serious non-tariff barriers in terms of access for Australian produced cars overseas. So we have a combination of factors that has produced circumstances where, as a result of policy neglect and the international nature of this industry, the Australian automotive industry now is facing acute challenges that require substantive public responses.

Senator ABETZ—Moving on to science, can you confirm that the government's R&D spend as a percentage of total government outlays has in fact decreased in this budget?

Senator Carr—What I can say to you, while we are just getting that table out for the current innovations figures, is that, as a share of GDP, Australia's R&D ranked fifteenth in the OECD in 2005-06, down from eighth in 1995-96. Between 1995 and 2001, Australia was one of the only three OECD countries to reduce its taxation benefits for business research and development, while 12 countries increased their level of support.

Senator ABETZ—And that is why you chopped the Commercial Ready program.

Senator Carr—And between 1995 and 2004, public funding for tertiary education rose by 49 per cent on average across the OECD but fell four per cent in Australia. Australia was the only OECD country where the total level of public funding for tertiary education decreased during that time. Australia ranked 16th out of 28 countries for research collaboration between industries and universities in 1997, but fell to 26th out of 26 countries—that was the bottom of the ladder—in 2004. Those figures are from the OECD.

Senator ABETZ—Given this history of alleged neglect, it sounds a bit like the *Southern Surveyor* story to me at last estimates. You told us the *Southern Surveyor* was neglected and that is why you chopped it by a further \$3 million. If there is this history of neglect, why is the

total R&D spend in this portfolio dropping by \$12.3 million and slipping, as a percentage of total government expenditure, from 2.63 per cent to 2.56 per cent? You are basically telling us there has been a history of neglect and to fix that up you are going to spend even less on it. Less is more. This really is Orwellian, isn't it?

Senator Carr—We have actually published the figures. We are not trying to hide the situation.

Senator ABETZ—They show less expenditure.

Senator Carr—But compare the situation. For instance, it is more than in 2004-05 under the previous government, and they have of course been in that range. I want to see those figures move in the other direction and I have made that perfectly clear. That is why we have the national innovation review considering the way in which we should do that. Furthermore, the Prime Minister has made it perfectly clear, speaking just on 22 May, saying, in terms of the innovation review:

Once it reaches its findings then you will find it and other major ... research arms of Government, for example the National Health and Medical Research Council, you'll be finding us making significant investments into the future. But we need to be confident of our ground first—

having been in government for barely five months.

Senator ABETZ—You cannot have science policy based on chop and change, turning a tap on and off, because during the hiatus periods you will lose good scientists overseas or to other pursuits, and that is why there is no condemnation of the national innovation review or indeed the automotive review. What there is condemnation of is putting in place policies before those reviews have reported, which have seen over \$700 million stripped out of innovation, seen R&D funding cut, seen funding cut in relation to science. I dare say, Chair, this is a good time to move on to the agencies of ANSTO and CSIRO, which of course have also suffered cuts under this government.

Senator Carr—I think your analysis is grossly inadequate. Given the figures I have pointed to in terms of the record of the previous government, under which we moved from the middle of the pack to the bottom of the pack—

Senator ABETZ—And you are now making it even worse. You are making it even worse by cutting expenditure.

CHAIR—I think we have a debate happening now.

Senator ABETZ—I think you are right.

CHAIR—I thank the officers of the department. I call to the table officers of the Australian Nuclear Science and Technology Organisation.

[10.03 am]

Australian Nuclear Science and Technology Organisation

CHAIR—I welcome the staff of ANSTO. Senator Eggleston?

Senator EGGLESTON—Firstly, I believe that, apart from ANSTO's Chairman Ziggy Switkowski offering to resign in the light of the RP's antinuclear stance, I have a media release here from Minister Carr that came out the week before the budget making public the

decision by ANSTO's chief executive Dr Ian Smith that he had decided not to accept the offer of an extension of his contract. That media release came out a week before the budget. It decimated ANSTO's finances. Senator Carr, was Dr Smith aware of the pending cuts, and did this affect his decision to leave ANSTO, do you think?

CHAIR—I am sorry, I forgot to invite an opening statement. Do you wish to make an opening statement?

Dr Cameron—No.

Senator Carr—I am sure Dr Smith would have been advised of the nature of the budgetary arrangements, but his decision to leave ANSTO—and I can say this as a direct result of personal conversations with him—had nothing whatsoever to do with the budget.

Senator ABETZ—When was Dr Smith advised of the budgetary cuts to ANSTO?

Mr Paterson—He would have been consulted as part of the normal budget process. I cannot give you a discrete time.

Senator EGGLESTON—So he would have been aware of them; that is the point we are trying to make. So he must have known they were coming?

Mr Paterson—No, you cannot conclude that.

Senator ABETZ—In that case, can you tell us when he was told? You can take it on notice.

Mr Paterson—We will take it on notice.

Senator EGGLESTON—Could you advise the committee how the process for finding a replacement for Dr Smith is proceeding? Has the department found it difficult to find a replacement, given the budget cuts to ANSTO, making it a far less attractive kind of job?

Senator Carr—The normal process will be followed. It is true that filling this particular vacancy historically has not been easy. That was the case on the last two occasions, to my knowledge, during the term of the previous government.

Senator ABETZ—It will be even more difficult now with the budget cuts because anybody who takes on the job will have a very difficult task in trying to balance everything up surely?

Senator EGGLESTON—In fact, ANSTO has announced the loss of 10 per cent of its work force and a restructuring of the organisation. Would you be good enough, Minister or Mr Paterson, to outline what the restructuring will produce and the specific details of what positions are to be axed?

Senator Carr—The implementation of the budget changes is a matter for ANSTO, including the operational matters that occurred prior to the budget.

Senator EGGLESTON—All we are asking for is an outline of the restructuring.

Senator Carr—And I am asking the officers to respond.

Dr Cameron—There were two sets of pressures on the organisation that resulted in this reduction. The first was the changes in the budget, which we have talked about a number of times. The second relates to some underlying pressures for the organisation. We are an asset

intensive organisation. We provide a number of large assets which are used by scientists all over the country. Because we operate those assets we have operating costs. We were aware that for the year ahead those costs were expected to increase between six per cent and eight per cent. In fact, one of our large costs, electricity costs, were predicted to increase by 20 per cent. We had to take into account the anticipated increases in costs for the year ahead and that combined with reductions in the budget meant that we had to take action sooner than we had originally planned to do so.

Senator EGGLESTON—You have a reduced budget and increased costs. You are talking about taking action. But can you give us some indication of what programs ANSTO will cut or reduce and what are the details specifically of the costs that will be saved by doing that?

Dr Cameron—Yes. We have identified that there are two sides to the organisation: there is the operational side and the research side. In the operational side we have identified a number of systems and activities whereby we believe by synergies and efficiencies we can reduce costs. In some cases that does mean reduction and delays in activities in forward years. In the research side we have had, through our own process and through an external advisory committee process, a review of our research portfolio and indicated a number of those research areas that we will cease or reduce in size.

Senator EGGLESTON—Could you give us an indication of what those areas are specifically?

Dr Cameron—Not at this stage, because we are working that through with the institute heads. But clearly those areas that relate to utilisation of new research for OPAL will be unaffected. We think those are important as our core activity, and they will continue. They will be looking at some of our other research portfolios in environmental search and materials research.

Senator EGGLESTON—Are you not prepared to give further details of what is involved?

Dr Cameron—We have not yet worked out all those details, and I should explain why. We have done this reduction process in two stages. The first stage is a voluntary reduction process. We have offered voluntary redundancies to people. We are still processing those offers and, until we know the outcome of that, we will not know how many we might need to reduce in an involuntary process later on. The process that we will go through is to look at those offers of redundancy and the areas from which they come and determine whether or not they create the size of reductions that we need in the areas that I have identified earlier.

Senator EGGLESTON—Does that mean in effect that your research activities will be governed to some extent by what residual staff you have got?

Dr Cameron—No, we have made it very clear that whatever we do will not affect our strategic direction as an organisation. It will not affect our core activities. So the reductions that we made will be in areas that are more peripheral to our core activities, and we will make sure that we do not do anything that would undermine our core skills base as well as an organisation.

Senator EGGLESTON—One of your core activities is the production of isotopes for use in medical imaging. Would you like to tell us whether the production of medical isotopes, radioisotopes, will be affected?

Dr Cameron—That is essentially part of our activity that we regard as core. We will not be doing anything that would affect our ability to supply nuclear medicines.

Senator EGGLESTON—We heard in the last lot of budgets that because of the rebuilding, was it, or the problems with your building that were going on, you had cut isotope production. Have you restored that to previous levels and are you still importing isotopes?

Dr Cameron—We are still importing some of our bulk isotopes. With the restart of our OPAL research reactor we are beginning to get back to a process of producing indigenous supply. But in terms of our bulk isotope, which is molybdenum, it will be some months yet before we are in a position to supply all of that.

Senator EGGLESTON—Is that meeting the demand around Australia from Australian hospitals and so on for medical isotope supplies?

Dr Cameron—I think in general terms, yes. Unfortunately, when you are importing, you get times when the deliveries do not arrive. They are offloaded from aircraft, or the production facility overseas does not supply you what you need. We have one of those approximately every two and a half weeks. We then have an emergency protocol arrangement with the nuclear medicine community in which we will allocate on a priority basis to them. There are times when we are not able to do it as we would like. I think it just emphasises the need for us to have an indigenous supply of radioisotopes.

Senator EGGLESTON—What is your set of priority guidelines? When you say you are allocating isotopes on a priority basis, what does that mean? Do you send them to Canberra and Sydney and Melbourne perhaps and not to Brisbane and Perth and Hobart?

Dr Cameron—No. What we have done is get together an advisory group. That advisory group come from all over Australia and they determine with us what the supply should be. That relates to priorities they have in terms of patient treatment and it also relates to the timescales as well. It is not always Sydney gets first and Brisbane gets second or whatever. We do it based on their advice.

Senator EGGLESTON—The key word I heard there was ‘always’. That means quite often you do it on a geographical basis rather than a medical or condition basis; is that what you are saying?

Dr Cameron—No. It is a complicated decision process. I think it has to take into account geographical supply as well. If you are trying to get maximum usage out of isotopes then the sooner you get them to the place that they are used, the more activities will be available and therefore the more patient doses can be delivered from those. We take that into account. But we also very much take into account what the patient needs.

Senator EGGLESTON—Are there any nuclear medicine facilities around Australia that are particularly disadvantaged by the fact that you are not producing isotopes?

Dr Cameron—I think in general terms we are doing very well, because we are working very hard to supply all the needs. But there are times when groups get disadvantaged. What

the actual numbers and locations are I am not able to say at this stage. I could find out that information.

Senator EGGLESTON—Who do you find make the most complaints about not receiving adequate isotope supplies?

Dr Cameron—Sorry, could you repeat that?

Senator EGGLESTON—Which centres complain most often about not receiving adequate supplies of radioisotopes for medical purposes?

Dr Cameron—That is not information I have with me.

Senator EGGLESTON—Perhaps you could take that on notice. Would you be good enough to do that?

Dr Cameron—Certainly.

Senator EGGLESTON—Could you also please outline the objectives of the collaborative nuclear research program? What were the intended benefits of this program for Australia?

Dr Cameron—The nuclear collaboration fund was a fund set up under the previous government to enable ANSTO to collaborate with the universities and encourage the development of some research in universities related to future generations of nuclear power reactors. This was to encourage both students and programs in those universities that would provide some backup support in terms of the long-term research needs.

Senator EGGLESTON—Did you make the decision to cut that program yourself or was that cut by the federal government?

Dr Cameron—That was cut by the current federal government.

Senator EGGLESTON—That might well reflect the policy on their part not to proceed with research into the possibility of establishing nuclear power plants in Australia. Would that be a fair comment?

Dr Cameron—I think it was the stated policy of the current government during the election process not to proceed with those activities.

Senator EGGLESTON—So this government is not going to go down the pathway of looking into the possibility of nuclear power stations in Australia. I think that is very interesting. We have talked about radioisotopes, but what about ANSTO's medical research programs, apart from the production of isotopes and research that you were conducting? Are they affected?

Dr Cameron—I think there will be some minor effects to that program, but overall that program will be maintained.

Senator EGGLESTON—Specifically what areas of medical research are you engaged in?

Dr Cameron—We are engaged in a number of areas of research. Obviously we are engaged in areas that relate to diagnosis and treatment of cancer. We have quite a large research program in neurodegenerative diseases such as Alzheimer's and Parkinson's et cetera, and we have an area of research looking into diseases of the brain generally.

Senator EGGLESTON—So these cuts have reduced your capacity to carry out that research?

Dr Cameron—No. As I said earlier, we really have not got to the point of making those decisions in the research areas.

Senator EGGLESTON—But they may reduce your capacity?

Dr Cameron—Yes. But we would regard that activity again as pretty core to us as an organisation, so it is unlikely that we would contemplate significant cuts in those areas.

Senator EGGLESTON—But you cannot rule it out. It is an area that you will have to consider in the light of your financial situation, so that may mean that some of those research programs may not be as well funded as they might have been in the past had these cuts not been imposed on you.

Dr Cameron—It is an area that we will have to consider. But, as I say, we regard that as a core activity for the organisation and we have made a fairly strong commitment that we will not reduce our core activity.

Senator EGGLESTON—If that is possible. Have there been any alterations to your personnel training program? I believe you had a program to train medical scientists to administer radioisotope doses and work in hospitals around the country concerned with nuclear medicine. Are those training programs affected by these cuts?

Dr Cameron—I think you are referring to our Nuclear Futures Graduate Development Program. Our Nuclear Futures Graduate Development Program was part of an initiative we developed, and funding for that was actually cut from the organisation. We did, though, reprioritise our activities and we did still go ahead with that graduate program. We think it is fundamental as an organisation such as ourselves to continue to refresh. You need young people coming in with the ability to train them and for them to be future leaders in the field. That program will go ahead. We have taken a decision because of funding to not proceed at the rate that we had originally intended for that program. But we believe a graduate program is again fundamental to us.

Senator EGGLESTON—But it will be a reduced capacity, will it?

Dr Cameron—I think we will not be doing it every year in the way we had originally intended. Sorry—we will not be doing it at the level we had intended each year, but we certainly will be maintaining our graduate intake program.

Senator EGGLESTON—Will you be meeting the demand around Australia from your program or will we have to open a special category of special visa for an area of unmet need for skilled migrants?

Dr Cameron—I think you understand that there is no nuclear engineering training in Australia at all at the level that we would really need, so we do rely on bringing in young graduates and training them ourselves and, if necessary, using overseas programs for that training. That is, as I said, fundamental to the organisation. We need to continue it, so we have reprioritised to make sure that we continue.

Senator EGGLESTON—What I am getting from you is that the training program will not meet Australia's domestic need and will have to seek to bring people in from overseas to meet the needs for these people to work in hospitals administering radioisotopes for medical imaging and treatment; is that a fair summary?

Dr Cameron—No, I do not think it is possible to say that. I think really we are talking about the refreshment of core skills in the organisation, and we need graduate intake to make sure that we maintain the ability to operate our reactors, our facilities and our research program. We believe that the program we have in place will do that.

CHAIR—Senator Milne?

Senator MILNE—Firstly, I would like to ask about the operating losses. Can you explain what they are? Are we still looking at a five-year value of \$89 million or is it more than that, forward estimates?

Dr Cameron—Sorry, which losses are we talking about?

Senator MILNE—I was looking at the operating losses and I wanted to know what the portfolio budget statement for the next five years presumes in terms of those operating losses.

Mr Cubbin—The operating losses for ANSTO in the last two years and in the forward years are as a result of the adoption of the equivalent international financial reporting standards. Those losses occur because we need to make provision for the decommissioning and restoration of all of our assets, and the expense for that appears over the future years.

Senator MILNE—That refers to the decommissioning of which reactor?

Mr Cubbin—Of all assets on our site.

Senator MILNE—Can we just go to the OPAL reactor. What has been the capital cost of the OPAL nuclear research reactor in current dollars?

Dr Cameron—I am not sure of the exact number but it is approximately \$400 million.

Senator MILNE—Would you be able to provide a breakdown of the costs for each financial year since the project was given the go-ahead by the government?

Dr Cameron—That information is available. It is also worth pointing out that we are funded for depreciation on our current OPAL research reactor. The decommissioning restoration relates to the other assets on our site.

Senator MILNE—Are there any more envisaged capital costs associated with the OPAL project?

Dr Cameron—The OPAL project is essentially at the end of its commissioning phase and we think over the next year it will move into field operation. It will then be an operational expense for us and we will deal with that as part of our normal budget process.

Senator MILNE—Are you saying you are not envisaging any more capital costs, just operating costs?

Dr Cameron—Just operating costs.

Senator MILNE—Minister Carr, you were reported on 6 May this year as criticising the former government for signing a contract for the new nuclear reactor, which cost millions of

dollars. Was the story accurate? Did you in fact criticise the former government for the reactor contract, and what was your objection to it?

Senator Carr—Do we have the figures on the losses so far? There are a couple of issues. One goes to the question of the warranty arrangements for the construction of the reactor. I understand that there remains dispute on that issue. Then there is the issue of the loss of revenue as a result of the shutdown, and who is responsible for those matters. As I understand it, there remains dispute on those questions. I understand the totals now are in excess of \$10 million.

Dr Cameron—Yes, these are two issues that we have to deal with as a result of the extended shutdown of OPAL because of the fuel issue. There are contractual issues with the constructor, obviously, and we are pursuing those negotiations in terms of what is recoverable to us under the contract. The contract is generally, though, a performance based contract. There is unlikely to be any compensation for the shutdown period per se. However, we are also pursuing insurance arrangements under our business continuity insurance to see if it is possible to recover costs in that way.

Senator MILNE—You are saying that the shutdown cost us \$10 million?

Dr Cameron—I think it is probably more than \$10 million when we add it all up. But to understand how much it actually costs, we do have to resolve those issues of the contract—what is recoverable under the contract and what is recoverable on insurance. When we have those issues resolved then we will be able to say what the actual cost to the organisation was. But, yes, there had to be a cost to the organisation.

Senator MILNE—You said it is likely to be more than \$10 million. How much more—can you give me a ballpark figure?

Dr Cameron—What we know, for example, is that the import of radio isotopes has cost us about \$5 million for the year. Additionally, the reduced income from irradiation is probably another \$5 million. We have had to purchase new fuel, which is about \$2 million. We know these are costs that we have to deal with as part of our budget.

Senator MILNE—So we are talking about \$22 million?

Dr Cameron—Those costs—\$5 million, \$5 million and \$2 million—add up to \$12 million.

Senator MILNE—So it is \$10 million-plus. Minister, can you or ANSTO tell me whether the reactor contract was standard commercial practice? It seems to me that whoever wrote that contract and agreed to it has not served the Australian people particularly well.

Dr Cameron—I think it is very hard to have a standard contract, because a reactor is a unique piece of equipment we are buying. We were conscious that we only do this once every 40 years. Therefore, our focus, and I think rightly so, was on getting the best performance out of the reactor that we could. Therefore, when the contract was written, it had a very strong emphasis on getting the best performance in our neutron beams and the best irradiation performance. I think it will still serve the nation very well into the future if we are able to deliver that performance.

Senator MILNE—If we are able to deliver that performance. We have had a reactor that was supposedly to be shut down for eight weeks and it stayed closed for 10 months. It is either poorly designed or poorly managed, or both.

Dr Cameron—I think we would recognise that, in the design of the fuel, there were deficiencies from the manufacture. We now have resolved those deficiencies with the new fuel design. We have to also understand that in the nuclear area we take things very cautiously and very slowly. When we looked at the problem we needed to understand it completely and we needed to make a design change that we were totally happy with. We needed to go through an exhaustive regulatory approval process so that we could give an absolute assurance that there were no health or safety impacts of any changes that we made. Just the nature of the nuclear industry means that any change of that nature takes time. I think it would be right to take time in doing it.

Senator MILNE—It just concerns me that the way the contract was written or not written has led to a substantial cost of \$12 million or thereabouts. Can you tell me the expected annual operating cost of the OPAL reactor?

Dr Cameron—Yes, it is about \$10 million a year.

Senator MILNE—Does that cover an allocation for future spent fuel management?

Dr Cameron—We are within the operating costs. We will be covering the costs of spent fuel management.

Senator MILNE—Does it cover an allocation for future decommissioning?

Dr Cameron—No. As I said, there is a special provision for decommissioning and restoration, which we have to account for.

Senator MILNE—Is that within the \$89 million?

Dr Cameron—Yes, it is.

Senator MILNE—I will come back to that in a minute. What is the provision in your current operating budget for breakdowns, replacement of fuel plates, repair of leaks and that sort of thing?

Dr Cameron—Issues to do with the reliability of the reactor and the components are part of the warranty arrangements with the manufacturer. When there is an issue of that nature we lodge a defect notice with the manufacturer and they are obliged to resolve that particular defect. The costs of the repair or any design change lie with the manufacturer.

Senator MILNE—In relation to those fuel plates and OPAL's track record, why did the fuel plates need to be fixed?

Dr Cameron—As I said earlier, there was a design deficiency with the fuel plates. This was not a safety issue. It was purely an operational issue for us. It was ANSTO, operating the reactor, that noticed it. We then decided there was a need to have a different fuel design. That is the process that has taken this period of time.

Senator MILNE—Why did you go to France with regard to the plates and not back to the Argentineans? Why could they not fix it?

Dr Cameron—The redesign of the fuel was done by the Argentines. They are the design authority, so they had to do that redesign process. We then had to look at where we could source the redesign fuel from. The only organisation that could supply what we call a start-up core in the time that we required was the French organisation.

Senator MILNE—Is that going to be covered under the warranty?

Dr Cameron—As I said, we have a number of negotiations still to be conducted with the manufacturer, and we are not able yet to say what the final outcome of those will be. But they are certainly issues we are pursuing.

Senator MILNE—I am just astounded that we could have signed a contract that does not provide for warranty. We are not even at the start-up stage at the point at which this has all had to be dealt with.

CHAIR—Senator Johnston is waiting for questions.

Senator MILNE—On the reactor?

Senator JOHNSTON—On the litigation. Dr Cameron, where are we at with respect to the liability for the loss of our reactor due to the, I think, unstable fuel rods?

Dr Cameron—As I said, there are two sides to this process that we are following. One is we are in very serious negotiations with the manufacturer in terms of what their liability is.

Senator JOHNSTON—Is that the Argentines?

Dr Cameron—Yes, the Argentines. Certainly they have a responsibility to fix it, as there would be under any warranty process. Then there are issues to do with what compensation the organisation should receive for the period we were shut down and for the extra costs. That is part of the negotiation that we are going through with the manufacturer, and in addition we are pursuing our business continuity insurance to see if that is another means by which we can recover.

Senator JOHNSTON—Has there been a formal admission of liability by the Argentines with respect to their fuel rod problem?

Dr Cameron—Yes.

Senator JOHNSTON—There has been?

Dr Cameron—We served a defect notice and they accepted that defect notice and they accepted their need to fix the problem.

Senator JOHNSTON—Does the warranty cover contingent damages, consequential loss?

Dr Cameron—No, it does not.

Senator JOHNSTON—The insurance policy does?

Dr Cameron—The insurance policy may do so.

Senator JOHNSTON—May do so?

Dr Cameron—Depending on the outcome of the negotiations with the manufacturer.

Senator JOHNSTON—Who is conducting the negotiations with the Argentines?

Dr Cameron—I am.

Senator JOHNSTON—How long do you think they will go on for?

Dr Cameron—I think they have been going for some months now, but we both took the decision that the most important issue for us was to solve the problem and get the reactor back, and that we did not want prolonged negotiations to interfere with that process.

Senator JOHNSTON—And neither should they. Where is the reactor at the moment? I am sorry I missed the first part of your evidence. Is the reactor online yet or not?

Dr Cameron—The reactor is online. It is at full power today.

Senator JOHNSTON—And working well?

Dr Cameron—And, at the moment, working well.

Senator JOHNSTON—Again, when do you think we will have a definitive answer from the Argentinians as to the level of compensation they are going to meet pursuant to the warranty?

Dr Cameron—Certainly over the next year and we think over the next six months.

Senator JOHNSTON—When I come back in November we should have an update.

Dr Cameron—We should certainly have an update on that process.

Senator JOHNSTON—I will save that for next time.

Senator MILNE—In relation to the contract, who reviewed the contract before it was signed? Who in the government? Did it go to the legal eagles?

Dr Cameron—Yes. We received advice from the Government Solicitor about the contract. We also employed an external expert law firm who were able to give us advice on constructing such contracts.

Senator MILNE—So neither's reputation stands in good stead as result of this, I would have thought, now that we are struggling to recover costs associated with the lack of rigour in that contract. Has ANSTO taken this matter up with the expert team, expert lawyers, and the government lawyer?

Dr Cameron—We have certainly been in touch with the expert law firm to get their advice on how we pursue this issue with the manufacturer. As I said, I think we are a little bit early in making such judgements because we do not know the settlement that will be arrived at.

Senator MILNE—We will be pursuing that with great interest, including the ongoing costs to this expert law firm, no doubt. If we can continue with the light water/heavy water issue in terms of the reactor. ANSTO at the time said that if left unrepaired, the light water dilution of the heavy water, it would ultimately affect the performance of the reactor. What would have been the time line for leak repairs if the fuel plates had not offered another opportunity for shut down?

Dr Cameron—I think it would have been quite extended. There was no urgency on us to take any immediate action because we would have had many months to think about the process, and what we would have done would be to have worked with the manufacturer to determine what was the best repair process, and then we would have programmed in a

shutdown at an appropriate time when we could have done that repair. So, again, there were no safety issues to do that. It was just simply a matter of how much flux we were getting, and we would have programmed in our repair process. The fuel plate movement meant that while we were shut down we were able to carry out that repair.

Senator MILNE—Can you tell me what was the cause of the leak? Was it a build quality or a design fault?

Dr Cameron—No, it was not a design fault. We believe the leaks were simply a matter of a welding process that occurred in the vessel, and it left these very tiny little pores or flaws and they were sufficient to allow some of the heavy water to move from one tank into the other tank. So they have gone through a particle injection process to essentially seal those hulls and we have asked them for a long-term solution as well. They are now working on a longer term solution that will allow us to maintain the purity of the heavy water throughout the lifetime of the reactor.

Senator MILNE—Minister Carr, in February you indicated that you were not satisfied or had not been briefed properly on the closure of OPAL because of ANSTO's interpretation of the caretaker provisions?

Senator Carr—Yes.

Senator MILNE—Now that you are the minister, have you actually sought clarification on those caretaker provisions that applied at the time and hence the refusal to give you a proper briefing, and will you ensure that will not happen next time?

Senator Carr—The circumstances were that ANSTO actually wanted to brief me as shadow minister. The minister, Ms Bishop, refused the permission to ANSTO to provide that briefing. Because it was claimed to be a caretaker convention issue, the briefing did not occur. It is not my intention to deny Senator Abetz briefings, and I do not believe there have been any breaches of that convention in the last six months. I would trust there will not be in the future. In fact, Senator Abetz has had access to agencies without a supervising advisor, which was different from when I was the shadow minister, and those will be the arrangements that we will maintain.

Senator MILNE—I understand that you have indicated that there will be a charter for public research agencies, including ANSTO. Has this charter yet been issued to ANSTO?

Senator Carr—We have circulated proposals to ANSTO. The discussions being had with ANSTO, as with all the other agencies about matters that are specifically relating to the operations, are ongoing. It is my intention to discuss it further with the boards, but to date there has been no indication of any difficulty on those matters. We are now waiting on the agencies to come back to us with any matters that they would like to see in the charters that relate to specific questions concerning individual agencies.

Senator MILNE—So you would expect to have that issued by the next Senate estimates?

Senator Carr—I do not want to pre-judge the pace at which the agencies work on these questions, but it is my intention to have those in place this year. The charters are an important part of the relationship we have with the agencies. The current arrangements under the new

regulations require statements of expectation to be lodged. This is a more comprehensive approach to dealing with those types of issues.

Senator MILNE—A couple of years ago the now Minister for Infrastructure, Anthony Albanese, asked for full public disclosure of all radiation accidents at facilities operated by ANSTO. Can you tell me what is the process now that ANSTO has for informing the public about radiation accidents, and is it full public disclosure?

Senator Carr—I will let the officers deal with it.

Dr Cameron—Yes, we have a number of processes in place. Obviously, under the regulations that we are governed by from ARPANSA, which is our nuclear regulator, we are required to disclose to it on an agreed basis any incidents that might occur. We have also agreed in our process of informing our local council about any such incidents and we have taken a very transparent approach. We put out releases on our website of anything which is significant that occurs on the site.

Senator MILNE—So you consider you offer full public disclosure?

Dr Cameron—We certainly provide full details of anything significant that occurs.

Senator MILNE—How do you define ‘significant’?

Dr Cameron—That obviously relates to something that would either have a potential for an impact on site or off site or be likely to attract public attention or media attention. Even though it may not trigger the normal levels of reporting we would still report it, anyway.

Senator MILNE—Would you be able to clarify for me the ANSTO budget figures? There has been quite a lot of discussion about ANSTO having had a cut, and yet it looks to me in the budget that ANSTO gets a 14.4 per cent budget increase, despite a \$4 million cut to some key programs and some staff cuts. There are two discussions going on about ANSTO’s funding. Is there an overall 14.4 per cent voted increase for ANSTO?

Dr Cameron—ANSTO is funded against a number of outcomes. Outcome 1 relates to OPAL. That no longer attracts any government funding. Outcome 2 relates to issues to do with spent fuel. Outcome 3 is our general science and technology area. In terms of the budget in outcome 3, the reductions for next year are approximately \$4 million. However, we have some additional funding for defined decommissioning activities. Overall it looks like an increase, but it is a special one-off application for a decommissioning program that we cannot transfer into another area. It can only be used for that purpose. But if you take that one-off number aside, then overall the reduction has been \$4 million, and on last year it is about half a million difference between 2007-08 and 2008-09.

CHAIR—It is 10.45 and we will break for morning tea at this stage.

Proceedings suspended from 10.46 am to 11.01 am

CHAIR—I will reopen the meeting with ANSTO. Senator Milne.

Senator MILNE—I was just asking about the one-off. We were discussing that. I was asking about the clarification of the budget numbers, and you were saying there was a one-off payment. Can you clarify the size of the one-off payment and what it is to cover?

Dr Cameron—There is a one-off payment of \$12.1 million towards specific decommissioning activities. That primarily relates to the decommissioning of the previous research reactor, HIFAR, but we also have some other decommissioning activities that we will conduct this year, and for the forward years there is \$10 million in the year after for the same process.

Senator MILNE—Is that out of the \$89 million?

Dr Cameron—No. The \$89 million relates to the provision for total decommissioning. These are some of the activities that would be part of that and we have had specific funding for those.

Senator MILNE—What do you see as the full cost of decommissioning HIFAR?

Dr Cameron—We have previously reported that we expect the full decommissioning cost of HIFAR will be \$53 million.

Senator MILNE—Have you been given \$10 million for this?

Dr Cameron—Twelve million dollars in 2008-09 against some specific activities that we wanted to carry out.

Mr Cubbin—And none in the forward years.

Senator MILNE—None in the forward years?

Mr Cubbin—That is correct.

Senator MILNE—Where is the rest of the \$53 million going to come from?

Dr Cameron—We will have to make an application to government under a new policy proposal for that additional funding.

Senator MILNE—In the forward estimates there is only \$12 million this year for decommissioning HIFAR and no money into the future—you will have to apply for more money for that—to a total of \$53 million.

Mr Cubbin—I will just clarify that. What happened was when we determined the future liabilities associated with decommissioning, we approached the government regarding funding options. As an interim arrangement we were given an agreement to fund the cash component in the 2007-08 year and in the 2008-09 year while a solution was found on a whole-of-government basis to the whole issue of decommissioning. We received \$1.1 million in 2007-08 and \$12.1 million in 2008-09 against specific decommissioning activities.

Senator MILNE—Where do you get the \$53 million from as being the total cost of decommissioning HIFAR? What is that based on?

Dr Cameron—To determine the total liability for decommissioning and restoration we looked at all our assets across site and what the likely decommissioning costs would be, and we totalled that up. That is the total decommissioning liability and that is what we have to put into our balance sheet at the moment. With regard to HIFAR in particular, there are a number of HIFAR type reactors around the world. These are in various stages of decommissioning and we have used estimates that we derived ourselves from engineering calculations, plus the experience that we find from looking at these reactors overseas.

Senator MILNE—We have got an unfunded liability into the future for decommissioning HIFAR?

Dr Cameron—As yet there is no overall solution to that liability issue.

Senator MILNE—What is the estimated total cost of decommissioning OPAL?

Dr Cameron—OPAL has obviously taken advantage of modern practice and we estimate that is about \$30 million.

Senator MILNE—What is the cost of decommissioning the MOATA research reactor?

Dr Cameron—Decommissioning that will be between \$5 and \$10 million.

Senator MILNE—Is that built into the future costs of \$89 million?

Dr Cameron—It is part of the total decommissioning that we worked out for the sites as a whole.

Mr Cubbin—We should explain how this works. It is not a straight correlation because, when you determine the liability for decommissioning, you determine the present value and that is what you show in your balance sheet. Over time you then index that to show future cost and you depreciate it as well. The provision for decommissioning in the ANSTO books is around 160 million to 170 million in current dollars. However, it will be much more than that if you looked at the actual cash expended, but you should understand that it is expended over a period of 50 years so the \$89 million that we are talking about in terms of losses is only the indexing impact on that five-year period, so it is what we actually expend in those years.

Senator MILNE—When you gave me a figure back then of what has been the capital cost of the OPAL nuclear reactor in current dollars, I understand that the initial amount that was projected in 1997 was \$286.4 million and in the 2006-07 annual report the reactor cost was cited at \$474.817 million. I asked a little while ago what was the capital cost in current dollars and I got approximately \$400 million. It cannot have reduced \$74.817 million in the last two years, so can you perhaps give me a more accurate figure as to what has been the capital cost?

Dr Cameron—It might be better if we provided it, because the budget was made up of three different sections. When we talk about the reactor, there was the reactor construction itself, but then there are the neutron beam instruments that were going to be attached to it and they were considered separately. Sometimes the costs are given with the instruments and sometimes it is not, and that is why there is that variation.

Senator MILNE—I would appreciate if you could provide me with the full capital cost in current dollars breaking down all the component parts so we get a sense of what the cost is in real dollars. I have indicated that I put some questions on notice unfortunately because we are running out of time, but I wanted to ask one question in relation to ANSTO's current role in the Generation IV International Forum. Former Prime Minister Howard wanted to make a firm commitment to Australia's participation in Generation IV. Can either the department or the minister indicate to me whether we are proceeding with that; what is our view about Generation IV; what is our commitment to it; and are we still attending meetings?

Senator Carr—I will ask the officers to comment on their involvement.

Dr Cameron—Under the previous government we did go through an initial process of approaching the Generation IV International Forum about membership and we indicated the sort of research that ANSTO does that could be part of their particular program.

Senator MILNE—What was that?

Dr Cameron—It relates mainly to our expertise in waste forms, which is well known internationally, and also to our expertise in materials, particularly materials that are exposed to high temperatures and high radiation environments. ANSTO has a lot of expertise in those two areas. We did make an application for membership last year and all of that process is currently on hold, so there is no activity from our side with regard to Generation IV.

Senator MILNE—Minister, has the government made a decision whether to withdraw that application for membership or are you going to proceed?

Senator Carr—The matter is currently before government.

Senator MILNE—When is the community likely to get a response from government as to whether Australia is going to proceed with the Generation IV application for membership?

Senator Carr—The whole issue is currently before government and the matter will be resolved in due course.

Senator MILNE—Thank you.

CHAIR—Are there any further questions?

Senator ABETZ—Yes, thank you. We have heard about the cuts to ANSTO. Would it be fair to say that that amounts to about \$10.65 million over the forward estimates? I am referring to page 98 of the portfolio budget statement. I am just trying to do a bit of calculation.

Dr Cameron—Yes. There are a number of components. There was the efficiency dividend process which, over the four years—

Senator ABETZ—With respect, we are under time pressure. I think I know what the various categories are and we can be agreed on the categories if we can agree on the total. If the total does not match, then we had better go through it seriatim.

Dr Cameron—That total for those measures is correct.

Senator ABETZ—Thank you very much. ANSTO has certain core responsibilities. One of those undoubtedly would be safety in which you cannot make any cuts. Would that be right?

Dr Cameron—That is correct.

Senator ABETZ—Therefore any cuts that are made would have to be on your research area?

Dr Cameron—Clearly, we will be looking for efficiencies right across the organisation and that may relate to issues such as maintenance on buildings wherein we would delay that process.

Senator ABETZ—It would clearly not be maintenance on the reactor and things like that?

Dr Cameron—Correct.

Senator ABETZ—How much of your budget in percentage terms is consumed in relation to overall safety and maintenance, care and maintenance, or whatever term we want to use for the reactor and the personnel engaged in that?

Dr Cameron—Over 50 per cent of our budget relates to operating facilities and about 35 per cent to research programs. Of our total, we would probably spend at least 10 per cent on safety type issues.

Senator ABETZ—Have we identified the areas as yet in which cuts are going to be made as a result of this decision by the government?

Dr Cameron—In some of the operational areas we have identified where those savings are. In the research areas we are still working through with our institute heads.

Senator ABETZ—In what areas have you already identified savings?

Dr Cameron—We have identified a number of efficiencies by amalgamating teams and providing our support services in a different way.

Senator ABETZ—By amalgamating teams we are talking about teams of, for want of a better term, scientists?

Dr Cameron—No. In the operational side I am talking about mainly support, so we can amalgamate some of our finance teams and our financial support areas. We have also looked at a process by which we can outsource some of our non-core support activities and we believe that will lead to some savings. On the operational side it is made up of a large number of small things.

Senator ABETZ—If you have less money to administer, fewer scientists to employ and fewer research projects to undertake, it would be reasonable to believe that you would therefore need fewer support staff and fewer operational staff for the total operation.

Dr Cameron—That is correct in one sense, but of course we have to run facilities regardless and we cannot reduce that capability to do so.

Senator ABETZ—Or the core responsibilities?

Dr Cameron—Or our core responsibilities.

Senator ABETZ—Yes. How many scientists do you think you will have to let go?

Dr Cameron—We would estimate that probably half the number of people we have announced will be from the science research areas.

Senator ABETZ—Correct me if I am wrong, but we have been told that you are going to have 80 fewer staff—

Dr Cameron—They will be offered redundancies.

Senator ABETZ—be it by natural attrition or redundancies or whatever. Is that correct?

Dr Cameron—That is correct.

Senator RONALDSON—Did you say that 80 would be redundancies?

Dr Cameron—That is correct.

Senator ABETZ—There will be 80 redundancies.

Dr Cameron—We want to go through the process of making the reductions as soon as possible so that we can get back to business. We will be going through a one-off adjustment of about 80 people.

Senator ABETZ—Would it be fair to say that 40 of those would have as a minimum a bachelor degree behind their names?

Dr Cameron—Generally our research staff are made up of two groups. There are the professional researchers and they are generally in the research area.

Senator ABETZ—They usually have letters in front of their names.

Dr Cameron—They have got bachelors and often PhDs as well, but they are supported by technical staff who would not necessarily have those qualifications.

Senator ABETZ—How many people are there that would have letters in front of or behind their names? What I am referring to is degrees in one form of the sciences, be it engineering, science or all the wonderful degrees that you can get in these disciplines these days. How many out of the 80 do you think would be so qualified?

Dr Cameron—When you make reductions in our research areas you expect most of those people to be degree-qualified.

Senator ABETZ—Would you say 40?

Dr Cameron—Approximately.

Senator ABETZ—Yes, approximately 40 will be degree-qualified. You might not be aware of this, but what are the other job opportunities available in Australia for these 40 scientists who, if I might say, could be categorised as seriously bright?

Dr Cameron—Thank you for that.

Senator ABETZ—Not having pursued the sciences at university, I feel quite comfortable in saying that. I took refuge in the humanities, Chair. I am not like Dr Eggleston.

CHAIR—The brighter of us did do sciences, but I do not know if Dr Cameron can answer that.

Dr Cameron—That is a difficult one to answer directly, because some people will have degrees in chemistry and material science and they will be able to find other opportunities. Their specialism will not be found elsewhere necessarily, so they will have to make adjustments.

Senator Carr—There is no doubt that ANSTO is an asset intensive organisation with a very large percentage of its cost being essentially fixed. It is feeling the adverse affect of these changes, which is a matter of some concern to me. While there is \$10 million in reductions as a result of the budget, there is \$12 million in regard to the cost of the shutdown, so there is a range of factors. On top of that there have been significant increases in operational costs at ANSTO which, as I understand it, is a matter of dialogue between ANSTO and the department of finance. We have seen increases in electricity of 20 per cent, insurance of 33 per cent, procurement of seven per cent and salaries of 4.5 per cent, so it is a complex set of issues that ANSTO management is trying to deal with at the moment. These are not matters just confined to the efficiency dividend.

Senator ABETZ—That is all very kind, but my question was about job opportunities for those who will be losing their employment, and I am not sure how that in any way is responsive. Can I refer officials to the budget papers where ANSTO is canvassed? I dare say I do not have to tell you the page number, but I might need to remind myself. It is starting at page 95. First of all, I would like to ask about the commissioning of the reactor. Is it official commissioned?

Dr Cameron—We are in the final stages of commissioning, but there is a process that we need to go through of actually applying for it to be converted from commissioning to operation, and we are very close to that.

Senator ABETZ—You anticipate on page 96 that more investment will be required in instrument scientists in future years to meet anticipated demand for neutron-scattering experiments. How are you going to achieve this with the cuts that you are facing? Is that being put on hold, put on the never-never or is it just an aspiration that you hope to achieve one day?

Dr Cameron—We had two approaches. As I said earlier, we believe the utilisation of OPAL is our core activity and we will need to reprioritise other activities to make sure that we do not hinder that process going forward. We would also expect that as the demand for the instrument increases then we would have a good case to go to government to say that we have such a heavy demand that we need supplementation.

Senator ABETZ—I would like to ask you about constructing and operating through PETNET Australia Pty Ltd, a subsidiary entity of ANSTO. How are we going with that?

Dr Cameron—That is a new facility that we are going to construct on our site to supply isotopes. PET isotopes is probably the fastest growing medical use of isotopes. That process began this year.

Senator ABETZ—It is to produce fluoro-deoxy-glucose?

Dr Cameron—FDG—yes.

Senator ABETZ—Yes, I stumbled across that, but I think I can say it.

Dr Cameron—We expect that facility to be operating in the first half of next year.

Senator ABETZ—Have the cuts impacted on that?

Dr Cameron—No. That is a capital funded project, so that is a separate thing.

Senator ABETZ—Thank you for that. On page 100, it states:

In the longer term, some reprocessed waste from previous spent fuel shipments to the United Kingdom and France will be returned to Australia for long-term storage. No funding has been appropriated for this purpose.

Minister, do you think it might be an idea to provide ANSTO with special funding for this particular purpose?

Senator Carr—It is in the longer term. I think there is time. What date are we talking about here, Dr Cameron?

Dr Cameron—2015.

Senator Carr—Yes, 2015. The department of finance is particularly expert in certain areas, but budgets for 2015 do not fit easily into that category.

Senator ABETZ—Be very careful. Tell us about your green car program. When does that start and when does that continue through until?

Senator Carr—Yes, when does it start?

Senator ABETZ—When does it continue through until?

Senator Carr—We have plenty of time, 2015. There is plenty of time for ANSTO to be able to talk to the department of finance about that.

Senator ABETZ—Chances are this will not be your problem in two years time, so we will fix that one. I will move on to page 102. As part of your budget cuts I trust that you will not be reducing the free tours for students.

Dr Cameron—We do have a large number of people who come on our tours. We will again prioritise those tours. We certainly expect that our educational function will be the highest priority for us.

Senator ABETZ—I would invite you to do exactly that because, given the dearth of science graduates in this country, to be able to excite students about facilities such as ANSTO would be very helpful in encouraging more young people into the sciences. For what it is worth, a bit of gratuitous advice, I would encourage you to continue with that program and congratulate you on the 70 per cent increase that you are able to report. I think that is a great result.

On the top of the page, unfortunately, there is a matter of concern. It states, ‘ANSTO is reviewing its graduate program in light of the tighter budget’ and you are ‘placing a temporary hold on graduate intakes’. So on the one hand we are encouraging students to have a look at ANSTO to see all the opportunities that are available, but I just hope they do not ask what the opportunities are of being employed at ANSTO because the answer will undoubtedly have to be that the current government has cut the job opportunities for scientists at ANSTO. Nevertheless, can you tell us what the reduction in graduates would be that you think you will be able to employ?

Dr Cameron—It had been our intention to run a three-year program recruiting about 15 graduates per year.

Senator ABETZ—So 45 in total?

Dr Cameron—Yes, but that does not affect our normal recruitment process. This was a process by which we wanted to have a particular go at bringing in a new group of intake, so we ran the first year of that program and we have put a temporary hold on years 2 and 3, but graduate intake as a normal part of our recruitment will continue.

Senator ABETZ—I am sorry. You were planning for an extra 45 over three years. What has happened to that figure of 45?

Dr Cameron—We have taken the first year and we have put on hold the second and third year parts of that program, but we still recruit graduates each year as a normal part of our program.

Senator ABETZ—Correct me if I am wrong, but on page 108 it states the ANSTO graduate recruitment program funding has been reduced by \$6 million over three years. Who made that decision?

Dr Cameron—That was a decision which was part of the current government's election process.

Senator ABETZ—This was all part and parcel of helping more science graduates being able to stay in Australia, see the wonderful future that awaits the scientists under a Rudd government, and there is now \$6 million less to spend on them. Chair, I think that concludes my questioning of ANSTO.

CHAIR—Thank you.

Senator RONALDSON—I have one question following on from Senator Milne's question. You said the Gen IV application is with government. What is the timing with government? When is it likely that there will be a decision?

Senator Carr—I would not have thought it would be too long. I cannot be any more precise than that. It takes as long as it takes.

Senator RONALDSON—I appreciate it takes as long as it takes. How long is it likely to take?

Senator Carr—I cannot estimate that. I would expect the matter to be resolved relatively quickly.

Senator ABETZ—Do we have a time line?

Senator Carr—No.

CHAIR—Are there any further questions?

Senator ABETZ—It is like the charter letters.

CHAIR—Thank you to the officers of ANSTO. While I ask the officers of the Commonwealth Scientific and Industrial Research Organisation to the table I should say that the committee has agreed that we will no longer need officers of the Australian Research Council and IP Australia, very reluctantly, because although there are questions for them, unfortunately we are running short of time on our program and so we will not have any questions for them today. I believe there are brief questions for AIATSIS after CSIRO.

[11.28 am]

Commonwealth Scientific and Industrial Research Organisation

CHAIR—Welcome to the officers of CSIRO. Do you have an opening statement that you wish to make?

Dr Garrett—Thank you, we appreciate that, but today we will get straight into the questions today.

CHAIR—Senator Abetz.

Senator ABETZ—Minister, can I ask whether you stand by your statements that the CSIRO was underresourced by the previous Howard government?

Senator Carr—I do.

Senator ABETZ—You do. Thank you. Can I ask Dr Garrett what the impact of Senator Carr's government has been on CSIRO direct funding in its budget brought down in May this year?

Dr Garrett—For direct funding over the four-year estimates period the net change to our funding amounts to \$63.4 million.

Senator ABETZ—What do you mean by 'net change'?

Dr Garrett—Reduction.

Senator ABETZ—Thank you very much. I was going to ask whether that might be a negative or a positive. I was suspecting that it would be a net \$63 million reduction.

Dr Garrett—I should add to that. You asked the question around direct funding.

Senator ABETZ—That is right.

Dr Garrett—You will also be aware that in certain other programs, for example for clean coal technology, a \$25 million amount was earmarked for CSIRO going forward, and in addition in the area of solar and photovoltaics from other funds.

Senator ABETZ—That all sounds good, but would you also agree that this \$63 million that you have identified has been a reduction in direct appropriation income to CSIRO and will lead to flow-on effects for CSIRO's ability to generate external revenue?

Dr Garrett—That is correct.

Senator ABETZ—And it will also lead to a reduction in funds available to be co-invested, and you have adjusted the portfolio budget statement accordingly for that by how much?

Mr Whelan—We adjusted it by approximately \$40 million over the period of the forward estimates.

Senator ABETZ—We have the \$63 million, courtesy of the government, and then the \$40 million less of co-investment. Is that correct?

Mr Whelan—I will just clarify that. The total adjustment to the forward estimates for external review is \$40 million. Our ability to co-invest was one of the factors. There are also weakness in the agricultural sector and implications for IP, so there are a number of factors that are outlined in the portfolio budget statement, but one of them was the inability to co-invest.

Senator ABETZ—Correct me if I am wrong, but I want to get a proper handle on this. These reductions that we have just spoken about are over and above the shortfall from the low level of underlying indexation of two per cent versus four per cent, which estimates to approximately \$14 million. Is that right?

Dr Garrett—Yes, \$14 million per annum. That is correct.

Senator ABETZ—And \$56 million over the forward estimates?

Dr Garrett—That is correct.

Senator ABETZ—That is already underpinning your decisions?

Dr Garrett—That is correct.

Senator ABETZ—I will get a handle on this. We are not only talking about the cut in direct government funding of \$63 million. We believe that will have a flow-on effect in less co-investment for CSIRO and on top of that there will be the consequences of the low level of underlying indexation, which will be another whammy on top of the other cuts that we have talked about?

Dr Garrett—That is correct.

Senator ABETZ—Of course, that leads to a dim scenario for CSIRO in its search for your replacement, Dr Garrett, which I understand was advertised and applications closed on 31 March.

Dr Garrett—That is correct.

Senator ABETZ—How are we going with an appointment? We are over two months down the track.

Dr Garrett—That is a matter for the board of the organisation. My understanding, through our chairman, is that over the next two to three months that process will be concluded.

Senator ABETZ—Over the next two or three months.

Dr Garrett—Yes.

Senator ABETZ—That will be in time for your departure. I am not trying to push you out the door because, unlike the person who used to sit over here who was highly critical of you, I in fact both in government and in opposition have the capacity to express my great regard for you in the role that you have undertaken. I am not trying to push you out the door, but do we have a departure date as yet? I understand it is somewhere in the latter part of this year. As I said I am not trying to push you out the door, but can you tell us when?

Dr Garrett—My term of appointment will end on 31 December.

Senator ABETZ—31 December?

Dr Garrett—Correct.

Senator ABETZ—There is still plenty of time to get somebody who wants to look after this diminishing empire.

Dr Garrett—Plenty of time.

Senator ABETZ—Of course that is not your fault, Dr Garrett. Minister, are you aware that in 1996 the Academy of Science said of the Howard government's budget that it had dealt fairly with science? Are you aware of that?

Senator Carr—1996?

Senator ABETZ—Yes, our first budget.

Senator Carr—No, I am not aware of that.

Senator ABETZ—Are you aware that, in 2008, the very restrained Academy of Sciences said 'our R&D capabilities have been strangled' and that was in relation to the Labor government's first budget. Are you aware that they said that?

Senator Carr—I am aware that they made some criticism of the budget.

Senator ABETZ—Given what Dr Garrett has just outlined to us, which is not a pretty picture by anybody's estimation, do you still say that the CSIRO was underresourced by the Howard government?

Senator Carr—I do.

Senator ABETZ—You do. And so we fix this underresourcing of the CSIRO by giving them even less. Is this the Rudd government response to that underresourcing?

Senator Carr—The decisions that were made by the government were in response to the fiscal indiscipline of the previous regime. We were left with an inflationary legacy, which of course meant that the government had to take some pretty tough decisions. We have had the highest inflation figures for decades in this country. The profligacy of the previous government in terms of its spending arrangements has led to the government having to make extremely tough decisions, and the application of the efficiency dividends across all of the agencies has meant that the CSIRO had to take part in that process. We are in the process of undertaking a national innovation review. I take particular comfort from the recent comments made by the Prime Minister, following that review and that review's findings in regard to the CSIRO. He said:

It and other major research arms of government, for example the National Health and Medical Research Council, will find us making significant investments into the future and we need to be confident of our ground first, having been in government for barely five months.

In that context, and given that I recall rightly some hundreds of millions of dollars were taken out of the CSIRO by the previous government, which led to some serious underfunding of the organisation, and the fact that we have a national innovation review, whose findings I am looking forward to, as well as a white paper response from government due by the end of the year, I am of the view that the CSIRO's future is particularly bright under this government.

Senator ABETZ—Just so that I get a full understanding, according to your analysis, the former government spent far too much money. Can you confirm to us that the Rudd government's budget was the highest spending budget of any government in Australia's history and, therefore, you in fact did increase the expenditure by the Australian government and have exacerbated this profligacy?

Senator Carr—Do you think that we should have cut deeper? Are you saying that the cuts were not tough enough?

Senator ABETZ—You are not cutting. You are spending more.

Senator Carr—Are you saying that the cuts are not severe enough. Is that your complaint?

Senator ABETZ—You are spending more.

CHAIR—This question is not in the minister's portfolio in any case. Do we have further questions for CSIRO?

Senator ABETZ—Dr Garrett, can you take us through every single cut, change or alteration? You might want to use a neutral term. We have had a media release by CSIRO going through all its changes—we will use a neutral term—necessitated by these budget

initiatives or cuts. First of all, we are reducing the livestock industry site footprint. Can you give us a list of all of them, because I understand there was a release on 26 May?

Dr Garrett—That is correct.

Senator ABETZ—Have there been any additions to that list since 26 May?

Dr Garrett—No. We are in the throws of implementing those announced changes.

Senator ABETZ—Can you take us through the consequences of the staff that will be lost as a result of the closure of the Bakers Hill facility in Western Australia?

Dr Garrett—In all these discussions we are in the throws of working out the details and then we are having discussions with the staff. It is important to recognise that over the past three or four years we have worked very hard at our overhead structures and, as such, we have needed to provide attention on expensive domains, such as our sites. In Bakers Hill field station there are two staff involved. We are in discussion in terms of their future. We are having a discussion with the University of Western Australia around combining resources on their field station as we speak.

Senator ABETZ—In a period where Australia is suffering one of its worst droughts and the livestock industry is doing it particularly tough in certain areas, we are seeing the cut or abolition of the Bakers Hill facility. Is that correct?

Dr Garrett—That is correct in that instance.

Senator ABETZ—Were any upgrades made to the Bakers Hill facility in the last five years?

Mr Whelan—We would have to take that on notice.

Senator ABETZ—I assume you will not have to take my next question on notice. Do I pronounce it the Rendel laboratory?

Mr Whelan—That is how we pronounce it.

Senator ABETZ—Senator Joyce, you are a Queenslander, so you might be able to tell us. Is it Rendel or Ren-dell?

Senator JOYCE—Rendel.

Senator ABETZ—That is at Rockhampton in Queensland and Senator Joyce might want to ask some questions about this particular facility. Can you take us through the cuts that will apply to that particular facility?

Mr Whelan—We are going to seek to close that facility. What we are trying to do there is reduce the amount of money that we are spending on infrastructure and management overheads. We are seeking to relocate the core research capability from that site to Townsville. In some instances it may be relocated to Brisbane. We are also keeping open our research program at the Belmont field station, not to be confused with Belmont laboratory in Geelong in Victoria. The Belmont field station in Rockhampton is where we undertake long-term research into the cattle industry and we also undertake some work on virtual fencing.

Senator JOYCE—When you close the biggest undercover facility in the southern hemisphere, what is going to be the alternative facility that takes its place?

Mr Whelan—We are proposing to relocate that research capability to two sites. The first of those is in Townsville, where CSIRO, together with James Cook University, will be making a substantial investment in tropical science research and will also relocate some of that capability to our biotechnology facilities in Brisbane.

Senator JOYCE—There has already been a \$3 million upgrade on two labs in 2006. Do you think that it is quite profligate to update two labs for \$3 million and then close them down?

Mr Whelan—It is not something that we feel comfortable about doing at all. The research that we undertake in that facility is high quality. It has significant impact for the cattle industry in northern Queensland, as does the research that we undertake in all of the facilities that we have earmarked for closure as part of these decisions. However, we have a limited funding envelope and we are forced to make some priority decisions. Our process for determining what to reduce has been: can we reduce fixed costs and management overheads wherever possible to try to preserve research capability.

Senator JOYCE—Do you think there is a strong link between an arbitrary nature of an efficiency dividend that is plucked out of thin air as a number and the reality that actually happens to our beef industry, one of our nation's major exports? Do you think that this is a wise and prudent decision to make, especially in light of some of the biosecurity issues that are ever present in the north of our country?

CHAIR—I think that question is asking for an opinion of the officer.

Senator JOYCE—I will be more specific. Is the closure of this facility going to affect in any way our capacity for biosecurity and also livestock technology advancement for our beef industry?

Mr Whelan—We will seek to minimise that impact. However, as Dr Garrett has already indicated, the organisation has been through significant programs of reform over the last five years to improve its efficiency. We spend more than \$120 million a year on property costs. The vast majority of the rest of our costs are people's salaries. There will be a consequence for the research that we do for the cattle industry as a result of these decision and we are seeking to minimise that.

Senator JOYCE—Can you tell me some of the advantages of the Rendel facility and some of the programs that it is involved in at this point in time?

Mr Whelan—I would need to get one of the other officers to answer that.

Senator JOYCE—I just want to know what programs are going to be affected by this closure?

Dr Garrett—Dr Joanne Daly is the head of our Agribusiness Division.

Dr Daly—There are three broad areas of research that we do at the Rendel laboratory. One is around livestock in the environment, which has a strong focus on animal behaviour and also methane emissions under various diets. The second activity is quantitative genetics, and the third activity is food safety work, particularly around poultry.

Senator JOYCE—Genetics is very important.

Dr Daly—They are the three activities we undertake. We are not shutting them down; we are just relocating them.

Senator JOYCE—There are very important issues there. How much does it cost to run the Rendel facility per year?

Mr Whelan—I would need to take that on notice.

Senator JOYCE—Your cuts all-up are around \$64 million in CSIRO through efficiency dividends. In your view, has the Rendel facility since its inception in 1981 been an effective facility in dealing with issues with regard to the beef industry?

Mr Whelan—Yes, it is well regarded by the beef industry.

Senator JOYCE—In comparison to other types of research facilities—we had one down here recently that took two days, cost \$2.6 million and was called the 2020 Summit—do you think you are an efficient organisation that is closely involved with the components of the beef industry? Do you have peak industry bodies involved with the Rendel facility?

Mr Whelan—Yes, we do. We engage widely with stakeholder communities around all of our research, including the beef industry.

Senator JOYCE—What is the real capacity to move the facility? The massive part of the Rendel facility is its capital infrastructure. I know you are talking about moving things to Townsville, but it is really not that simple. You cannot take the largest undercover cattle research facility in the southern hemisphere and put it on the back of a truck and take it somewhere else, can you?

Mr Whelan—No, that is correct. What we are going to seek to do is to preserve as many of the research programs and the research activities as we can by relocating them to see if we can make savings in management overheads and fixed costs as a result of that. As you correctly point out, we are not going to be in a position to relocate the physical infrastructure to another site.

Senator JOYCE—Has anybody offered to buy the facility from you?

Mr Whelan—We will pursue the disposal of the site as part of the implementation of this program.

Senator JOYCE—What could be the possible loss to the Australian taxpayer by the placing of this facility in mothballs and what is the current value of the capital outlay on this facility on the books?

Mr Whelan—I would need to take a couple of those questions on notice, but I will seek to give you an answer. The facility is not currently fully utilised. A substantial part of the facility is unoccupied, and that is a matter of concern for us. We have sought to have other people co-locate onto the site. To date that has not been successful. I cannot speculate as to what demand there may be for purchasing the site or leasing it from CSIRO if that is the way we go. That is one of the things we will look at as we move forward with the implementation of these issues.

I would not want you to leave the hearing today thinking that this is an easy decision or somehow there will not be an impact. We do expect there will be a negative impact from the

closure of this site, as we do from the closure at Merbein. What we are seeking to do is to try to minimise that.

Senator JOYCE—Is Rockhampton the biggest beef production area in Australia?

Mr Whelan—It is one of them.

Senator JOYCE—Yes, it is. Minister, have you ever been to the Rendel facility?

Senator Carr—No, I have not.

Senator JOYCE—Can you tell us what it does?

Senator Carr—I have had representations on the site and a number of members of parliament have drawn to my attention the importance of the facility. The simple fact of the matter is that these budget changes have been made as a result of decisions of government and that \$63 million over four years has to be found by the organisation. I rely upon the professional advice of the officers and the advice of the board and the department on how those priorities are determined.

Senator JOYCE—Have you received any specialised advice as to what your return might be on the sale of such a specialised facility? Are there any potential buyers or is this money to be written off?

Senator Carr—I have not received any specific advice on that issue.

Senator JOYCE—Do you have any intentions to visit the facility and make some inquiries? We might be losing more than whatever savings you are making.

Senator Carr—The truth of the matter is that I try to get around to as many CSIRO sites as I can. How many are there now?

Dr Garrett—Fifty-four.

Senator Carr—There are 54 sites across the country. I do not know how many I have visited, but it is quite a number of them. I do not believe I have visited this site, but I will be doing all I can to get around to as many sites as possible to talk to the CSIRO staff on as many locations as I can. I talk to the union as often as I can. These are very difficult decisions.

Senator JOYCE—Because you do it on the premise of budget savings, I would like to know what information you have that will mean that you do not just write this capital infrastructure off. I point to the \$3 million that was spent on two of the labs in 2006. Rather than saving money, you are actually going to cost yourself money.

Senator Carr—That is a matter that I will have to take up with the officers. I have not got any advice on that.

Senator JOYCE—Do you think you should get it before you go any further with this decision?

Senator Carr—We have discussed this issue with the officers from the CSIRO on an ongoing basis.

Dr Garrett—Just to confirm that, as Mr Whelan indicated the laboratories at the moment are not fully occupied. We have been unable in the last two to three years to attract appropriate co-investment or other players to come and utilise that facility, but in all of these

you will recognise that there are no easy decisions. There is no low-hanging fruit. There is no low-priority research in the organisation and therefore—

Senator JOYCE—I understand what you are saying. I am really just going to the figures, because I think there should be an appropriation for a capital loss in your budget. The reality is that in a regional town there is not a great market for scientific laboratories, especially the biggest one of its kind in the southern hemisphere. What you are going to have is a great big white elephant sitting out there. That should be on the books, and I would like to know why it is not on the books?

Mr Whelan—As I indicated to you, the value of the facility is on the books, and I will take on notice its current value.

Senator JOYCE—In light of the decision made by the government, why has an appropriation not been made for a capital loss on the books? I can assure you that an analysis of your books would not pass muster at the moment.

CHAIR—Senator Boswell.

Senator BOSWELL—Have you finished?

Senator JOYCE—I was asking the minister that question.

Senator Carr—I will repeat: the government has made the budgetary decision. The implementation issues are matters for the CSIRO and the board. The CSIRO board has to sign off on these decisions. While there has been consultation with me about the directions in which the CSIRO management's recommendations are being made, at the end of the day, the processes of asset management are matters for the CSIRO management and the board.

Senator JOYCE—I am bringing it to your attention.

Senator Carr—I appreciate that.

Senator JOYCE—Apart from the illogical extent of taking out the major research asset of one of our major exports in our biggest cattle production region, I am also going to the point of the prudence of the figures that you have presented here in this budget, that there is quite obviously a likely capital loss that has not struck a feature on your books.

Senator Carr—You have made an assertion about the treatment of this particular piece of infrastructure. I will have to get advice as to whether or not officers agree with that assessment, and we will have further discussion on that in due course.

Senator JOYCE—If there are capital losses on the books, are you going to reach deeper into your so-called efficiency dividend to take more money out of the CSIRO?

Senator Carr—You have made an assertion. We will start from that proposition and we will take it from there.

Senator JOYCE—I will put it on notice and next time you present yourself here I will ask you again.

Senator BOSWELL—The CSIRO claim that the Rudd government have cut funding by \$63 million over four years and you, Senator Carr, have claimed in answering a question to

Senator Macdonald on Thursday the 15th that 'the government has given a modest increase to CSIRO of approximately \$13 million'.

Senator ABETZ—I am sure he was talking about the luxury car tax!

Senator Carr—If you look at the appropriations, there is a modest increase in the appropriation for the CSIRO under forward estimates. What I have indicated is that an efficiency dividend has been applied to the CSIRO. I am not backing away from that. We are agreeing that it is \$63 million. There is offsetting support from the Clean Coal Fund of \$25 million. There is access to solar and other things which are not in those figures. But if you look at the appropriation figures you will see that there is a slight increase.

Dr Garrett—As I have communicated to—

Senator BOSWELL—You are giving it with the left hand and taking it with the right. If you take the \$13 million, the net loss is \$50 million.

Mr Whelan—I can clarify: Minister Carr is referring to the fact that our appropriation in 2007-08 was \$663.2 million. We expect that figure in 2008-09 to be \$668.1, so in that sense there is an increase of approximately \$5 million between the two periods.

Senator ABETZ—That is less than the inflation rate.

Dr Garrett—That is a 0.75 per cent increase.

Senator ABETZ—I would like to come in here. What was that figure you expected it to be in 2008-09?

Mr Whelan—Under the previous figure in the forward estimates it would have been \$681 million. The movements are: in 2007-08—that is, this year—we received \$663.2; in 2008-09 we will now receive \$668.1, which is an increase of approximately \$5 million, but it is less than we would otherwise have received and that figure that we would have otherwise received is \$681 million. The difference between the two is \$13 million, and that is the impact of the efficiency dividend.

Senator ABETZ—Senator Carr stated in his answer that it will rise to \$676 million in 2008-09.

Dr Garrett—There is a capital amount in there.

Senator ABETZ—That is a capital amount as well.

Dr Garrett—There is a capital amount of \$7.6 million.

Senator ABETZ—That is very helpful, Senator Carr.

Senator Carr—Are you disputing it?

CHAIR—Senator Boswell.

Senator BOSWELL—Thank you.

Senator ABETZ—Can I then ask and go back—

CHAIR—No. Senator Boswell has the call.

Senator BOSWELL—If that \$63.4 million budget cut was not made, or dividend applied, would you have had to shut Bakers Hill, Rockhampton, Merbein and Cooroy?

Dr Garrett—No.

Senator BOSWELL—You would not have shut them down?

Dr Garrett—No.

Senator BOSWELL—I have fibre and textile questions that I want to ask.

Senator ABETZ—Does it muck up things if we jump to various sections in the CSIRO? If it does not, I suggest we allow Senator Boswell to get his questions out of the way?

Senator BOSWELL—The CSIRO has announced that the fibre and textile division will merge with the material science and engineering sector. Is that correct?

Dr Garrett—That is correct.

Senator BOSWELL—What sort of research programs will be cut as a result of these cutbacks?

Dr Garrett—The objective of this change is to reduce overhead and management costs. We are combining the divisions, so we are taking out overhead costs in that environment. We are currently looking at the overall research make-up.

Senator BOSWELL—What programs are you going to cut in fibre and textile?

Dr Garrett—We will continue the work in cotton fibre and advanced textile technology. It is likely that our wool research will continue to reduce.

Senator Carr—That is because of the reduction in support from the Wool Innovation Agency. AWI have transferred money out of wool research and put it into advertising.

Dr Garrett—There will be approximately a \$2 million reduction in our wool related research.

Senator BOSWELL—With due respect, Minister, I do not think that you can penalise the wool industry for defending their brand when they are being attacked by PETA.

Senator Carr—What I can criticise is statutory authorities that choose to put money into advertising rather than into R&D.

Senator BOSWELL—With due respect, you do not completely understand the industry. What the industry has had to do, because it has been attacked viciously by PETA, is defend its brand. Therefore it has to take money out of research to defend the onslaught that has been put upon it by some of these greenie groups. That is why it has happened. You cannot penalise them for that. You should be putting more money in to help them to support their brand.

CHAIR—Is that a question?

Senator BOSWELL—No.

CHAIR—Can we have questions, please?

Senator BOSWELL—I just wanted to take the opportunity to explain the industry to the minister, because obviously he does not understand it too well. If the government had not imposed the cutbacks on funding of the CSIRO of \$63 million, would you have considered keeping the fibre and textile division separate?

Dr Garrett—Yes.

Senator BOSWELL—The government has put an increased efficiency dividend on CSIRO in line generally with government policy. Has this efficiency dividend been attached to the scientific research based operations?

Dr Garrett—Yes.

Senator BOSWELL—Have the CSIRO's scientific research based operations ever had an efficiency dividend attached to them before?

Dr Garrett—Not to my understanding. I would need to check that data.

Senator Carr—There were previously.

Dr Garrett—Just to clarify that matter, we have had an efficiency dividend applied in the past. This is the first time that it has been applied to the whole organisation's budget.

Senator BOSWELL—Across the researchers?

Dr Garrett—Correct.

Senator BOSWELL—How much will the efficiency dividend on the CSIRO research take out of the agency's budget for the researchers?

Mr Whelan—We have sought to minimise the impact of the reductions on research itself. Our expectation is that the bulk of the impact will fall on fixed costs, management overheads and support costs. There will inevitably be some impact on direct research, but we are seeking to minimise that. It would be fair to say that the full effect of these reductions will not be directly felt on research.

Senator BOSWELL—Senator Carr stated in parliament on 15 May that the CSIRO may also be able to access \$100 million in solar research money to be administered by the Australian Solar Institute, and I think he made some reference to it then. Does the budget include any specific proposed programs such as the \$100 million solar research money to be administered by the Australian Solar Institute?

Dr Garrett—No, not at this point in time. Those programs are currently being worked through by DRET.

Senator BOSWELL—Are there any guarantees that CSIRO will get any contract for the \$100 million solar research money?

Dr Garrett—There are no guarantees in this life, but there would be a significant expectation, because in our Newcastle centre we have wonderful work going on in solar thermal and also organo-photovoltaic tanks across the organisation. We have the expectation to be able to access that money.

Senator BOSWELL—Minister, would you like to comment?

Senator Carr—I will just support what Dr Garrett has indicated. The CSIRO is particularly strong in the area of solar research, as it is in coal. However, in the case of coal the responsible minister has actually made a public statement to the effect of \$25 million. Whatever figures you are quoting here about the efficiency dividend, that is the \$63 million, that needs to be discounted by these other figures that are taken into account.

Senator BOSWELL—Not really, because you are going to ask them to do more.

Senator Carr—The whole government has been faced with that proposition of being asked to do more.

Senator BOSWELL—You are going to ask them to do more with less.

Senator Carr—You cannot guarantee that you are going—

Senator BOSWELL—Minister, are you going to lobby that CSIRO gets part of this \$100 million?

Senator Carr—We work closely with the CSIRO in trying to attract support for CSIRO's research programs at every possible level. That is a practice that I have maintained.

Dr Garrett—It is fair to say that the indications are that the solar institute will be based at CSIRO's Newcastle energy centre. CSIRO is one of the three major players in Australia working in solar and therefore we anticipate that funding will accrue subject to the appropriate processes.

Senator BOSWELL—I hope you are right. I do not want to see any more cuts to CSIRO. It is all very nice for the minister to make warm and cuddly statements when he is sitting next to you—

Senator Carr—I am well known for it.

Senator BOSWELL—but there is no guarantee that you will get it.

Senator Carr—There are guarantees. Do not worry about that.

Senator BOSWELL—Are you saying there is a guarantee?

Senator Carr—No. I am being humorous. In the National Party you are not humorous, are you?

Senator BOSWELL—I am trying to ascertain. You have the gentleman sitting next to you. Can you rely on this? Can you bank on it?

Senator Carr—What I am concerned to do is to improve the financial position of the CSIRO. The government has been faced—

Senator BOSWELL—With due respect, Minister, you have not done—

Senator Carr—You asked me a question about guarantees and I have indicated to you that, given the budgetary situation that the Commonwealth finds itself in, the government made decisions about the application of an efficiency dividend not just to the CSIRO but to all agencies within the portfolio and other agencies across the government. It is my expectation that the financial position of the CSIRO will improve. We have the national innovation systems review coming forward, and I draw your attention to the statements of the Prime Minister. We have statements in regard to the coal energy fund and there is an expectation within CSIRO in regard to its infrastructure on solar research. On that basis I am confident the CSIRO's budgetary position will improve.

Senator BOSWELL—You will not want to be coming into parliament if it does not, because I will be attacking you with all forces.

Senator Carr—I have no doubt you will offer me all the gratitude that you have over the years.

Senator BOSWELL—I would like to move to the agricultural sustainability initiative. Can you tell me about the agricultural sustainability initiative known as ASI?

Dr Daly—It is a cross-portfolio, cross-divisional activity in CSIRO in which we are attempting to bring together a range of research activities under the leadership most recently of Dr Brian Keating, who has just become Chief of Sustainable Ecosystems. Agriculture is the largest area of activity in the organisation, but we felt that there was an opportunity to have better coordination across a number of key activities. That initiative was put in place about 18 months ago and it continues into the future.

Dr Garrett—The total spend in 2007-08 is approximately \$42 million in that space.

Senator BOSWELL—We have time constraints here, so I would like to get these questions on the record. Is the ASI funding determined by direct funding to that initiative or to be a budgeted item determined by the CSIRO?

Dr Daly—It is part of our appropriation funding, and it is part of our investment process in which different parts of the organisation bid for their future funding, and it received funding on that basis.

Senator BOSWELL—Because of the budget cuts to CSIRO what decisions have been made in relation to the ASI?

Dr Daly—ASI receives the same funding next year as this year. That is in common with 70 per cent of the organisation. It gets the same funding going forward. However, we have also made a decision to put a person in charge of that initiative full time, taking him off his other activities. That is an increased investment in that area.

Senator BOSWELL—Will there be any further staff cuts as a result of cuts to the ASI?

Dr Daly—ASI is not being cut; it is receiving the same funding going forward next year as in this year.

Senator BOSWELL—There will not be any reduction?

Dr Daly—No.

Mr Whelan—I can clarify there. The funding, as Dr Daly has indicated, will be flat. We have not worked through the staffing requirements in detail for all of the research themes. That process is currently underway. We expect to know by the end of June what the staffing requirements for the research themes will be for the organisation.

Senator BOSWELL—You are not ruling out any cuts?

Mr Whelan—We are not ruling in or ruling out anything. We are working through the detail.

Senator BOSWELL—Has consideration been given to staff cuts in any other facilities under the ASI?

Mr Whelan—Not explicitly. As I said, we are working through all of the research theme leaders—there are 95 of those in CSIRO—that have been given their numbers for next year. They are currently working through detailed budgets, staffing estimates and the like, and they

will present those later in June. We will assemble those and present them to the board for approval.

Dr Garrett—The ASI is a coordinated initiative to essentially look into the future around the sustainability of agriculture and the impacts of climate change and water, and in those domains particularly we are increasing our investment.

Senator ABETZ—Dr Garrett, I referred you to a list of those areas that had been cut and are going to be closed or amalgamated, and I referred to a statement on 26 May and asked whether that included all of those areas that were going to be cut or amalgamated. I think you answered yes. I am sure this one just slipped your mind, but was there another statement made on 28 May referring to the Yalanbee Research Station in Western Australia?

Mr Whelan—There is some confusion there. Yalanbee is the name of the field station at Bakers Hill. Bakers Hill is the geographic township and Yalanbee is the station. They are one and the same thing.

Senator ABETZ—Why did we make another announcement two days later?

Mr Whelan—The reason for that was that not everybody knew the name of the station as Bakers Hill in Western Australia.

Senator ABETZ—Like me.

Mr Whelan—We sought to clarify that.

Senator ABETZ—Thank you very much for that. Can I ask why the \$3 million upgrade was made at the Rendel laboratory?

Mr Whelan—Primarily for health and safety reasons.

Senator ABETZ—The livestock and the agricultural sector, broadly speaking, has taken a huge hit with these budget cuts. In relation to the forest biosciences capability, will CSIRO be able to fully continue its research at the level it currently is at into alternatives to 1080?

Dr Daly—I do not understand the question. Can you clarify please?

Senator ABETZ—There is a change being made to the forest biosciences capability. I say ‘change’; it is going to be lessened. With that lessening of capacity or capability, will the CSIRO forest biosciences division still be able to work on the phase-out of 1080 poisoning at the same level at which it has previously been operating?

Dr Daly—I would have to take that question on notice. Let me assure you that we are not reducing the scientific capability associated with forest biosciences. We are adding that capability to other research divisions in CSIRO and retaining it in large research groups. We do not envisage a reduction in—

Senator ABETZ—That is very nice, Dr Daly, but I think you would be aware of what the Institute of Foresters has had to say about this change.

Dr Daly—Yes, I am aware.

Senator ABETZ—Dr Garrett, how many job losses will CSIRO have as a result of these cuts?

Dr Garrett—We are estimating approximately 85 full time equivalents, which is a net reduction in the order of 100 jobs, in our estimation.

Senator ABETZ—How many of those people that fill those 100 jobs have letters in front or behind their name, in other words, science graduates of one sort or the other?

Dr Garrett—We are in the process of discussions with staff around the implementation of these programs. Mr Whelan indicated earlier that our prime objective is to preserve our core capability in the science domain. However, with the scale that I have indicated, there are likely to be some of our research scientists affected. I cannot give you a number at this point in time.

Senator ABETZ—Is CSIRO sometimes tasked and funded by recipients of Commercial Ready program grants?

Mr Whelan—Yes.

Senator ABETZ—Yes, it is. In drawing up your budget for external revenue coming into CSIRO, were you made aware that the Commercial Ready program was going to be cut?

Mr Whelan—No. The normal practice for a budget process is that we are aware of the measures that relate to our agency. We await budget night to find out the matters that relate to other agencies.

Senator ABETZ—Therefore, the cut to the Commercial Ready program will have flow-on consequences for less external revenue beyond the \$40 million that you have identified.

Mr Whelan—Indeed it may do. We are yet to calculate what that impact will be.

Senator ABETZ—When you calculate that further impact of the federal government's budget cuts across this portfolio, I would be interested if you could report to the committee.

Mr Whelan—Yes.

Senator ABETZ—I read with some interest after my suggestion that the Chief Scientist should have been asked about the government's views on getting rid of plastic bags—that was at the last estimates—and now, all of a sudden, the Prime Minister thinks it is a good idea not to task the Chief Scientist, but the CSIRO. I do not quibble with that decision, but have you been provided with any extra resource to assist Minister Carr to provide his submission to cabinet on the issue of recyclable biodegradable plastic bags?

Dr Garrett—Not at this stage. We are in the throws of analysing the work that needs to be done and developing a business plan. We will have a discussion with the minister in due course. He has indicated that to us.

Senator ABETZ—Minister, will you then be seeking extra funding for the CSIRO to undertake this specific task?

Senator Carr—I will not presume the outcome of those discussions. We should have those discussions before we take that further.

Senator ABETZ—Will this issue, no matter how far you go with it, incur some extra cost on the CSIRO?

Dr Garrett—We will obviously need resources to work on this program, but part of our responsibility in dealing with national priorities is to respond to demands, and that is why there will be a discussion with the minister in terms of additional funds, redirection of funds or redirection of projects.

Senator ABETZ—Of course, redirection of projects is, with respect, a euphemism that if this plastic bag project is going to be funded then some other project must therefore receive less funding, unless there is supplementation?

Dr Garrett—That is correct, recognising that the skills set required to work in this biodegradable polymerics will be essentially the same. It is not the same as the redirecting of resources from, for example, the agricultural domain to work on clean energy.

Senator Carr—It is my understanding that the CSIRO has been working in these areas for some time.

Dr Garrett—Correct.

Senator Carr—There are CRCs working in these areas. We have resources within this research portfolio and I do not feel that it is beyond the wisdom of our officers to be able to draw together these resources, and so I am not going to make presumptions about the need for additional resources. It is a question of first of all establishing what work is being done and whether or not appropriate coordination exercises can be undertaken to improve our capacity to produce degradable bags. As I understand it, there is work being done. There are some research challenges that the CSIRO is seeking to respond to, particularly in terms of the conservation issues and also the rate at which these products break down.

Dr Garrett—Correct.

Senator Carr—It is a question of how quickly the CSIRO can respond to what is a national interest need, given this is a public benefit scientific agency and that one of its key responsibilities under the act is to respond to questions of this type.

Senator ABETZ—Minister, unfortunately we have to finish. Do you consider the loss of 100 jobs, or 85 full-time equivalent jobs, as massive job cuts to the CSIRO?

Senator Carr—What I would say to you is that these budget cuts are highly regrettable and they are very difficult, but they are in response to a situation that we have inherited from the years of neglect under your government. What I have heard from you today is that we should have cut harder. What I have heard from you is the fact that the spending is too great.

Senator ABETZ—Chair, that is just false. Senator Carr, you have been justifying your cuts in this area on the basis of you having to have less expenditure. In fact, this is the highest spending budget of any budget in Australian history. I will remind you of what you said that the government—

Senator Carr—What should be cut further? If you think the spending is too great, what should have been cut further? If you do not think these cuts were tough enough, tell me what should be cut?

Senator ABETZ—Well, \$20.9 million on your ‘Foolwatch’ would have been a good start.

CHAIR—Senator Abetz, this is out of the portfolio area. I do want to change. There is one quick question from Senator Heffernan.

Senator HEFFERNAN—One of the things that is very important to the wellbeing and future of Australia is sorting out the task of how we produce affordable food for the consumer that is sustainable for the environment and viable for the farmer. If I can get the permission of the Senate and the parliament, I would like to have that inquiry, because it is something that is super important for not only us but the whole of the planet. The CSIRO, in my view, has a very important role to play. I see you have a gentleman off the northern taskforce sitting back one row there. We had the view that the CSIRO ought to have been contracted into some of that work because there is a lot of information in a whole lot of silos out there that we need to get onto one database. You blokes are the blokes in my view that should do it. Minister, can I put in a plea? You are asking what has to be cut. That has to be added.

Dr Garrett—Thank you. We stand ready to help. That is our job.

CHAIR—Thank you to the officers of the CSIRO for coming today.

[12.23 pm]

Australian Institute of Aboriginal and Torres Strait Islander Studies

CHAIR—Thank you, Dr Taylor, do you have an opening statement?

Dr Taylor—No.

CHAIR—Senator Joyce.

Senator JOYCE—This is a question for Mr Paterson. I have some queries regarding some items that were noted on the additional estimates. I have one reply on notice back, and it was well set out. I thank you for that. It diligently pointed out where the amounts arrived from. However, I refer you to your answer of how this \$110,000 disappears off the budget department balance sheet and then miraculously reappears in the forward estimates. Your answer was:

A variance of \$110,000 relates to the acquisition, disposal and changes in valuations heritage and cultural assets ...

It does not give a reference to the particulars of what make up that amount. Why is that? Is this just a qualitative statement like, 'I will get to the end of the week and I will pay you what I think is appropriate.'?

Mr Paterson—Just as a point of clarification, it is not in relation to the department's balance sheet and it was not a response from the department, but from the agency.

Senator JOYCE—It is a budgeted departmental balance sheet.

Mr Paterson—But it is in with the agency for AIATSIS, which is an independent statutory authority. The officers are here to respond to your question. I am not ducking your question, but just making the point for the record that it is not about the balance sheet of the department.

Senator JOYCE—I would like to look at that. All I want is the answer.

Dr Taylor—I will have to ask our chief financial officer.

CHAIR—Can you repeat that?

Senator JOYCE—What happened to the \$110,000?

Dr Taylor—I will ask the CFO to answer that.

Mr Hobson—I am sorry, I did not hear your question.

Senator JOYCE—What does it pertain to? In any amount that you have on a set of books there has to be a quantifying calibration or a list that pertains to what makes up that amount. In this one I do not see that. All I see is a discussion piece on what that amount relates to. To be quite honest, I think it is just a simple mistake, but if it is a simple mistake people should just say so and not try to beat around the bush.

Mr Hobson—The issue relates to the fact that it is to do manuscripts and paper documents, which we obtain and put into storage. We have put some value on them. Until such times as they are sorted and indexed by people back at the institute, we are unable to give a proper figure as to what that relates to.

Senator JOYCE—It relates to the fluctuation in the valuation. When you came up with the figure for the initial valuation you would have had a list or an inventory of the items that came to that amount, then you would have had another inventory of items that came to a different amount and then you would have had another inventory of items that came to the third amount, which surprisingly enough was exactly the same as the first amount. The differentiation between those two inventories of items is the detail that I want.

Mr Hobson—I will have to take that on notice and get that information for you.

Senator JOYCE—I do not want to have to come back to each budget estimates asking the same question, so let's fix it up.

CHAIR—Senator Abetz.

Senator ABETZ—In the forward estimates you are going to have a cut of \$3 million. That is in the year 2011-12. Can you confirm that is because the extra money for archiving runs out?

Dr Taylor—Yes. That is special funding for the digitisation program that runs for three years.

Senator ABETZ—Having had a look at it, you are not going to be finishing the archiving project, because you have about 25 years of archiving to do. Is that right?

Dr Taylor—Yes. I understand that we are receiving more collections than we can digitise. What is happening is that there is a grading upwards of the numbers of collections being offered.

Senator ABETZ—I would put in a plea to you, Minister, in drawing up the next budget to give consideration to giving AIATSIS some more money to extend the archiving program. Having seen the huge workload with which they are confronted and seeing that the money is going to drop off in a few years time, it must be very disheartening and morale draining for those who are actually working on those projects. I will turn to page 68 of the portfolio budget statement. It looks as though we are budgeting for five less people next year. Is that right?

Dr Taylor—That is true.

Senator ABETZ—Why are we budgeting for five less people when, as I understand it, your workload is ever increasing?

Dr Taylor—It is the dual impact of the efficiency dividend and the workplace agreement where we are offering staff higher salaries.

Senator ABETZ—If I might be flippant—and I raise this unfairly with the secretary of the department and it is a cheap point for me to make—on page 69 under your key performance indicators you have a number of annual reports produced and your target for 2008-09 is going to be one. Can you tell me why that found its way into the key performance indicators? I have not been able to find it with CSIRO, ANSTO or anybody else that this was going to be a key performance indicator. I would have thought one annual report would be something that is just a matter of course, not something that you would particularly pride yourself about and pat yourself on the back for having achieved. Is that a fair comment? I do not want to denigrate the excellent work you do, but I just thought that this one possibly did let you down.

Dr Taylor—That relates to the work of our press. The press produce six books and two volumes of our regular journal. They have just added in the annual report as an additional item that they produce.

Senator ABETZ—Surely that would be top priority?

Dr Taylor—Certainly.

Senator ABETZ—Thank you.

Senator JOYCE—Just before you go, I have made heaps of mistakes myself. If it was a mistake, just come back and tell us it was a mistake. I understand that completely, just do not beat me about the bush.

Mr Hobson—I personally have not but I certainly would.

Senator JOYCE—Thank you for that.

CHAIR—It is 12.30 and the committee will break for lunch and resume at 1.30 with the Office of the Chief Scientists. Thank you to the officers.

Proceedings suspended from 12.30 pm to 1.33 pm

Office of the Chief Scientist

CHAIR—The committee will now reconvene with the Office of the Chief Scientist. I understand that Dr Peacock left home very early this morning to get here for the committee. We thank him for making the effort to appear. Senator Abetz, do you have some questions?

Senator ABETZ—Can I say by way of introduction, Minister, congratulations on the initiative of making available the Chief Scientist. I think that was a good initiative by the government. This is now, I understand, Dr Peacock's second but also last appearance before the committee. We wish him all the best for his future endeavours and also thank him for the significant contribution that he has made to the world of science in Australia at large. Chances are, I would assume, it is also his last appearance internationally, but I am not necessarily aware of that. I would also anticipate that we can thank him in anticipation of his future

contributions, albeit not in the role of Chief Scientist. Having indicated that the good Dr Peacock is on the move, can I ask: how are we going with a replacement for Dr Peacock?

Mr Paterson—An advertisement was placed both domestically and internationally for a full-time Chief Scientist. The applications for that position are closed, and interviewing is proceeding as we speak. I cannot yet predict how long that process will take to draw to a conclusion, with the interviewing panel then having to provide a recommendation to the government.

Senator ABETZ—Dr Peacock had his term extended by three months. When does that three months expire?

Mr Paterson—I think there has been a further extension. It now expires in August.

Senator ABETZ—I do not want to commit you to it, but are we working towards having a replacement by August?

Mr Paterson—I think we are working towards a position where we will not need to impose on Dr Peacock again.

Senator ABETZ—That is a roundabout but very nice way of putting it. Dr Peacock, of course, has been of service to us by agreeing to those extensions. How, if at all, will the special dividend be visited upon the activities of the Chief Scientist? As I understand it, the new Chief Scientist will be a full-time position. I think I was told last time that the Chief Scientist does not have personal staff or a separate office as such and that it is all part of the general department. Is that right?

Mr Paterson—I think on the last occasion we indicated that there is an Office of Chief Scientist, which is part of the department, and Dr Peacock does not have line responsibility for the budget or any matters associated with that office. We provide that office to the Chief Scientist. Whilst the efficiency dividend applies more generally in relation to the portfolio, there has been no obvious direct impact on the Office of the Chief Scientist as a result of the efficiency dividend.

Senator ABETZ—Last time, Dr Peacock, I asked about your role. Correct me if I am wrong on this, but I understood your position to be that sometimes you would of your own volition—I think I used the word ‘gratuitously’—offer advice or suggestions to the government on matters that came to your attention that you thought were important, and on other occasions you were given specific issues by way of reference from the government. I assume that position has not changed?

Dr Peacock—That is correct.

Senator ABETZ—Are we anticipating a change in that particular aspect of the Chief Scientist’s role?

Senator Carr—What I can indicate to you is that the advertisement that Mr Paterson has referred to goes to the responsibilities of the Chief Scientist, which is to provide advice to the Prime Minister and the portfolio minister and other areas of government as requested and also to raise awareness of emerging issues in science, engineering and innovation in the broader Australian community. So I would anticipate a public role in terms of encouraging public debate on matters of importance in the science and research communities and the community

at large. He will also assist the coordination of government activities and foster collaborative relationships amongst key stakeholders, including scientific research institutions.

Senator ABETZ—The position plays two specific roles—and you have covered them exceptionally well in the terminology that is part of the advertisement. That was an aspect that I was concerned about.

Senator Carr—I am saying that the role is broader than that.

Senator ABETZ—I understood that from our previous discussions as well. I just wanted to ensure that that specific role was being maintained.

Senator Carr—It has also the role within PMSEIC, which I think is particularly important. It is the role in which Dr Peacock has fulfilled his functions in recent times. There is also NCRIS and there is also the role within science education within CSIRO, Questacon and the other scientific agencies.

Senator ABETZ—I only asked about a discrete, specific area. That was all I was concerned about. Has the Office of the Chief Scientist been tasked with any specific issues? I think last time around I asked about the issue of plastic bags. I understand that how now gone to CSIRO. I asked about nanotechnology. You indicated you had not been specifically asked about that area. Are you at liberty to indicate to us whether there are any particular issues that have been referred to you by the government since we last met?

Dr Peacock—One example is that the minister asked me to serve on a review of Questacon. I am currently engaged as a member of that review panel.

Senator ABETZ—Please look after Questacon. It is a great institution. Senator Bushby's children were there today. My children have spent many an hour in there and, I confess, so have I.

Dr Peacock—The report will be given to the minister. There have been a number of other issues and different areas of science about which I have been in discussion with the minister, for example. They are areas that we regard, jointly I think, as areas of science that are important to Australia. I have been helping the minister know what our strengths are and what the international position is. I have been offering some advice like that.

Senator ABETZ—You previously had a role with CSIRO, if I recall correctly.

Dr Peacock—I still do. I have a part-time role. My present position is part time. I have not any line management responsibilities there and it is my intention when I cease in this position to seek full-time employment in CSIRO once again. I am still anxious to be involved in research.

Senator ABETZ—Good luck with that. I just hope there is enough money left in CSIRO to be able to afford to pay somebody of your calibre.

Senator Carr—The appropriation is going up. I think we have discussed this.

Senator ABETZ—We heard just before lunch that 100 jobs have been cut—85 full-time equivalents.

Senator Carr—But the appropriation is increasing, so we should be able to find a spot for—

Senator ABETZ—so we are in the atmosphere of having to reduce staff. I trust that there is still going to be room for the expertise of Dr Peacock. May I just reiterate the comments I made by way of introduction and thank Dr Peacock for his service.

Dr Peacock—Thank you.

Senator MILNE—I just wanted to follow up on your work as Chief Scientist with regard to Gunns pulp mill in northern Tasmania. After you submitted your report last year has there been any follow-up with you? Have you spoken to the new ministers? Is it expected that there will be any follow-up? Can you just explain to me after you submitted your report, what is next?

Dr Peacock—Once I submitted that report that was the end of my role in that particular task. I believe one of the recommendations about the setting up of an expert committee to watch over the required tasks has been followed up with the department concerned. I have had nothing whatsoever to do with it.

Senator MILNE—Have the new ministers asked for any input from you in terms of overseeing some of the recommendations that you made? In particular, I am unaware if an independent site supervisor, for example, has been appointed, but I do not think that has happened.

Dr Peacock—I am not aware of that. I did supply some requested information to Senator Abetz—

Senator ABETZ—Which was very helpful, I might say.

Dr Peacock—from the last appearance and I think the department was also requested to provide information to Senator Brown. That was also done.

Senator MILNE—You would be aware that you have been quoted in various places as having said that the pulp mill would be world's best practice. Can you confirm again for the committee the very narrow nature of the assessment you did to which that remark was directed?

Senator ABETZ—That is a very loaded question.

Dr Peacock—I fulfilled the requirements of the task that I was set. I set up an expert committee to look within the bounds of the Commonwealth responsibilities. To that extent it was narrow but we did that, I think, quite comprehensively.

Senator MILNE—And the Commonwealth responsibilities were twofold, were they not: migratory species and Commonwealth waters?

Dr Peacock—That is one way of summarising it, but there was also a concern with regard to other endangered species, threatened species, in areas of the pulp mill construction and in the pipeline.

Senator MILNE—Yes, but it did not include looking at the forests or the atmospheric pollution, did it?

Dr Peacock—Not at all, no.

Senator MILNE—I will move on in relation to other things. Has anyone in the new government asked you to do any work on nanotechnology?

Dr Peacock—Nanotechnology is one of the topics on which I have been in discussion with the minister, Minister Carr. It is one of the areas of science that I believe is very important for Australia. I have been involved in preparing material describing what is being done in Australia at the moment and what is happening around the world so that the minister can consider the future position in support of this, if so, within Australia.

Senator MILNE—You are preparing, more or less, a state-of-play on nanotechnology report for the minister—is that a fair way to describe what you have just said?

Dr Peacock—I think so.

Senator MILNE—In relation to any climate change or emissions trading work, has the government asked you to prepare anything or has there been any interaction with Professor Garnaut in the drawing up of the emissions trading scheme?

Dr Peacock—Not directly, no. I have prepared, in the past, some fact sheets surrounding topics in climate change. I have had nothing to do directly with any considerations of carbon trading matters.

Senator MILNE—You are not essentially involved in that process?

Dr Peacock—No.

Senator MILNE—What about with genetically modified organisms, has the government asked you to prepare any material or are you in the process of preparing any?

Dr Peacock—No, nothing during my tenure as Chief Scientist.

Senator MILNE—Just so that I understand the process as much as anything else, can you initiate any work on your own or do you have to wait to be asked by the government to prepare something?

Dr Peacock—My task includes providing advice on topics that I make a personal judgement about, I guess, from knowledge of science that I believe that the minister, the Prime Minister or another minister in government should know about. So I take that seriously.

Senator MILNE—Can you give me an idea of what work you have been preparing since the last estimates then—what papers you are working on to provide to government apart from the nanotechnology one you have just cited?

Dr Peacock—In the first place I will give examples of 10 areas of science research that I think are key for Australia's future. The minister has asked me to prepare draft business plans for two of those at the moment. One is in the area of nanotechnology and nanostructures and the other is in epigenetics.

Senator MILNE—What are the other eight?

Dr Peacock—I do not know that I can list them all here for you but they would include solar energy, including solar thermal and photovoltaics and matters to do with water security and climate adaptation, things that are clearly of great importance. There is also molecular resistance to virus diseases that applies to all organisms from plants to humans. There are very

exciting developments in science in regard to that. I think I have suggested the Antarctic and Southern Oceans; also tropical marine systems are things that I believe the government needs to know where we are at this stage. I am not sure I have given you all eight but I can provide you with a list—

Senator MILNE—I would like to have those topics, if I may—

Dr Peacock—They are personal views of mine, but I can do that.

Senator MILNE—I would like to ask the minister a question with regard to Antarctica and the Southern Ocean. As Australia is a member of IUCN, the world conservation union, and there is the congress in Barcelona in October this year, I want to mention there is not currently in IUCN an Antarctic and Southern Ocean program. There is an Arctic program. As a regional councillor from Oceania I have been lobbying with my colleagues from New Zealand for IUCN to increase its level of attention and focus to Antarctica and the Southern Ocean. In view of the work that Dr Peacock has done in relation to identifying why the Southern Ocean and Antarctica need greater attention, could I ask that you might refer this matter to those people in the government who might be preparing Australia's participation in the IUCN congress in Barcelona to look at providing some support to make sure we get a global program on Antarctica and the Southern Ocean?

Senator Carr—I would be happy to. Any material that Dr Peacock provides to me is not just for me. Of course there is advice tendered to whole-of-government. Part of Dr Peacock's role through PMSEIC, for instance, is an issue that we have sought. But I have also asked Dr Peacock to serve on the national innovation systems review, so there are other avenues to pursue these broader issues in terms of our national innovation system response. Part of that process is our international obligations and an attempt to expand our international obligations. The difficulty, of course, is that in the straitened budgetary circumstances that we find ourselves in we are trying to maintain capacity in this area, which is not always at the rate I would like, and I know the officers experience constant frustration asking people to engage in international activities, given that they are under such strain as a result of the productivity changes that we have asked them to undertake.

Senator MILNE—In relation to areas of science, have you considered doing any work on the devil facial tumour disease in Tasmania? There is considerable interest globally in that cancer that is passed on by biting and cell-to-cell transfer of cancer. There are quite a lot of oncologists dealing with cancer in humans who are very interested in the disease. The research on it seems to be incredibly slow and the animals are rapidly facing endangerment and probably extinction unless we hurry up. Has anyone talked to you about doing any work in this field? Is it something you might consider taking up?

Dr Peacock—I have been interested in that particular topic for some years and I have been in discussion with scientists involved in that area. I think the identification of the vigorous and attacking cancer cell was really a magnificent bit of research. There were completely different ideas initially. It may seem to have been slow but I think there really has been excellent progress and it has opened up a lot of questions on the immune system that need to be followed up with basic research now. And it has, of course, been important for thinking about management and conservation of the species.

Senator MILNE—Will you give some consideration to maybe elevating the effort and profile of the science around that disease?

Dr Peacock—I have not tried to assess beyond what I said whether the concentration of effort is sufficient or could be increased. A lot of that relates to decisions around the state government, of course.

Senator MILNE—That is precisely why I am asking, because the effort, in my view, has not been given the resources or the profile that is required. There have been many overseas laboratories seeking tissue et cetera. It has taken a long time to get to the point where they have opened up a collaborative research arrangement. As I said, the animals are going to extinction faster than it seems the science is going. I know there is a lot of willingness around the world to deal with it, so I was really hoping you might be prepared to engage it to see if we can lift the profile and get more global science collaboration on this particular disease?

Dr Peacock—I can only say once again that often research seems to be slow, but I consider this to have been a wonderful research effort with a fine outcome in the analysis and I think it has led to global partnerships in research. I do not know all the details. It would be possible for me to find out. I think importantly it has laid open the principles of attempts to make sure there is no extinction of the species.

Senator MILNE—We will see.

Dr Peacock—We can but try.

Senator MILNE—Thank you.

CHAIR—Thank you again, Dr Peacock, for attending today. And thank you to Mr Paterson and the officers of the department. We will move now to the Treasury portfolio.

[2 pm]

TREASURY PORTFOLIO

In Attendance

Senator Conroy, Minister for Broadband, Communications and the Digital Economy

Senator Sherry, Minister for Superannuation and Corporate Law

Department of the Treasury

Dr Ken Henry, Secretary

Outcome 1—Sound Macroeconomic Environment

Output Group 1.1 Macroeconomic Group

Dr David Gruen, Executive Director

Mr Bill Brummitt, General Manager, International Economy Division

Mr Tony McDonald, General Manager, Macroeconomic Policy Division

Mr Jason Allford, Principal Adviser, Macroeconomic Policy Division

Ms Rose Verspaandonk, Manager, Macroeconomic Division

Mr Adam McKissack, Principal Adviser, Domestic Economy Division

Mr Phil Garton, Manager, Domestic Economy Division

Ms Jan Harris, General Manager, International Finance Division

Outcome 2—Effective Government Spending Arrangements

Output Group 2.1 Fiscal Group

Mr Nigel Ray, Executive Director

Mr David Martine, General Manager, Budget Policy Division

Mr Gordon De Brouwer, Chief Adviser, Budget Policy Division

Mr Jason McDonald, Manager, Budget Policy Division

Ms Karen Incher, Acting Manager, Budget Policy Division

Mr Neil Richardson, Manager, Budget Policy Division

Mr Michael Willcock, General Manager, Commonwealth-State Relations Division

Ms Maryanne Mrakovcic, 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 Rob Heferen, General Manager, Social Policy Division

Ms Peta Furnell, Principal Adviser, Social Policy Division

Mr Peter Robinson, Principal Adviser, Social Policy Division

Mr Michael Salvestro, Manager, Financial and Facilities Management Division

Ms Deidre Gerathy, General Manager, Corporate Services Group

Mr David Pearl, Social Policy Division

Outcome 3—Effective taxation and retirement income arrangements

Output Group 3.1 Revenue Group

Mr Nigel Ray, Acting Executive Director

Mr Mike Rawstron, General Manager, International Tax and Treaties Division

Ms Jo Laduzko, Manager, International Tax and Treaties Division
Mr Jonathon Rollings, Manager, Tax Design Division
Ms Christine Barron, General Manager, Indirect Tax Division
Mr Tony Free, Manager, Indirect Tax Division
Ms Sue Vroombout, Manager, Personal and Retirement Income Division
Mr Trevor Thomas, Principal Adviser, 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 Colin Brown, Manager, Tax Analysis Division
Mr Damien White, Manager, Tax Analysis Division
Mr Marty Robinson, Senior Adviser, Tax Analysis Division
Mr Phil Gallagher, Manager, Tax Analysis Division
Mr Matthew Flavel, Manager, Business Tax Division
Mr Anthony Regan, Manager, Business Tax Division
Mr Raphael Cicchini, Manager, Business Tax Division
Mr Graeme Davis, Principal Adviser, Business Tax 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
Mr Andrew Sellars, Senior Adviser, Corporations and Financial Services Division
Mr Bede Fraser, Manager, Corporations and Financial Services Division
Ms Marian Kljakovic, Manager, Corporations and Financial Services Division
Mr Michael Lim, Acting Manager, Corporations and Financial Services Division
Ms Kate Preston, Acting Manager, Corporations and Financial Services Division
Mr Steve French, General Manager, Competition and Consumer Policy Division
Mr Glen McCrea, Senior Adviser, Competition and Consumer Policy Division
Ms HK Holdaway, Manager, Competition and Consumer Policy Division
Mr Scott Rogers, Senior Adviser, Competition and Consumer Policy Division
Mr James Chisholm, Manager, Competition and Consumer Policy Division
Mr Brad Archer, Manager, Competition and Consumer Policy Division
Mr Patrick Colmer, General Manager, Foreign Investment and Trade Policy Division
Mr Paul Madden, Program Director, Standard Business Reporting
Mr Peter Martin, General Manager, Australian Government Actuary

Australian Accounting Standards Board

Professor David Boymal, Chairman
Mr Angus Thomson, Technical Director

Australian Bureau of Statistics

Mr Brian Pink, Australian Statistician
Mr Peter Harper, Deputy Australian Statistician, Population, Labour, Industry and Environment Statistics Group
Mr Ian Ewing, Deputy Australian Statistician, Macroeconomics and Integration Group
Mr Garth Bode, First Assistant Statistician, Social Statistics Division

Mr Paul Lowe, Assistant Statistician, Population Census Branch
Ms Debra Foggin, Chief Finance Officer
Ms Gillian Nicoll, Assistant Statistician, Office of the Statistician
Ms Beverley Forner, Acting First Assistant Statistician, Corporate Services Division

Australian Competition and Consumer Commission

Mr Graeme Samuel, Chairman
Mr Pat Walker, Commissioner
Dr Stephen King, Commissioner
Mr Brian Cassidy, Chief Executive Officer
Mr Adrian Brocklehurst, Chief Financial Officer
Mr Richard Chadwick, General Manager, Adjudication
Mr Michael Cosgrave, Group General Manager, Communications
Mr Joe Dimasi, Executive General Manager, Regulatory Affairs Division
Mr Scott Gregson, General Manager, Enforcement, Canberra
Mr Tim Grimwade, General Manager, Mergers and Assets Sales
Ms Helen Lu, General Manager, Corporate
Mr Mark Pearson, Executive General Manager, Enforcement and Compliance
Mr Nigel Ridgeway, General Manager, Compliance Strategies
Mr Tim Holland, Acting General Manager, Mergers and Assets Sales Branch
Ms Rose Webb, General Manager, Coordination Branch
Mr Richard Hayes, Regulatory Development Branch

Australian Office of Financial Management

Mr Neil Hyden, Chief Executive Officer
Mr Michael Bath, Director, Financial Risk
Mr Pat Roccosta, Chief Financial Officer

Australian Prudential Regulation Authority

Dr John Laker, Chairman
Mr Ross Jones, Deputy Chairman
Mr John Trowbridge, APRA Member
Mr Tom Karp, Executive General Manager, Supervision Support Division
Mr Charles Littrell, Executive General Manager, Policy, Research and Statistics

Australian Securities and Investments Commission

Mr Tony D'Aloisio, Chairman
Mr Jeremy Cooper, Deputy Chairman
Ms Belinda Gibson, Commissioner
Mr Malcolm Rodgers, Executive Director, Strategy
Mr Justin Owen, Manager, Government Relations
Mr Jon Taylor, Manager, Strategic Communications
Mr Stephen Woodhill, Executive General Manager, Corporate Affairs
Ms Emma Forehan, Media Adviser

Australian Taxation Office

Mr Michael D'Ascenzo, Commissioner
Ms Jennie Granger, Second Commissioner

Mr Bill Gibson, Acting Second Commissioner

Mr Greg Burgoyne, Chief Finance Officer

Mr Neil Oleson, Deputy Commissioner

Mr Mark Konza, Deputy Commissioner

Ms Raelene Vivian, Chief Operating Officer

Mr Shane Reardon, Deputy Commissioner

Commonwealth Grants Commission

Mr John Spasojevic, Secretary

Mr Phil Parkins, Director, Corporate Services

Inspector-General of Taxation

Mr David Vos, Inspector-General

Mr Rick Matthews, Deputy Inspector-General

National Competition Council

Mr John Feil, Executive Director

Productivity Commission

Mr Gary Banks AO, Chairman

Mr Bernie Wonder, Head of Office

Dr Ralph Lattimore, Assistant Commissioner

Superannuation Complaints Tribunal

Ms Jocelyn Furlan, Acting Chairperson

Takeovers Panel

Mr Allan Bulman, Director

Mr Alan Shaw, Counsel

CHAIR—I call this meeting of the Senate Standing Committee on Economics to order. For the benefit of officers, I advise that the committee is due to report to the Senate on 24 June 2008 and has fixed Friday, 1 August 2008 as the date for the return of answers to questions taken on notice. This afternoon the committee will begin its examination of the Treasury portfolio, starting with the Revenue Group of Treasury and the Australian Taxation Office and continuing in the order shown on the agenda. The ATO has requested that questions relating to compliance issues should be asked before the dinner break to facilitate officers' travel arrangements. Senators should also note that questions for the Revenue Group and ATO have been divided into two sections, with general questions to be considered first, followed by questions relating to retirement, income and superannuation issues. I welcome Senator Conroy, representing the Treasurer, and officers of the Treasury and Australia Taxation Office. Minister, do you wish to make an opening statement?

Senator Conroy—No, but I think Mr Ray does.

Mr Ray—I thought I might advise you that we have had a number of changes of responsibilities at senior levels of the department and throughout these estimates a number of us will appear in our former roles because those changes occurred just after the budget.

CHAIR—Questions, Senator Coonan?

Senator COONAN—Thank you. I want to ask some questions about the largest new tax measure in the budget, the increased excise on RTDs to rake in \$3.1 billion over the next four years. I should just say to the committee that when I get to a certain point in my questions it

may be necessary to accommodate Senator Cormann, who has got another commitment, if it is not inconvenient, and then I can resume. But I will kick off. Does the government still maintain the fiction that this measure is a health measure to address binge drinking?

Senator Conroy—I think the Prime Minister, the Treasurer and the minister for health have been fairly clear on this. There has been a heated debate in that other place. I am sure that, among your notes, you have references to it.

Senator COONAN—So the answer to that is yes; can I take it as a yes?

Senator Conroy—I think the government has been fairly straightforward on it.

Senator COONAN—What evidence of binge drinking was relied on by Treasury in modelling the impact?

Mr Ray—Our task was to estimate the impact on the budget of this policy.

Senator COONAN—You were given certain information, were you, as to the behavioural aspects of this measure?

Mr Ray—No, we were not given particular information. I think you will recall that the minister for health, I think, tabled a document in the House outlining the costing assumptions and methodology that we had used.

Senator COONAN—So it would not be correct to say, as Minister Roxon told parliament, that modelling by her department and Treasury had found the tax would lower alcopop consumption by 43 million 375 millilitre bottles a year?

Mr Ray—I do not have the minister's exact language in front of me, but what I do have is the document that she tabled and that showed that our modelling estimates that, in 2008-09, it would reduce RTD consumption by 42.7 million bottles, each with an average content of 375 millilitres and 5 per cent alcohol. Depending on the assumptions that you make around alcohol content, that would change.

Senator COONAN—The assumptions that Treasury made are all set out in the relevant minute that the minister tabled; is that correct?

Mr Ray—That is correct. The key assumption that we had to make was the price elasticity of demand for these products—

Senator COONAN—I am sorry, I cannot hear you.

Mr Ray—The key assumption that we had to make was the price elasticity of demand for these products. The assumption we used was a known price elasticity of demand at minus 0.4. That assumption was derived from looking at a number—I think it is 10 or 12, Mr Brown can probably tell you what it was—of academic studies in Australia and overseas of the price elasticity demand for alcohol.

Senator COONAN—We will come back to elasticities in a moment, but I notice in the minute tabled by the minister a list of references. Amongst the references was the national drug strategy household survey first results from the Australian Institute of Health and Welfare 2007.

Mr Ray—I think that the minister tabled two documents in the parliament. One was a list of references which is a list of references from the department of health—and you probably need to ask them about that—and the other was a minute that Mr Brown, sitting beside me, sent to the Treasurer. The list of references was not attached to our minute; it was separate.

Senator COONAN—Where does your minute start? Does it start with 14 May 2008 directed to the Treasury executive minute?

Mr Ray—‘Treasury Executive Minute’ is the heading, ‘14 May 2008, Treasurer’.

Senator COONAN—On the second page there is a heading, ‘Increased taxation of ready-to-drink beverages’; is that right?

Mr Ray—Yes, that is correct.

Senator COONAN—Where does the minute go after that? Does it attach table 1?

Mr Ray—There is a table 1, a chart 1, and then financial implications in table 2.

Senator COONAN—It does not have a back to it? It does not have anything on the back?

Mr Ray—No.

Senator COONAN—Someone other than Treasury appended a list of references. If there is anything on it, that was not a Treasury inclusion?

Mr Ray—I think you will find the minister tabled two separate documents, one of which is the Treasury minute and one of which is the list of references. The list of references came from the Department of Health and Ageing.

Senator COONAN—Yes, I understand that. Is it true to say that you had no access or reference to any material from the department of health in the modelling that you did?

Mr Ray—I did not quite say that we did not have access to material from the department of health—

Senator COONAN—Perhaps I will withdraw that and ask it in a more helpful way. Can you tell me what material you had access to, that you factored in for the purposes of modelling—

Mr Ray—For calculating elasticity? We had reference—

Senator COONAN—For any reason.

Mr Ray—We had reference to a wide range of academic studies of the price elasticity demand for alcohol both here and overseas.

Senator COONAN—Do you have a list of those?

Mr Ray—Yes, Mr Brown might be able to help you with that.

Mr Brown—I do not have them with me at the moment—

Mr Ray—We can get them for you.

Senator COONAN—Coming back to the budget and the figures in the budget, have estimates been revised to reflect any reduction in binge drinking as a result of this measure?

Mr Brown—The estimates that were published in the budget included the behavioural response which we have just talked about which was the price elasticity. They have not been revised beyond that. They have not been revised, I should say.

Senator COONAN—Has Treasury asked to analyse the economics, broadly speaking, of binge drinking?

Mr Ray—I was about to say that is a question for my fiscal group colleagues. I do not think that we have. We will correct that answer tomorrow if I am wrong, but I do not think we have.

Senator COONAN—The budget papers show that this tax measure will raise \$640 million next year up to \$893 million three years later; is that correct?

Mr Ray—That is correct.

Senator COONAN—What is the explanation—

Mr Ray—Sorry, that is the amount of revenue—

Senator COONAN—Yes, rising out of—

Mr Ray—and then there is an associated expense in payments to the states.

Senator COONAN—But what explanation can you give the committee as to how a program that is designed and proclaimed to be a prevention program seems to assume people will be drinking more and not less of this product—in other words, that consumption will increase?

Mr Ray—As with all costings, this is a costing against a benchmark and that benchmark is the forward estimates. In those forward estimates there was growth in consumption of these products built into the numbers. So this costing is a costing against that, so that, across the forward estimates, there is a 4 per cent greater reduction in consumption of these products than would otherwise have been.

Senator COONAN—We will get to the elasticities now. When was this minute written?

Mr Ray—On 14 May.

Senator COONAN—That was after the budget?

Mr Ray—That is right. Indeed, I think if you read the first dot point it says: ‘This minute was written because questions regarding the costing of the excise increased for other excisable beverages have been raised in parliament and the press today.’ So we provided some detailed information to the Treasurer.

Senator COONAN—Apart from the minute, did Treasury provide any formal advice to the government on increasing the excise on alcopops prior to the budget?

Mr Ray—You can expect that we provided advice on all of the revenue measures in the budget.

Senator COONAN—Did the advice of 14 May and its assumptions differ from the earlier advice provided by Treasury that informed the government’s decision prior to the budget?

Mr Ray—No.

Senator COONAN—It was simply confirmation, was it?

Mr Ray—It was confirmation.

Senator COONAN—When did the Treasurer ask for the minute?

Mr Ray—I do not know that he did but—

Senator COONAN—You just volunteered it, did you? You thought it was getting a bit hot out there and you had better give a minute.

Mr Ray—As you would recall, we do provide advice that we think might be helpful from time to time.

Senator COONAN—You thought the Treasurer needed a bit of help on this one, did you?

Mr Ray—No. My recollection is that there had been comments in the press that were probably misleading, so this minute was provided to summarise the material for the Treasurer.

Senator COONAN—The minute provides details of the costing of the impact of the increase, doesn't it?

Mr Ray—Yes.

Senator COONAN—It does include some data sources of assumptions along with an analysis of the impact on consumption of the measure?

Mr Ray—Correct, it does.

Senator COONAN—It concludes that, on balance, the cross-price elasticity is assumed to be zero; is that what it concludes?

Mr Ray—That is correct. When you look at relevant studies in this area you will find that some of them have positive cross-price elasticities and some of them find negative cross-price elasticities and that is because of the pattern of the relationship between different alcoholic beverages—some are substitutes and in some circumstances they are complements—and on balance we did not have a reasonable reason to move away from zero.

Senator COONAN—That is the basis for the estimate that the cross-price elasticity is assumed to be zero. The minute shows that, if all your assumptions are borne out this measure, you would have a known price elasticity of, as you said, minus 0.4 or a reduction in the rate of consumption of RTDs by just 4 per cent.

Mr Ray—That is correct.

Senator COONAN—It is also assumed that the tiny handful of so-called binge drinkers who stop drinking RTDs would not drink anything else—in other words, they would not move to substitutes?

Mr Ray—We have not made any such assumptions to drive this costing.

Senator COONAN—It must be implicit, must it not, in the assumption that you have made there that, if the cross-price elasticity estimate is zero, any movement of consumers to substitution would affect it?

Mr Ray—Whereas the assumption of the cross-price elasticity says that on balance—

Senator COONAN—I know it says 'on balance'—

Mr Ray—‘On balance’ the substitution effects will be balanced by where there are complements.

Senator COONAN—You do not think that substitution, in so far as you have factored it into the assumptions, matter?

Mr Ray—We had no evidence that the substitution effects would dominate.

Senator COONAN—Would you agree with this proposition, that Treasury’s assumptions would be undermined if there is credible evidence that RTD drinkers are substituting other drinks to some significant degree?

Mr Ray—You would need to have a look at what was happening to the aggregates. That is what we would have to look at.

Senator COONAN—I will give you some information and ask you to do an exercise on aggregates. Before I move on to further information, Senator Murray wanted to ask something about elasticities. I want to go on a bit further.

Senator MURRAY—Thank you. I have read, over several decades, papers concerning price effects with alcohol, including the effects of substitution as well as the effects of an aggregate increase on price. Nearly all the elasticity models I have seen are complicated by the substitution issue. In certain categories, substitution is automatic. For instance, if you raise the price of one beer, people switch to another beer. That is almost an equal effect whereas it is different if you get radically different types of alcohol?

Mr Ray—That is correct.

Senator MURRAY—Were you able to use the overseas studies on price effects in alcohol to moderate your expectation of the effect of increasing price so radically in just one area where it is plain that direct substitution is possible—by which I mean you can take a bottle of rum and a bottle of coke and mix them yourselves—and indirect substitution is possible whereby you can move from an RTD to, say, a cheap cask wine?

Mr Ray—Yes.

Mr Brown—In looking at the overseas studies, that was one of the areas where there was fairly mixed evidence. The studies tended to show that, if you look at spirits, that spirit based drinks tended to be complements to things like beer, that beer tended to complement wine, and that spirits and wine tended to be substitutes.

Mr Ray—That is complement with an ‘e’, isn’t it?

Mr Brown—Yes. But the actual significance of some of those results is rather dubious. While you can get reasonable estimates of price elasticities from studies, usually the cross-elasticities are far less significant in terms of statistical significance, so they are less reliable results. The other issue for RTD beverages is that there are very few studies, if any, that directly look at RTD beverages that are out there in terms of price elasticities and that may reflect that the amount of data or the length of time data is available may be insufficient to do a valid econometric analysis of them. The issue in respect of substitutions, say, from RTDs to spirits in terms of the costing is less significant as well because now with the excise rate per LAL of alcohol set at the same level, if you substitute the same amount of alcohol for the

same amount of alcohol in a different beverage it does not actually affect the revenue estimates that we would derive.

Senator MURRAY—The evidence, as I understand it, with respect to cross-elasticities of demand, is that where there is insufficient data you therefore have to look at the motive or the prime determinant of consumption, and if the prime determinant is effect then, as I understand the documentation I have read, substitution is more likely to occur than if the prime purpose of consumption is alternative, such as quality, packaging or something of that sort. The inference around binge drinking, of course, is its effect—basically an ingestion of large amounts of alcohol to get drunk—which would imply that substitution would be relatively easy for that class of drinker. It may be different, for instance, for a plumber aged 30 who likes to drink his Bundy and Coke. But did you use a kind of commonsense appraisal, if you like, to supplement your advice which would cover off that area of motive and likely effect?

Mr Ray—In terms of the specifics about motives of binge drinking, you are probably better asking the department of health, but this is about the aggregate consumption of RTDs. The costing is not about binge drinking, per se.

Senator MURRAY—Yes, but if I may interpolate on this basis: if I understand Senator Coonan's question correctly and my own, we are concerned about the aggregate consumption of alcohol, within which RTD is one component, for which if you adjust the price effect, if the primary motive is simply to get drunk which is binge drinking, then you are likely to see a substitution effect, which is contrary to the elasticity measures you have been relying on to give the government advice.

Mr Ray—As Mr Brown has said, it depends on what they substitute into.

Senator MURRAY—There are only two choices, as I understand it: alcohol or drugs.

Mr Ray—I was actually referring to which different type of alcohol you might substitute into.

Senator MURRAY—If you say that the anecdotal evidence so far is that substitution is occurring, the question we would all be looking at is how large that substitution effect is.

Mr Ray—I think we would be cautious about short-term responses—studies which purport to show a short-term response. I think we would want to wait to see how the long-term response settles down.

Senator MURRAY—I can assure you when a retailer places an ad they know the next day whether or not the ad was effective. When there is a price movement, they know the next day whether price is effective. I understand you being cautious because that is your job, but the market effects will, in fact, be immediate. That is the nature of substitution: the market effects are immediate. I will leave it there.

Senator COONAN—Following on from Senator Murray, you would obviously be aware that on 28 May there was released findings from an AC Nielsen survey from the latest data collected from liquor retailers across Australia. Were you aware of that?

Mr Brown—Yes.

Senator COONAN—It compares the nationwide sales data on changes to consumer behaviour to be released since the government's massive tax hike on RTDs and it compares the eight-week period to 20 April prior to the tax hike and the two-week period directly following the announcement. What it indicates pretty clearly is that it highlights the fact that there seems to have been a significant change in Australian's drinking habits and among the most alarming findings from the survey is a 20 per cent increase in sales of hip flasks of full-strength spirits; a 21 per cent increase in sales of 700 millilitre bottles of full-strength spirits; a slightly higher rate of decline, minus 39 per cent, of sales of dark spirit RTDs—that is, scotch, rum and bourbon, preferred by males over the age of 25; and sales of light spirit RTDs of vodka, gin and white rum, preferred by females, declined by 37 per cent. It seems that this measure had an immediate and quite dramatic impact on consumers who have substituted their drinks from RTDs.

Mr Ray—I think that it is too early to draw those sorts of conclusions—

Senator COONAN—What would you say about it?

Mr Ray—If we do some trend analysis of this series, those sorts of variations are within the normal seasonal fluctuations—

Senator COONAN—They are what?

Mr Ray—They are within normal fluctuations in this series.

Senator COONAN—What impact does time series have in what you factor into your—

Mr Ray—If you look at the ABS data, there has been a trend growth in RTD consumption in Australia. That is the sort of data source that we would look at.

Senator COONAN—Let's get back to what you actually have looked at. Could you tell me, because it was not clear from your earlier answer: have you got the 10 or 12 studies that you referred to as relying on to work out your own price elasticity?

Mr Ray—We said we would get that information for you.

Senator COONAN—What information did you obtain from Health and Ageing, again, on patterns of alcohol consumption, or did you just rely on ABS?

Mr Ray—We used data for clearances of other excisable beverages which we obtained from the Australian Taxation Office, our own forecast of clearances of volumes for those beverages, and we have used ABS data as well.

Senator EGGLESTON—I would just like to support the case Senator Murray made about price being a sensitive determinant in how much alcohol people buy and drink. I just wondered if you were aware of the study done by some Curtin university academics Dennis Gray, Tanya Chikritzhs and Tim Stockwell when they carried out some research in the Northern Territory on cask wine. They found that putting a levy on cask wine led to a decrease in the consumption of cask wine, which was seen to be a key factor in alcoholism and the social problems flowing from that.

Mr Ray—I am not aware of the particular study, but I think that that is exactly what the government has said about this measure. They would expect that there would be a demand response as a result of a change in price which flows from the change in the excise rate.

Senator EGGLESTON—Yes, that is what I think, too, and I think that is probably Senator Murray's point of view. I think we probably ought to have a review of the whole system of taxing wine. Perhaps we ought to have a volumetric taxing system so that people pay for their alcoholic drinks according to the percentage of alcohol it contained. Perhaps you might find this report from Curtin University quite useful to refer to.

Mr Ray—Thank you. We will follow that up.

Senator MURRAY—Just to clarify my own view: I do accept that increasing price will affect consumption. My point is you that you have got to increase the price of substitutes, as well. Do you think a measure to decrease consumption of alcohol, in addition to this one, could be to raise the price of all substitutable products? That is essentially what Senator Eggleston was saying. You have to bring up the price of cask wine, beer and all substitutable products if you want to reduce consumption for the effect that we are discussing. Do you agree with that?

Mr Ray—This is getting quite close to policy advice, but I do not disagree with the idea that the demand curve is downwards sloping.

Senator MURRAY—Thank you.

CHAIR—I understand that this is a change of topic, but Senator Cormann needs to go to another meeting.

Senator CORMANN—Thank you. I have a series of questions in relation to the government's proposed change to the Medicare levy surcharge thresholds. Before I get into it, can you tell us the date when you first provided advice to the government about the proposed change?

Mr Ray—I would need to take that question on notice.

Senator CORMANN—The Department of the Prime Minister and Cabinet was able to answer that in a flash, but I appreciate that you have taken it on notice. Did you provide advice on means testing of the 30 per cent rebate? I am not asking you for the content of your advice; I am just asking you whether you did provide advice.

Mr Ray—Again, I will take that question on notice.

Senator CORMANN—Thank you. While you are taking it on notice—

Senator BOSWELL—He should not have to take that on notice. Either he provided advice or he did not provide advice.

Senator CORMANN—I agree with Senator Boswell. I am surprised that you are not able to answer, but I have got a lot of questions and I want to get to the important part. Did you provide advice on abolishing the 30 per cent rebate and on changes to the lifetime health cover arrangements? For each of those questions, could you let us know when you provided that advice?

Mr Ray—Certainly.

Senator CORMANN—You have done modelling on the impact of the increase in the Medicare levy surcharge?

Mr Ray—I will explain what we have done. We are of course responsible for the costing of the increase in the Medicare levy surcharge as it affects revenue. We undertook that costing and we did that using our personal tax model. We also worked with our colleagues in the Department of Health and Ageing and the Department of Finance and Deregulation to provide assistance to them in costing the other element of this measure, which is the change in the private health insurance tax offset. What we did for that was provide estimates of the 2008-09 income distributions for singles and couples with private health insurance, because we had better data than our colleagues in either Finance or Health. That provided an estimate of the base population of people with private health insurance in the relevant income ranges. We were also able to split those populations into three age groups—those aged less than 65, those aged between 65 and 69 and those aged 70 or more—because different private health insurance rebate percentages apply to those age groups.

Senator CORMANN—Thank you very much for that. Can we get a copy of that modelling, of which you have described only a component? I see the minister is shaking his head; I take that as a no. I refer you to an answer by the Treasurer at the National Press Club to a question from Andrew Probyn from the *West Australian*, who asked about Treasury analysis showing that the changes to the Medicare levy surcharge thresholds will see 485,000 people leaving private hospital cover. He also asked whether Treasury had modelled the corollary impact on public hospitals and public hospital demand. I will get back to that, but I take the view that these two questions still have not been accurately and consistently answered in the public domain. That is what I would like to explore here today.

Before I do that, I refer you to the Treasurer's answer. He said—and I am paraphrasing him—that indexing the Medicare levy surcharge was removing a 'tax trap', which would ensure that people on or below the average income will no longer be caught by this 'tax trap'. Does that accurately describe the policy intent of this measure? You can describe it for us; I am not asking you to provide policy advice.

Mr Ray—I do not have the Treasurer's exact words in front of me, but I think that is the sentiment of it.

Senator CORMANN—Has Treasury got a definition of what constitutes 'average income'?

Mr Ray—Certainly. There are a number of definitions of average income—average weekly ordinary time earnings, male average weekly earnings and all those sorts of things.

Senator CORMANN—Are you familiar with the Household, Income and Labour Dynamics in Australia survey, also referred to as the HILDA survey, which is conducted by the Melbourne Institute of Applied Economic and Social Research and funded by the Australian government?

Mr Ray—Yes, we are quite familiar with that. I have some experts behind me if you are going to get into detailed questions about HILDA.

Senator CORMANN—I will just keep running through it because I do have a lot to get through. Ross Gittins, the senior writer for the *Age*, referred to that particular survey when he was defending the government's decision to means test the baby bonus. He pointed out that, according to the HILDA survey, in 2008-09 the average earnings of adult full-time employees

is expected to be \$60,000, whereas for households it will be about \$80,000 a year before tax. It would seem to me that \$100,000 and \$150,000, respectively, would be well above the average, according to that definition of average income.

Mr Ray—I am not sure that HILDA has a wave yet for 2008-09.

Senator CORMANN—Wave 6 was recently released.

Mr Ray—Yes, but I suspect they do not have 2008-09 data in it, given that we are not there.

Senator CORMANN—I am quoting Ross Gittins in the *Age*. What definition of average income did you use when you were making your assessments?

Mr Ray—If you look at average weekly ordinary time earnings, I think it is now—

Senator CORMANN—It is a very simple question: what is the average annual income for singles and for households? The government is making an assertion that the average is up to \$100,000 for singles and up to \$150,000 for couples.

Mr Ray—I will get someone to tell me what average weekly ordinary time earnings is in a minute. I think one way of looking at this is that, since the thresholds were introduced in August 1997, average weekly earnings have increased by around 50 per cent. So, if the thresholds had been indexed to average weekly earnings, it would now be \$78,000 for singles and \$156,000 for couples.

Senator CORMANN—Could you repeat that? That is actually one of my questions. If the Medicare levy surcharge thresholds had been increased by the CPI every year since their introduction—

Mr Ray—No, average weekly earnings.

Senator CORMANN—Okay. Let us go to my question, then. If the Medicare levy surcharge thresholds had been increased by the CPI every year since their introduction, what would those thresholds be today?

Mr Ray—I would need to take that on notice because I do not have that spreadsheet.

Senator CORMANN—Maybe I can help you, because I have done a bit of research on this—

Mr Ray—But I think the government was talking about how this was affecting wage earners.

Senator CORMANN—The government has been making the point that the thresholds have not been indexed. I put it to you that, if the thresholds had been indexed, today the threshold for singles would be at \$73,900. Do you disagree with that figure?

Mr Ray—I cannot confirm that figure because I do not have the CPI series in front of me or a spreadsheet, but it is obviously in the ballpark—

Senator CORMANN—This was an obvious area for questioning, surely? This is the area that your output provides advice on and it is under the revenue measures. I am a bit surprised that an obvious question on what would happen if the Medicare levy surcharge thresholds had

been indexed cannot be answered in the light of the fact that that is what a lot of the public debate on this has been centred on.

Mr Ray—Senator, I actually provided you with what the numbers would have been if they had been indexed by wages.

Senator CORMANN—My question is—and again, please take it on notice: if the Medicare levy surcharge thresholds had been indexed since their introduction, what would be the figure? You say by wages it is \$78,000; I say by CPI it would have been \$73,800. The point I am making is that, whatever it is, it is significantly less than \$100,000.

Mr Ray—Yes, but another way of looking at this—and I think the government has spoken about this—is that, when this policy was introduced, about eight per cent of single taxpayers were affected by it. Under the government's policy, around nine per cent of single taxpayers will be affected by it by 2011-12.

Senator CORMANN—It is funny that you should mention that, because I was going to ask you a question about that as well. You make the point that it will be about nine per cent at the end of the forward estimates. How many taxpayers in 2008-09?

Mr Ray—I do not have that in front of me but I can take it on notice.

Senator CORMANN—You have the figure for 2011-12 but you do not have the figure for 2008-09? I have to say that this is not very satisfactory, Mr Ray. As you are taking all these things on notice, could you please provide us with information on how many single Australians earning between \$50,000 and \$100,000 per year and how many couples and families currently earning between \$100,000 and \$150,000 currently have private health insurance. The Managing Director of Medibank Private has told us that 85 per cent of Australians in that income bracket have health insurance. As you mentioned earlier, you have access to the best possible data because you would be very clearly aware as to who is and who is not paying that Medicare levy surcharge. Are you able to answer that today or do you have to take it on notice?

Mr Ray—I will take that on notice.

Senator CORMANN—Is that because you have to clear the answer or because you have not got it?

Mr Ray—I do not have that number, oddly enough.

Senator CORMANN—The Assistant Treasurer used that number, that percentage of Australians who at the end of the forward estimates will be subject to the MLS, in his second reading speech, but you do not have that information for 2008-09. I find that very strange. Your modelling of the Medicare levy surcharge threshold changes has informed the assumptions that are the basis of the savings that you outlined in the budget papers—am I correct in assuming that?

Mr Ray—We costed the cost to revenue of increasing the Medicare levy surcharge.

Senator CORMANN—Which is the \$660 million over the forward estimates; is that right?

Mr Ray—Someone could probably better—

Senator CORMANN—Go to page 33, part 1, revenue measures.

Mr Ray—Yes.

Senator CORMANN—In the same table you can see the related expense, Department of Health and Ageing. Who made the assessment in terms of that impact?

Mr Ray—I thought I tried to explain this before. Obviously, I did not do a very good job. The expense costing is the responsibility of the Department of Health and Ageing and the Department of Finance and Deregulation, but we provided assistance in—

Senator CORMANN—Because you have access to the best available data.

Mr Ray—Because we had access to estimates of the 2008-09 income distributions that would be relevant.

Senator CORMANN—Yes. But this is part of revenue measures. The impact and related expenses is part of the overall policy consideration that you look at, isn't it?

Mr Ray—Sure.

Senator CORMANN—I think it is quite legitimate for me to ask questions under this output. The Treasurer's office has provided advice that the estimate of 484,000 taxpayers leaving private health insurance, which has been circulated in the media for some time now, has been derived using data from Treasury modelling of the estimated number of singles and couples in the relevant income ranges and applying estimated dropout rates derived by the Department of Health and Ageing from National Health Survey data. That is what you have just been saying as well, isn't it?

Mr Ray—That is correct.

Senator CORMANN—The Treasurer's office has also provided advice that the Treasury modelling indicates an estimated 186,000 singles and 149,000 couples would drop their health insurance as a result of the threshold increases. Can you confirm those figures?

Mr Ray—Yes.

Senator CORMANN—So 186,000 singles and 149,000 couples. We can do a quick calculation. In a couple there are two, so 149,000 times two is 298,000 plus 186,000 brings us to 484,000. Are you still with me?

Mr Ray—Yes.

Senator CORMANN—So far, so good. In your modelling, out of the 149,000 couples, how many couples have you estimated to be older than 65 years of age?

Mr Ray—Off the top of our heads, we do not know. We are willing to take it on notice.

Senator CORMANN—This is just incredible! How many of those couples are in fact on a family policy?

Mr Ray—Again, we do not have that sort of detail with us. We will take it on notice.

Senator CORMANN—Can you tell me how many children that you expect, through your modelling, will no longer be covered by private health insurance, based on your assumption as a result of the increase in the Medicare levy surcharge?

Mr Ray—I think that is effectively the sort of question that we just said we would take on notice.

Senator CORMANN—You are saying it is the same question?

Mr Ray—Yes.

Senator CORMANN—So the figure of 484,000, according to advice from the Treasurer's office which you have just confirmed, is 186,000 singles and 298,000 people, which is 149,000 couples. That does not include any children?

Mr Ray—That is correct.

Senator CORMANN—So essentially when we talk about 484,000 people we are not talking about 484,000 people, are we?

Mr Ray—We are talking about 484,000 adults.

Senator CORMANN—Taxpayers—is that right?

Mr Ray—They may not all be taxpayers.

Senator CORMANN—Hang on. Let me refer you back. The advice from the Treasurer's office, which you have confirmed, is 186,000 singles and 149,000 couples, which is 298,000 people. That brings us to 484,000.

Mr Ray—Adults.

Senator CORMANN—How many children are part of that? How many children in a couple?

Mr Ray—I just said I would take that on notice.

Senator CORMANN—I refer you to the PHIAC data on persons covered by private health insurance. Data up till 31 December 2007 is available. If you look at the correlation between single equivalent units, which is adults, and persons covered—and you make an adjustment for people over 65—you will find the correlation is a ratio of 1.48. I am very happy for you to check that out. Applying it across the 484,000 taxpayers, you will find that it is a figure of more than 700,000 people that you, according to your assumptions, are expecting to leave private health insurance. I note you have just confirmed that the figure of 484,000 people, which has been circulating in the media, is not actually 484,000 people; it is 186,000 singles and 149,000 couples, not making any allowance whatsoever for children. Now that we have established that, I look forward to your answers on notice in relation to it. I take you again to page 33 of the budget measures. The budget papers tell us that, as a result of the number of people leaving private hospital insurance, you will essentially make a related saving of \$232 million. I assume that that represents the 30 per cent rebate?

Mr Ray—It would represent the 30 per cent, 35 per cent and 40 per cent rebates.

Senator CORMANN—It represents the rebate that you no longer have to pay to people who are leaving private health insurance?

Mr Ray—Correct.

Senator CORMANN—You have a cost to the revenue as a result of the Medicare levy surcharge threshold increase of \$660 million and you have a related saving of \$959.7 million; is that correct?

Mr Ray—That is correct.

Senator CORMANN—Essentially, over the forward estimates you are making a saving to your bottom line of about \$300 million.

Mr Ray—That is about right.

Senator CORMANN—I will park that for a moment and we will get back to it. Does your modelling actually include any impact on levels of ancillary cover?

Mr Ray—Yes.

Senator CORMANN—So you are assuming that people will also leave ancillary cover as a result of the changes to the Medicare levy surcharge thresholds?

Mr Ray—This is people leaving cover.

Senator CORMANN—I am sure that you will have to take it on notice, based on your capacity to provide answers so far, but can you please also provide us with information on what your assumption is in terms of average private health insurance premiums, paid by dollars, that you expect to leave private health insurance? Are you able to take that on notice or are you able to answer that today?

Mr Ray—Those averages were calculated by the Department of Health and Ageing.

Senator CORMANN—So you do not know them?

Mr Ray—I am quite happy to take it on notice and ask them, or alternatively you—

Senator CORMANN—Thank you very much. So you consulted with other relevant departments and agencies to inform your assumptions? You have already said that you have worked closely with the Department of Health and Ageing.

Mr Ray—As I said, we worked closely with the Department of Health and Ageing and with the Department of Finance and Deregulation.

Senator CORMANN—Can you give me the date on which you first sought advice from the health department about your modelling on the Medicare levy surcharge threshold?

Mr Ray—I can take that on notice.

Senator CORMANN—Did you consult with PHIAC—the Private Health Insurance Administration Council—as part of the process?

Mr Ray—I do not think that we would have done that, but I do not know whether the Department of Health and Ageing has over time.

Senator CORMANN—Did you consult with the states and territories?

Mr Ray—Did we in the Treasury consult?

Senator CORMANN—Yes.

Mr Ray—No.

Senator CORMANN—Why not? The states and territories will have a tsunami of additional demand imposed on their public hospital systems coming their way. I just refer you to a similar issue when it came to the removal of the exemption on condensate, which, incidentally, I think is also a bad public policy measure, but at least there was some recognition of the impact on the state government in Western Australia in terms of its revenue base. Why would you not have similar modelling conducted for the impact on state and territory governments and have some communication with them so that they could—

Mr Ray—The task before us and the other departments was to cost, using normal costing conventions, this measure with its effect on the budget.

Senator CORMANN—We had a change of government in November last year and we were going into a new era of cooperative federalism on health—ending the blame game. You are imposing more than \$3 billion worth of additional demand for hospital treatments on to the states and territories and you are not expecting to have a conversation with them?

Senator Conroy—That is a speech. That is not a question.

Senator CORMANN—That is a question.

CHAIR—I think if you allowed Mr Ray to finish he might have given you the answer to those two questions.

Mr Ray—Yes. I had not finished. Thank you, Chair. Those normal costing conventions do not include costings of second-round effects. What you are referring to, to the extent that it may or may not occur—and I am not going to comment on that—is a second-round effect and therefore it is not relevant to the exercise in front of us.

Senator CORMANN—So the impact on condensate is not a second-round effect?

Mr Ray—No.

Senator CORMANN—Okay. Have you received any formal or informal representations from any state or territory government since the budget, putting the case for additional funding to compensate—

Mr Ray—Are you asking whether the government has?

Senator CORMANN—Yes.

Mr Ray—We would need to take that on notice and ask the government.

Senator CORMANN—I will just quickly run you through those figures on page 33. We have already established that you have a loss in revenue of \$660 million. You have a related saving of \$959 million, which of course only represents a 30 per cent rebate, which means that over the forward estimates you save about \$300 million. Now, considering that the \$959.7 million represents the 30 per cent rebate, and that is because of the people that you assume are leaving private health insurance, isn't it the case that the total loss of revenue, of financing capacity to the private health system, is 100 per cent—the 30 per cent plus the 70 per cent currently contributed by people taking additional responsibility for their healthcare needs by taking out private health insurance?

Mr Ray—Our task here is to cost the effect on the Commonwealth budget. But, in any case, I think that there are two sides of health insurers' balance sheets.

Senator CORMANN—But the effect on the Commonwealth budget is that you save \$959.7 million. Based on your assumptions as to how many people will leave, and I think you have underestimated in your papers how many people will leave, but we will leave that for later, I put it to you that the Australian health system overall—and this is where the criticism of this public policy measure comes in—will lose \$3.2 billion worth of funding. Again, going to the PHIAC data, obviously that \$3.2 billion would also have to cover for that 15 per cent, which is the average gross margin of health funds across the industry, so let us take off \$480 million. Essentially it means that there is \$2.7 billion that will no longer be available, as a result of this measure, for hospital treatment provided in private and public hospitals. Is that something that you considered? Did you model the impact on public hospitals at all?

Mr Ray—As I said, we did not attempt to model, as we normally do not attempt to model, anything to do with the second round.

Senator CROSSIN—You say ‘as you normally do not’; I guess the reason I am intrigued by that is that I understood that the election of the Rudd government marked a change in approach and things were not going to be business as usual—there was going to be a new era of cooperative federalism in health.

Senator Conroy—You are making a speech again.

Senator CORMANN—I am not making a speech. This is a very important public policy area.

Senator Conroy—I am not going to comment on the quality of the speech.

Senator CORMANN—This is a very important public policy area. There is a public policy decision of the Commonwealth which will result in the biggest cost shift ever—

Senator Conroy—Is there a question anywhere? I thought you were in a comedy set!

Senator CORMANN—There is a question. I will get to the question. Will you make any allowances, will you compensate—

Senator Conroy—Senator Fierravanti-Wells wants a question.

Senator CORMANN—The question is this: will the Commonwealth compensate the states and territories for a cost shift from the Commonwealth and current privately insured patients, who you are telling us are leaving private health insurance to the tune of 484,000 adults? Will there be some compensation—some reasonable and meaningful compensation—for the impacts on the states and territories as a result of that loss of \$2.7 billion worth of revenue?

Senator Conroy—That is a policy question rather than—

Senator CORMANN—Is it a policy question? Will you answer a policy question then, Minister?

Senator Conroy—We will take that on notice.

Senator CORMANN—So you cannot answer that question. This is very interesting stuff. When you do your modelling on a public policy issue like this, do you assess the impact on things like hospitals and their capacity to provide treatment? This is obviously at the heart of

the funding mechanisms of hospitals in our health system, which clearly is a mixed public and private system.

Mr Ray—I think there are a number of things packaged up in your question. If you want to talk about the policy elements on the expense measure then you are probably better talking to my colleagues in the department of health—

Senator CORMANN—I will talk to them tomorrow.

Mr Ray—but, when it comes to doing costings, the standard arrangements are that they do not take account of second-round effects.

Senator CORMANN—So you do not take account of the impact of your policy decision on hospitals?

CHAIR—Senator Cormann, Mr Ray does not make policy decisions. Can I just ask you to separate your questions on his tasks.

Senator CORMANN—My question goes to modelling and the question that I flagged right at the beginning. I think that Mr Ray answered the question and I am just trying to summarise how I understood he answered the question.

CHAIR—I am sorry, but you asked him about—

Senator Conroy—Perhaps I can help. There has been no change in the policy about modelling from the previous government.

Senator CORMANN—We are assessing the budget estimates and there are some assumptions that inform the budget estimates as they are before us, and I think that it is quite appropriate for us to probe whether those assumptions are credible or not. I guess I am trying to understand whether the Commonwealth and the Treasury on behalf of the Commonwealth, as they were modelling this policy change, as part of that, assessed that correlated impact on public hospitals, which are managed by the states and territories.

Senator Conroy—They assessed it the same way they assessed measures undertaken by the previous government.

Senator CORMANN—I thought there was going to be a change. I thought this was a new era of ending the blame game in health. You are setting the states up for failure.

Senator Conroy—Let me just check. No, I am not sitting on your side of the table; there has been a change!

Senator CORMANN—They have a tsunami of demand coming their way and, quite frankly, ending the blame game is nothing more than covering things up and having a nice little cosy arrangement.

Senator Conroy—I am not sure if that is a question.

CHAIR—Senator Cormann, do you have a question?

Senator CORMANN—Okay, let us go back to the question. Are you aware that, according to the Australian Institute of Health and Welfare, data between 1999-2000 and 2006-07—which was released only last week, incidentally—show that the increase in hospital treatments

provided by private hospitals was about 45 per cent, whereas the number of treatments in public hospitals only increased by 20 per cent? Why do you think that would be the case?

Mr Ray—That is way outside my area of expertise.

Senator Conroy—That is a Health question.

Senator CORMANN—So you did not assess that as part of the modelling?

Mr Ray—That is a health policy question.

Senator Conroy—He is saying it is outside his scope of Treasury advice.

Senator CORMANN—Okay.

Senator Conroy—It would be better put to Health estimates, as I think you have indicated.

Senator CORMANN—This has obviously been a Treasury driven and Treasury coordinated policy change by government. I think that the Treasurer has provided a range of answers on that and I think I am well in my rights to probe whether the underlying assumptions are accurate.

Senator Conroy—You are well within your rights, as long as you probe them in the right department.

Senator CORMANN—I just want to confirm whether Treasury will provide advice on notice as to when they first provided advice on this measure to government.

Mr Ray—Yes, we took that on notice.

Senator CORMANN—Were you aware that the government was in the process of approving rate change applications when you were assessing the merits of this policy? Is that something that you considered as part of your modelling?

Mr Ray—My recollection is that it was public that there were rate change proposals being considered, at the time the government was considering this.

Senator CORMANN—The Department of the Prime Minister and Cabinet the other day told us that the first day they provided advice on this measure was 11 March. You will provide us on notice what day your first day was. Now I put it to you that the first week of March is the week when the government announced its decision on rate change applications. I would have thought the timing there was very close, but you are telling me that you did not take that factor into account as part of your modelling?

Mr Ray—The premium information and the forward estimates of premium changes have been taken into account in these costings.

Senator Conroy—Could I add some information that might help with one of your earlier questions. It is my understanding that the guidelines on costings which exclude second-round effects were actually introduced by Mr Costello and they are in the Charter of Budget Honesty.

Senator CORMANN—Is that something that somebody has just emailed you?

Senator Conroy—Similar to when they just emailed you.

Senator CORMANN—The reality is this: I do not know why you point us to things that were done by the previous government, because you were elected on a whole range of assumptions.

Senator Conroy—That is not a question; it is a speech.

Senator CORMANN—It is not a speech. Are you still committed to cooperative federalism when it comes to health and resolving the important issues faced by our hospital systems as part of this budget?

Senator Conroy—I think the Prime Minister and the Minister for Health and Ageing have indicated that on many occasions.

Senator CORMANN—Let us go back to the questions on modelling and rate change. Membership trends are very relevant when it comes to assessing future premium increases. Obviously, looking at your assumptions, you are saying that 484,000 taxpayers are expected to leave health insurance over the forward estimates. Don't you think that that is information that would have been relevant for the government before making a decision on rate changes?

Senator Conroy—That is an opinion. You should be asking factual questions. You are not actually entitled to ask officials their opinion.

CHAIR—Yes, we seem to be running into problems here in the way you phrase your questions. Could you just remember that officers are not able to give their opinions on policy or their opinions on comparisons of policies.

Senator CORMANN—Essentially, I have concluded my questions and I will ask all of the other questions tomorrow in Health. To summarise, we have established that the 484,000 figure relates to 186,000 singles and 149,000 couples and does not include children. So the true figure for the number of people leaving health insurance is well in excess of that; we have established that the \$959 million—

CHAIR—Senator Cormann, is this a question or a wrapping up statement?

Senator CORMANN—I am summing up. I invite the official at the table to confirm I am right in my understanding of his answers.

CHAIR—The officer has said that he will take those questions on notice.

Senator Conroy—I think he has done it two or three times, to be fair.

CHAIR—If there are no other questions, I am happy to suspend, but I presume other senators have questions.

Senator JOYCE—I have a question. What are you doing there, Senator Conroy?

Senator Conroy—I am not sure that has anything to do with the estimates.

Senator JOYCE—It has nothing to do with estimates?

Senator Conroy—I am not sure your question has anything to do with estimates.

CHAIR—Senator Coonan.

Senator COONAN—I have a few questions—

Senator JOYCE—Just for the record, what he is doing there has nothing to do with estimates.

Senator Conroy—No, I said your question has nothing to do with estimates.

Senator JOYCE—What you are doing there has nothing to do with estimates. I think you are treating estimates with complete contempt.

CHAIR—Order, Senator Joyce! Proceed, Senator Coonan.

Senator COONAN—I just want to clarify a couple of earlier answers. Could you provide the full ABS trend data on consumption of RTDs which shows that a 37 per cent fall in consumption is within normal seasonal fluctuations?

Mr Ray—That is not quite what I said, but we will see what we can provide to help you on that question. It is not quite what I said.

Senator COONAN—What did you say, just so that I am clear?

Mr Ray—I think we said that when we looked at the series to which you referred those sorts of variations are potentially—though they may not be in this particular case, but at the moment we do not have the evidence either way—within normal variations.

Senator FIERRAVANTI-WELLS—Why did you say they were seasonal?

Mr Ray—Seasonal is a technical term; it moves through the year.

Senator COONAN—What was the forecast growth in the products before the budget measure? Do you have that figure?

Mr Ray—I would need to take that on notice.

Senator COONAN—Did the government consider that the measure might worsen the health impacts of binge drinking?

Mr Ray—You are asking me what the government considered when it undertook a policy change. That is hard for me to answer.

Senator COONAN—Senator Conroy, did the government consider whether this measure might have an adverse impact on the health of people?

Senator Conroy—I am sure that is one of the factors we took into consideration.

Senator COONAN—Would you agree that there is potentially a real risk to health from measured, spirit based RTDs if the alcohol concentration of less than five per cent is abandoned in favour of, say, wine based ready-to-drinks with an alcohol concentration of more than eight per cent?

Senator Conroy—That is a health policy issue. It is probably more appropriately put to the Health estimates tomorrow.

Senator COONAN—I am sure that it will be. Senator Conroy, surely there must be a whole-of-government view as to the impact of the main tax measure in the budget. What is it?

Senator Conroy—There are a number of assertions that go to the basis of your question and I am not sure of their factual accuracy. As I said, that is a question that you may want to debate with the health officials and the minister representing Ms Roxon.

Senator COONAN—I think it is important and I am going to ask you this: what gives the government confidence that manufacturers will not simply start producing substitute RTDs made of wine or beer with much higher alcohol content?

Senator Conroy—I am not quite sure this is the relevant portfolio for that, but I am happy to take that on notice and seek an answer for you.

Senator COONAN—You are renowned for being somebody who gets about a bit. Have you noticed any reduction in alcohol consumption and binge drinking since the \$3.1 billion tax slug?

Senator Conroy—As I am sure you are well informed, I am actually a teetotaler. So I am perhaps not the best judge of what impacts on decisions to choose certain drinks.

Senator COONAN—In any event, I was interested to read a report today in the *Daily Telegraph* reporting a two-day booze fest by a group of Young Labor party animals. Do you know anything about that?

Senator Conroy—I did not attend the Young Labor fest. We have a 26-year-age limit, unlike the age limit in the coalition. I have never been to a toga party, but I am told they are fun.

Senator COONAN—It must have been. It was reported as leaving an extraordinary aftermath. This photograph shows a lot of hard liquor there and not too many RTDs, unfortunately. The article also goes on to say, and I will ask for your comment on this.

This is the disgraceful aftermath of a two-day boozefest by a group of Young Labor members that left their Canberra hotel rooms trashed and staff and guests disgusted.

Senator Conroy—Is this a question relating to Senate estimates?

Senator COONAN—It is a question relating to the consumption of liquor and the behaviour of young people which this policy directly impacts.

Senator Conroy—I am not quite sure how it is relevant to Treasury estimates, but feel free to go on until you find a question.

Senator FIERRAVANTI-WELLS—If I understood the evidence correctly, it was that Treasury has assumed no substitution into other products. If Treasury has assumed that no other products will be substituted, that goes to the very heart of what Senator Coonan is asking about.

Senator Conroy—I am not sure. I think it is a bit of a long bow to try to draw in the after-effects of a party at the Pinnacle Apartments with the elasticity of demand and the substitution and income effects of a tax measure.

Senator COONAN—I am sure that you would agree that these scenes of drunken carnage that appear to be referred to in this article are in stark contrast to Labor's claims that the tax slug on alcopops is having an effect, is it not?

Senator Conroy—I do not think that your question has anything to do with Senate estimates. It has everything to do with politics but nothing to do with the matters before the committee.

Senator COONAN—Can we take it then that you will be counselling these Young Labor Party animals?

Senator Conroy—As I said, I am not sure that has any relevance.

Senator FIERRAVANTI-WELLS—I am not sure that Senator Conroy is going to do much counselling.

Senator Conroy—As a teetotaler, I confess it is a mystery to me.

CHAIR—Have we got another question?

Senator COONAN—I have not finished. This is a very serious point. The article continues:

The scenes of drunken carnage are in stark contrast to the Government's hardline stance on youth binge drinking and its tax hike on alcopops.

You would agree with that. I know it might be a bit embarrassing, but it has got you, hasn't it?

Senator Conroy—I am not sure what it has to do with Senate estimates. That is a question you might want to put to me in the chamber in question time, but it is actually not relevant to Senate estimates.

Senator COONAN—We are talking about modifying behaviour due to a tax measure that is properly the subject of Treasury estimates in this section and I propose to continue to ask you some questions about it.

Senator Conroy—I am happy for you to ask any question that you like that is relevant to Senate estimates and the matters before it.

CHAIR—Senator Coonan has the call.

Senator Conroy—This is not question time in the chamber. If you would like to ask those questions in question time, that is fine.

CHAIR—Senator Fierravanti-Wells.

Senator FIERRAVANTI-WELLS—If the so-called alcopops tax cannot stop the young Labor boys or girls from binge drinking last weekend, how successful is it going to be in stopping binge drinking generally? You have an example here of the very sort of thing that you are out there saying: we have got to stop binge drinking. We have put on a tax. It does not stop this sort of thing. It just happens to be Young Labor, but it could be any other party. That is a very political point.

Senator Conroy—I am not sure that is a question that has anything to do with Senate estimates. That is an entertaining political point from your perspective.

CHAIR—Any more questions.

Senator COONAN—Of course, yes. This is a policy question, and I think I am entitled to put this. It is a very hypocritical stance, is it not, of the government that on the one hand you have a very dubious measure said to be necessary to curb binge drinking while at the same time you have a group of Young Labor people who appear to have been prepared to drink to excess, trash a hotel room and fly in the very face of what Labor is seeking to achieve here?

Senator Conroy—I am not sure that was a question. I thought it was more of a statement.

Senator FIERRAVANTI-WELLS—It is a question.

Senator Conroy—If it is a question I am not sure it is relevant to Senate estimates and I invite you to ask it in question time.

Senator COONAN—You might like that, but I am going to choose to ask it where I want to and where it has a place. It is one thing to exhibit public concern about binge drinking and even to frame policies to deter it and quite another thing I believe—and I would ask you whether or not you agree with me—to have this very unedifying conduct that you have got a whole group of your Labor Party animals trashing a hotel room in this town?

Senator Conroy—The question of the conduct of some individuals at a hotel in this town is not relevant to Senate estimates, but if you are fishing for views on this matter, then clearly if people have behaved inappropriately and if there is damage that has been done, then they should be made to pay for any damage that has been done. I do not resile from that, but I do not think it is relevant to the topics about the budget.

Senator EGGLESTON—The issue is not damage; the issue is the social policy changes that the Labor Party is trying to achieve through this taxation.

CHAIR—Senator Eggleston, there is no point of order.

Senator EGGLESTON—It is a relevant question.

CHAIR—No, you mentioned social policy and we are not here to discuss social policy.

Senator EGGLESTON—This is social engineering.

CHAIR—We have officers of the Treasury and the Australian Tax Office and questions relating to tax are relevant.

Senator EGGLESTON—We are talking about a new government tax on a social habit.

CHAIR—Senator Coonan.

Senator COONAN—Thank you. There has been a comment made, and I will not go on about this much longer but I do think it is relevant. Young Labor are reported here as probably going at it hardest when it comes to binge drinking. This mob can out binge an army of schoolies. I am wondering whether or not in the approach to the framing of this policy, Minister, you had any input into the kind of conduct evidenced by this article and by this event?

Senator Conroy—Given that you asked me directly, as you know, I am the Minister for Broadband, Communications and the Digital Economy, so it was not an area that I had any direct input into, as you would expect.

Senator COONAN—In any event, as a senior member of the government, will you be counselling these young people?

Senator Conroy—As I said, if any laws have been broken or any damage to property has occurred, then it is only fitting that those responsible be held to account and if damages have occurred that they should be paid for.

Senator COONAN—Thank you. I tender the excerpt from the *Telegraph*.

Senator EGGLESTON—May I ask a question?

CHAIR—Yes.

Senator EGGLESTON—The purpose of the tax on the alcopops is obviously to modify behaviour. You have talked about the social problems of binge drinking, but this is just a symbolic gesture which does not address the issue in any way. Why is the Labor Party not taking a broader based approach to the question of taxation on alcoholic drinks which might—might—produce the kind of social changes you say—

Senator Conroy—Let us be clear.

Senator EGGLESTON—Let me finish: will it produce the kind of social changes that you say you are seeking to achieve, or is this just a quick measure to raise revenue?

Senator Conroy—After 11½ years of your government do not come in here and pretend that you have an interest in or a policy on the binge drinking epidemic. Do not come in here and try to pretend that you do.

Senator BERNARDI—That is a slur.

Senator Conroy—Your government introduced a concession that we have removed.

CHAIR—Order, please!

Senator Conroy—It was your government, so do not come in here and start crying crocodile tears about your concerns about binge drinking when you had 11½ years in government to address this issue and you did nothing but provide a concession for alcopops.

CHAIR—Do any senators have a question?

Senator EGGLESTON—The Labor Party has raised the issue of binge drinking and your only attempt to address that issue is to put a tax on a particular kind of drink. One can only be left with the view that you are being very hypocritical because the purpose seems to be to raise money rather than address the social problem that you claim to be concerned about.

Senator Conroy—That is an opinion on which you based a question. As I do not agree with your opinion, your question becomes irrelevant.

CHAIR—Senator Colbeck.

Senator COLBECK—Mr Ray, you said before that you did not speak to the Department of Health in relation to this. Why would you not talk to the agency that has all the figures in relation to this matter?

Mr Ray—With respect to my colleagues in the department of health, they did not have the data that we needed in order to do the costing.

Senator COLBECK—What data was that?

Mr Ray—As I explained earlier, it is ATO data on clearances.

Senator COLBECK—In an answer to Senator Coonan before you said that you only did one round of modelling. Is that correct?

Mr Ray—No. We were talking earlier about the costing approaches that we use where we only cost so-called first-ground effects. I think a way to explain this best is that the costing guidelines provided by the department of finance, who are responsible for them, are not

public documents and you would need to ask them if you wanted access. But one way of seeing the costing guidelines is to look at the costing protocols and methods that are published just before each election jointly by the secretaries of the departments of the Treasury and finance. If you look at those published before the 2007 election, at page 5 they state, 'As with existing arrangements,' so, in other words, they are the standard arrangements for costings because the policy costings focus on the effects of the policy on the Australian government's key budget aggregates. Again, at page 4, 'An amount consistent with the methodologies used to prepare the budget.' That gives you an idea. The relevant passage at page 5 is, 'As with existing arrangements, individual costings may take account of direct behavioural responses'—it may take account; sometimes we do not because it is difficult to do so—'but will generally not incorporate second round effects.' That is what we were referring to. It is that we do not cost second round effects in general.

Senator COLBECK—How many rounds of modelling did you do on this measure?

Mr Ray—How many times did we?

Senator Conroy—You might want to clarify the question. Do you mean how many rounds as in first round, second round, third round?

Senator COLBECK—I listened to Senator Coonan's first question and I think it was in respect of the costings. She asked how many costings did you do on this measure, and my recollection of your answer—and I am quite happy for you to correct my recollection as it is not an issue for me—was that there was one round of costing.

Mr Ray—On the costing of this measure there was one costing.

Senator COLBECK—How do you explain that, when it was first announced on 26 April, the expected revenue from the measure would be \$2 billion over four years but by the time we got to the budget a couple of weeks later it was \$3.1 billion over five years?

Senator Conroy—I am sorry. Could you repeat the question?

Senator COLBECK—How do you explain that, when the measure was announced on 26 April, your costing was \$2 billion over four years, but when it came to the budget it was \$3.1 billion over five years? As far as I can see, there is no direct correlation between those numbers.

Mr Ray—I think you are referring to remarks that the Minister for Health and Ageing might have made ahead of the budget.

Senator COLBECK—She was the one who announced the measure on behalf of the government. I do not think that we need to distinguish between departments.

Mr Ray—I need to go back and have a look, but it may well be that it was over a different number of years.

Senator COLBECK—It is. It was \$2 billion over four years. That was the figure that the minister for health announced on 26 April when she announced this measure and the date from which the measure took effect. It was \$2 billion over four years and, on budget night and in the budget papers, which you have in front of you, it is \$3.1 billion over five years. I am asking you to explain the difference.

Mr Ray—There is an extra year.

Senator COLBECK—The growth in the consumption of RTDs is going to grow by in excess of 50 per cent in one year. That is what your modelling shows. We were told this was a measure that was going to reduce the consumption of RTDs. I would not expect to see a 50 per cent growth in 12 months. That is an extraordinary revenue growth.

Mr Ray—No. If you look at page 22 of Budget Paper No. 1, this costing is set out in some detail. To be fair to the minister, she would have been talking in round numbers anyway. You will see that the costing in 2011-12 on the revenue side is \$892.6 million.

Senator COLBECK—If the minister puts out a press release on the 26th saying something and then puts another press release out, I would expect given that it is such a significant measure you would expect to see some accuracy. Round numbers is not necessarily the way I would expect Treasury to operate.

Mr Ray—We round a lot of numbers.

Senator COLBECK—You cannot explain the difference?

Mr Ray—We are not sure that there was a press release.

Senator COLBECK—Are you saying that the minister did not know what she was talking about?

Mr Ray—No, I am not saying that at all. What I am saying is that it is hard for us because we do not have a document in front of us.

Senator Conroy—There was no press release. There were no costings announced at the time.

Senator COLBECK—There were quite clearly costings because we debated them in the Senate. In fact I can recall asking a question about it. There were costings that were released before the budget. It was well known. In fact the industry has said to me that the \$2 billion over four years exceeds even their own expectations of growth in the consumptions of RTDs before the measure was imposed.

Mr Ray—If you look at these numbers over the first four years, it is about—

Senator COLBECK—What document are you on?

Mr Ray—Budget Paper No. 2, page 22. It is about \$2.2 billion before you take off the related expense, which takes off a little bit. It probably gets you back to pretty close to what the minister said—\$2.1 billion or somewhere around there.

Senator COLBECK—How do you explain the extra \$1 billion for the following year?

Mr Ray—As I said, it is \$892.6 million.

Senator COLBECK—Are they purely based on Customs figures?

Mr Ray—They are a costing against the forward estimates for the excise and excise-equivalent Customs duties that were in our forward estimates.

Senator COLBECK—How do you reconcile the fact that these figures exceed even the industry's growth figures?

Mr Ray—I cannot speak for the industry's numbers.

Senator COLBECK—You would think that they would know what they are talking about.

Mr Ray—Our forecasts are based on our analysis of the trends in clearances for alcohol.

Senator COLBECK—Senator Conroy, the Treasurer indicated at the Press Club when he did his budget function that he is prepared to release the Treasury analysis. When is the analysis going to be released?

Mr Ray—It has been released.

Senator Conroy—I thought it had been.

Mr Ray—We discussed that earlier. This is the document that the minister for health tabled in parliament.

Senator COLBECK—Thank you for that.

CHAIR—Are you finished?

Senator COLBECK—I just want to check another question. I am sure you have mentioned this a couple of times, but I just want to confirm that you spoke only to the Australian Customs Service with respect to figures for the modelling that you have done?

Mr Ray—No, we did not.

Senator COLBECK—Did you talk to the UK Treasury?

Mr Ray—No, we did not talk to the UK Treasury. We used data that we obtained from the Australian Taxation Office.

Senator COLBECK—Essentially, all your consultation was internal?

Mr Ray—Mr Brown is reminding me that we did have some relevant data from Customs, but it is a small component. Most of these products are manufactured in Australia.

Senator MURRAY—I have some questions quickly on the same topic. I just want to discuss this question of closing an anomaly which has been widely used as a justification for this price increase in RTDs. For the purposes of your answer, let us talk about a beer at five per cent alcohol by volume, an RTD which is spirits based at five per cent alcohol per volume and an RTD which is wine based at five per cent alcohol per volume. Each of those has got one constant and that is five per cent, but the beer taxation is less because there is a 1.15 per cent tax free threshold. The spirits is more because its rate is higher. This is before the change. Wine is less because wine is a value-added tax, not a volumetric tax, so wine is the cheapest of all.

Mr Ray—That is correct.

Mr Brown—If the wine based was an RTD it would be taxed as another excisable beverage if it was five per cent.

Senator MURRAY—And it is only when it reaches a certain percentage of alcohol that it has to be—

Mr Brown—It has to meet the definition of wine.

Mr Ray—Which I think is about eight per cent.

Senator MURRAY—I will just focus on the beer and the spirits RTD. Apart from the fact that beer is cheaper, why is it considered to be an anomaly when an RTD spirits based at five per cent alcohol by volume is taxed at nearly the rate of beer at five per cent alcohol by volume? I have not understood this idea of raising the price of a spirits based RTD closer to the full bottle spirits rate, because, as you know, it is normally but not always 40 per cent alcohol by volume. What does it mean in policy terms—and I am not asking you a policy question—from Treasury’s perspective?

Mr Ray—I think this is a benchmark question. What the government has said is that what this measure does is tax alcohol in spirits at the same rate, whether those spirits are sold in a bottle just in the spirits and then mixed with some other thing like cola or lemonade, or whatever these things are mixed with, or it is sold in a pre-packaged product where it is pre-mixed. That is what the government has said.

Senator MURRAY—Assuming you are dealing with rational people, that would be because a spirits based drink at five per cent alcohol by volume has a greater per cent impact than the impact of a beer based drink at five per cent alcohol by volume? Is that what lies behind it?

Mr Ray—That is asking me to impute a motive. I think that the simple way to explain what the government has been saying is that spirits will be taxed the same no matter how they are packaged and sold.

Senator MURRAY—I accept that there are anomalies in customs and excise taxation of alcohol; in fact I know and you know that to be the case and I am not unhappy for them to be resolved. What I cannot work out is where the policy rationale lies, because I am told by the drug and alcohol people—not by the industry, but by the people who are trying to stop the abuse of alcohol—that alcohol is alcohol. Quite simply, alcohol by volume is the same: wine, spirits, beer or cider, it does not matter what you drink, it has the same effect.

Mr Ray—Unlike Senator Conroy I am not a teetotaler and I probably—

Senator MURRAY—My question is: if the desire is to change the anomaly, has Treasury given advice to the government to equalise the tax, and equalise the price effects, therefore, and the demand effects, on all products relative to the alcohol by volume?

Senator Conroy—I would only disagree with you on the basis that I think you are suggesting the rational basis for the comparison. I am not sure that when you sit down—

Senator MURRAY—Senator Conroy, you know nothing about grog.

Senator Conroy—I actually worked in a liquor store for five years. I was a very safe employee and I did observe a lot of behaviour.

Senator MURRAY—Deviant behaviour.

Senator Conroy—I am not sure about your alcohol stores. The ones I worked in were not deviant behaviour. I am not sure that the underlying assumption that you make is an accurate one. When I worked in stores I have literally watched people walk in and they were not sitting there comparing the alcohol content, they were comparing the price.

Senator MURRAY—Since I have been listening to these answers, essentially I have heard the correct answers from Treasury—namely that they have looked at this as an economic matter and that the health effects, the alcohol effects, considerations are those that concern the health department. But from a rational Treasury point of view, I cannot see the tax rationale of this. I just cannot see it. I need a better explanation from either you, who I do not trust on these matters—

Senator Conroy—As a teetotaler, I do not take that personally.

Senator MURRAY—But I have not heard a decent response on that aspect from Treasury. I have heard the economic response.

Mr Ray—As I said, this measure equalises the excise equivalent customs duty on spirits, no matter how it is sold. I think that is actually explained in the budget papers as being one of the policy rationales that the government has. I do not want to mislead you. I think we in the Treasury would agree that if you increased the price of something the demand for it would fall—other things being equal.

Senator MURRAY—What I get from that is, ‘Spirits bad; wine and beer good,’ and the amount of alcohol in it is irrelevant. And yet the government is selling this as an assault on the consumption of alcohol.

Senator Conroy—We have also indicated we will have a look at excise taxes in the Henry review. We are moving to look at this in a much broader range, which I think you have suggested—

Senator MURRAY—Which I appreciate, Minister.

Senator Conroy—and we have taken up as a worthwhile policy discussion. Some of the questions that you have put in here will naturally fall to be dealt with within that review process.

Senator MURRAY—You see, Minister, through the chair, I am caught in a bind, in that the Treasury have defended the previous policy and now defend this policy, and the two are markedly different. Of course the officers have to do that; I accept that. But I think what you have done is created a greater anomaly, which you now need to fix through the Henry review. What I want to do, Minister, is ask for your commitment on behalf of the government that you will look at this whole area objectively and with a view to maximising the social benefit and minimising the social harm from the consumption of alcohol of all types. That is what I want.

Senator Conroy—I think we have given that public commitment to examine these issues thoroughly as part of that review. I am happy to reiterate that. The former government introduced the new category of excisable alcohol that had the effect of reducing the effective rate of excise on spirit based ready to drink beverages by 40 per cent, so I would challenge you on your suggestion that we have created a bigger anomaly. I think that was an anomaly that was created then and we have addressed that by reversing the decision. Spirits are taxed at the same rate, no matter how they are consumed. But the overall point that you make is a worthy one and I am sure it will be considered in detail.

Senator MURRAY—I hope so.

CHAIR—In the couple of minutes before afternoon tea, Senator Bernardi might want to ask a few questions.

Senator BERNARDI—I do have a few questions, but it is not on this.

Senator COLBECK—Just to follow on from Senator Murray's point, the context of this whole decision was that it was supposed to be a health measure. The evidence is that it is not having that particular impact. It was supposed to drive down binge drinking and the consumption of these dangerous drinks. It is not actually doing that. The budget papers clearly show that consumption is going to continue to increase. The industry tells us that they are going to increase at a rate greater than their own projections for growth. I think it is quite legitimate that we are asking questions in this context, particularly the fact that we were told that this was going to solve a binge drinking problem when most of the statistics on the incidence of drinking in a whole range of age groups do not indicate an increasing problem. Effectively, the discussion that Senator Murray was having before about transference is probably where this whole thing lies. We are just going to shift everything. Your figures may end up being correct, but you are going to get your funds from revenue out of full bottles of spirits rather than RTDs. Does that show up in your modelling, that there will be a transfer? Actually, I think your modelling assumes nil transfer, so it cannot.

Mr Ray—Whether or not someone consumes RTDs or the same amount of alcohol through spirits, we get the same amount of revenue.

Senator COLBECK—That is exactly right.

Mr Ray—I do not know that you actually asked me a question, but I just wanted to make the comment that these numbers are based on a reduction in consumption from where it otherwise would have been.

Senator COLBECK—Your assessment is that there will be a reduction, but the industry tells us that these revenue figures would give growth in excess of their own projections.

Mr Ray—Our assessment that there would be a reduction is based on our analysis—and we have agreed that we are going to provide you with references to a reasonable number of studies on the price elasticity demand for alcohol. Plus it is fairly reasonable, as I said before, that the demand curve is downward sloping; therefore if you increase the price you will get less demand.

CHAIR—This seems like a good time for a break.

Mr Ray—I do not want to prolong this, but—

CHAIR—Please go ahead. You have got a minute.

Mr Ray—I wanted to add to an earlier answer around seasonality. If you look at clearance data on a month to month basis, there is commonly quite a significant fall in clearances at this time of year, and it is the seasonality that comes in—largely because of Easter.

CHAIR—Thank you. That being said, we will break for afternoon tea and return at 4pm.

Proceedings suspended from 3.44 pm to 4.00 pm

Senator COONAN—I want to go back to an earlier answer given by Mr Ray and to ask: if the objective—and I think you said this—is to tax all spirits the same, we certainly have a

very differential regime, haven't we? For instance, for a full draught beer it is 27.70, with 1.15 per cent free; for beer that is three per cent to 3.5 per cent by volume it is 21.17; and for beer that is less than three per cent it is 6.74. That is for keg beer. How does that equate to RTDs, which are the same, 66.67, regardless of alcohol by volume?

Senator Conroy—I just want to clarify your question. You were talking about 'all spirits' and then you start talking about beer.

Senator COONAN—I am just asking about beer at the moment.

Senator Conroy—Because whenever I stacked the beer, I never stacked it in the spirits section.

Senator COONAN—I am asking about beer—

Senator Conroy—I just wanted to make sure.

Senator COONAN—I think we recognise beer.

Senator Conroy—Good. I just do not want to be confused about where I stack that beer.

Senator COONAN—What is the rationale there?

Mr Ray—Why would beer be taxed at a different rate from spirits?

Senator COONAN—Yes.

Mr Ray—That is just a continuation of the current policy.

Senator COONAN—Where is the incentive for there to be an RTD at differential alcohol by volume—in other words, to provide a low-volume RTD?

Mr Ray—The excise is levied on the alcohol.

Senator COONAN—But there is no incentive, is there? Even if you have less than three per cent, you are still going to pay 66.67 on RTDs?

Mr Ray—On the alcohol. But because it is less than three per cent it will be a smaller tax on the product.

Senator COONAN—Yes, but there is no incentive, is there, to make a low-content product, or not that I can see unless you can show me where it is.

Mr Ray—The tax on a low-alcohol content product—

Senator COONAN—It is still 66.67, though; the rate is the same?

Mr Ray—On the alcohol.

Senator COONAN—Yes.

Mr Ray—But the tax on the product will be lower.

Senator COONAN—The tax on the alcohol is much less, of course, for beer. If you have less than three per cent for a light keg beer it is \$6.74, isn't it?

Mr Ray—I will take your word for it. The numbers are in Budget Paper No. 1, in budget statement no. 5—

Senator COONAN—I think you can assume that that is correct.

Mr Ray—but it is the case that the excise rate on beer will be lower than the excise rate on spirits, as it was before the measure.

Senator COLBECK—But you differentiate based on the packaging?

Mr Ray—It does differentiate based on packaging.

Senator COLBECK—Which I think is the point that Senator Coonan was trying to make. Senator Conroy was saying before that the whole idea of this was to remove an anomaly where packaged pre-mixed spirits were taxed at a different rate to whole spirits, and yet the government has left an anomaly in place where beer out of the keg is taxed at a different rate to beer in bottle.

Senator COONAN—That is right.

Senator COLBECK—I know it is difficult for you to answer that question, Mr Ray, and Senator Conroy is not necessarily with us at the moment, so that leaves that up in the air.

Senator COONAN—Is there some rationale that Mr Ray can help us with on that?

Mr Ray—That, of course, was a provision that was introduced by the former government, so I can go back and talk about why that happened, but I am not sure that is going to be particularly helpful.

Senator COLBECK—But this government were removing anomalies. At least that is what they are telling us.

Senator COONAN—So my question really is: where is the anomaly that was removed?

Mr Ray—As I said, the government has explained that this measure from a tax point of view—leaving aside questions about health policy—will equate the rate for full-strength spirits.

Senator COONAN—I am sorry, I just missed the—

Mr Ray—It will equate the rate for full-strength spirits, no matter how it is sold.

Senator COONAN—That is the best answer you can give as to where this—

Mr Ray—That is the answer that is clearly set out in all the budget documentation.

Senator COLBECK—And in the absence of Senator Conroy, we cannot do any better.

Senator COONAN—We might come back to that. Is it Treasury's position that increasing the excise on spirit based RTDs is the most efficient and effective method of reducing binge drinking?

Mr Ray—I think you are asking me to give an opinion.

Senator COONAN—Treasury was asked for advice to meet a policy prescription. The policy prescription was that they wished to reduce binge drinking. It is in order, I think, to ask whether it is Treasury's position that increasing the excise will in fact have that behavioural impact?

Mr Ray—I think we are going around it in circles a little bit. The costing, and therefore our modelling, agrees with the idea that if you increase the price of these products the demand will be lower than it otherwise would have been. That is the first point. We think that you will

affect the demand for these products. The government has said that it is particularly concerned about the consumption of these products by underage drinkers and, while our modelling does not separate out different categories of consumers so that the modelling is done on an aggregate basis, I think that we would agree from basic economics that you would expect the responsiveness of income constrained people to be higher.

Senator COONAN—As a matter of interest, why wouldn't you separate out different categories of consumers, particularly if the—

Mr Ray—We do not have the data to do that.

Senator COONAN—So, all you can really do is use a pretty blunt instrument, I suggest, and that is just to use the aggregate data?

Mr Ray—I will leave it up to others to decide whether it is a blunt instrument, but—

Senator COONAN—But it is inaccurate; it does not actually target the particular cohort that the government says it is troubled about.

Senator Conroy—That is an assertion you are making.

Senator COONAN—Of course I am asserting it.

Senator Conroy—It is not a question.

Senator COONAN—It is a question. It is for Mr Ray to make a comment on if we let him finish.

Mr Ray—The task of the modelling is to estimate the impact of this measure on the government's budget and we have used the best available data we have got to do that. I do not know that I can add very much to that. We have used the best data that is available to us, which is the ATO's clearance data.

Senator COONAN—To be fair with you it is absolutely, unequivocally a tax measure for the purposes of this committee. I accept that. In fact, we would say that it is a tax binge, not anything in any way to deal with any particular health cohort. What other responses would be in Treasury's kitbag to efficiently and effectively reduce binge drinking?

Senator Conroy—That is a policy question.

Senator COONAN—No, it is not. It is their position. They are—

Senator Conroy—It is not their position. Just ask him to—

Senator COONAN—people who you can ask—

Senator Conroy—You just asked them to offer alternative policies to the one being pursued by the government.

Senator COONAN—I have asked them what other ways—

Senator Conroy—It is completely out of order.

Senator COONAN—I do not think it is out of order. Can I ask what other ways would there be to efficiently and effectively reduce binge drinking? They are Treasury, for heaven's sake.

Senator Conroy—You are asking an opinion now.

Senator COONAN—I am not asking an opinion. I am asking for a methodology.

CHAIR—The minister has given the response.

Senator COONAN—Mr Ray—

CHAIR—The minister has given the response.

Senator COONAN—Were any alternative ways of dealing with—

Senator Conroy—That would go to advice to government—

Senator COONAN—this matter of efficient and effective reduction of binge drinking considered?

Senator Conroy—That would go to advice to government, and it is inappropriate for the officers to give advice on matters they put to government.

Mr Ray—I certainly will not divert from that, but if you look at the material provided in the budget papers this is one element of a strategy that the government has to reduce binge drinking, the other elements of which include redirecting a portion of this measure to preventive health—

Senator COONAN—I am sorry, I just cannot hear you.

Mr Ray—The other measures include early intervention programs and a program that is to help communities confront the culture of binge drinking. There are a number of other programs that are in the budget that deal within this strategy. So, this is not the only measure.

Senator COONAN—I understand that. If I have read the budget papers correctly, it clearly shows \$53 million over four years on education and mentoring programs as money spent and \$3.1 billion over five years in just revenue raising by tax on RTDs. So, if I may say so, it is a pretty uneven way of trying to address what is said to be a health problem in particular cohorts of people who so-called binge drink.

Mr Ray—But, as we have said several times, if you increase the tax on a particular good you will expect the demand for that good to fall.

Senator COONAN—How does raising tax on one type of alcoholic product reduce overall alcoholic consumption? Or does it?

Mr Ray—Studies show that increasing the price of a large component of alcohol consumption will affect overall alcohol consumption.

Senator COONAN—Which particular studies are you referring to?

Mr Ray—This is the list that we were talking about before.

Senator COONAN—The list that we have not got yet. Just as a matter of interest, does the list include experiences in Germany, Switzerland and the UK which showed significant substitution trends over the years following tax increases on RTDs?

Mr Ray—Sorry, I did not quite get the question.

Senator COONAN—The question was: in the list that we do not yet have of data that Treasury had regard to that you are producing for us, did it include experiences in Germany,

Switzerland and the UK where I understand there were significant substitution trends that showed up in the years following tax increases on RTDs?

Mr Ray—I think that we explained before that the problem with those experiences is that the data series are relatively short. I think the short answer to your question is no, because I do not think that the data is strong enough for reliable estimates of the elasticity of demand to have been calculated.

Senator COONAN—Would it not depend on how long the time line was?

Mr Ray—Sure, it would, but I think all of those changes are in the last four or five years.

Senator COONAN—It would be your view that strong indications of behavioural changes are just short-term at the moment, or couldn't you take any position?

Mr Ray—No. We have said that from the best available studies, which have reliable estimates of own price elasticity of demand, using an estimate of minus 0.4 is a reliable assumption.

Senator COONAN—Has Treasury tended to model the effects on people who are underage drinkers?

Mr Ray—No.

Senator COONAN—You have not got that data, as you said. Has Treasury attempted to model the effects of people changing their preference for what alcohol drink they will consume?

Mr Ray—I think we discussed that a while ago. That goes to the question about the cross-price elasticity of demand, and the available evidence that we have got is that we have no better estimate than to assume a cross-price elasticity of demand of zero. The studies in this area are conflicting. Some are in either direction, showing net complements or net substitutes. As Mr Brown explained earlier, the estimates of cross-price elasticity of demand are not particularly statistically significant in these studies.

Senator FIERRAVANTI-WELLS—Does Treasury's modelling of the government's decision actually show an overall reduction in alcohol consumption?

Mr Ray—Yes, it does. This was the fastest-growing component of alcohol consumption, and these numbers are reducing that component.

Senator FIERRAVANTI-WELLS—In three years time, will the alcohol consumption be higher or lower than it is now?

Mr Ray—It will be lower than it otherwise would have been.

Senator COLBECK—So it shows a reduction in the increase, not a reduction?

Mr Ray—That is correct.

Senator Conroy—And that is exactly what I told the Senate a couple of weeks ago.

Senator COONAN—As of yesterday, information from the Australian Institute of Health and Welfare was that there has been virtually no change in the pattern of risky drinking over the period 2001 to 2007, including among young Australians. Given the stable prevalence of risky drinking and the lack of any clear trend regarding preferences for RTDs, the increased

availability of RTDs does not appear to have directly contributed to an increase in risky alcohol consumption—that is not data that you have available to you?

Mr Ray—I think that submission was made yesterday, so it was not a submission that we had available to us when we were examining this option, no.

Senator COONAN—Would that have had any impact if that was true?

Mr Ray—In terms of the modelling, we are talking about modelling the cost of the measure rather than I guess debating the merits of the policy. If you look at the most recent ABS publication on the apparent consumption of alcohol, which is publicly available obviously, between 2005-06 and 2006-07 ready-to-drink pre-mixed products available for consumption increased by 8 per cent—alcohol in that form—and there was an increase of 5.9 per cent in apparent consumption of alcohol—

Senator COONAN—I do not doubt the ABS statistics. I am putting to you: if it is correct that a more contemporary finding shows that there is a stable prevalence of risky drinking and lack of any clear trend regarding preferences for RTDs, the increased availability of RTDs does not appear to have directly contributed to an increase in risky alcohol consumption—would that have been something that you would have factored into your modelling?

Mr Ray—The modelling is about coming up with a costing. That would be a factor that ministers might want to take into account when considering policy, and that goes to policy.

Senator COONAN—But you would want the most up-to-date data, wouldn't you?

Mr Ray—Yes, but if you look at the most up-to-date ABS data, leaving aside the tax office data—

Senator COONAN—You disregard the finding from—

Mr Ray—I think we might be talking at cross-purposes. The total quantity of alcohol and alcoholic drinks available for consumption increased by 1.8 per cent between 2005-06 and 2006-07. Ready-to-drink pre-mixed products available for consumption increased by 8 per cent. It was the fastest growing component.

Senator FIERRAVANTI-WELLS—Are you saying that the total volume of alcohol across all products in three years time will be less than a year's now; is that what you are saying?

Mr Ray—No. What we are saying is that it will be less than it would otherwise have been.

Senator COONAN—I just wanted to make sure that we are very clear about whether the consequences created by the government's decision or all intended consequences on whether there are some unintended consequences. As we know, RTDs used to be taxed at the same rate as beer, as they have the same alcohol content as beer—

Mr Ray—That is not quite correct.

Senator COONAN—Could you give us the correct position?

Mr Ray—In similar packaging, beer benefited from the 1.15 per cent threshold.

Senator COONAN—In any event, they will now be taxed at the same rate as hard spirits, even though they may have only one-eighth of the alcohol content of straight spirits; is that right?

Mr Ray—The alcohol in them will be taxed at the same rate as the alcohol in spirits.

Senator COONAN—Yes. So that is correct?

Senator MURRAY—It might not be correct.

Senator COONAN—It is correct.

Senator MURRAY—Because a brandy-based RTD is taxed the same as a whisky based RTD but brandy is taxed less. That is correct, isn't it?

Mr Ray—That is correct.

Senator COONAN—Brandy is taxed at 66.25 and other at 66.67?

Senator MURRAY—But the point I make, just to justify the correction, is that a brandy-based spirit RTD will be taxed the same as a whisky, rum or vodka based RTD, but a brandy spirits bottle will be taxed cheaper than another spirits bottle. That is correct, isn't it?

Mr Ray—That is correct. I am not actually aware of any brandy-based RTDs—

Senator MURRAY—There must be—brandy and coke.

Senator COLBECK—Brandy and dry.

Senator COONAN—Absolutely, you need to get out more. Just to be clear about that: that is yet another anomaly, isn't it?

Mr Ray—That is a matter of opinion.

Senator FIERRAVANTI-WELLS—We will send Senator Conroy back to the bottle shop to check.

Senator MURRAY—I think that answers everyone.

Senator COONAN—I think it does. What is the policy rationale as interpreted by the modelling that Treasury has done and the position as to why two products with exactly the same alcohol by volume would be taxed the same?

Mr Ray—I think we went through this before afternoon tea. The intent of the government's policy is to tax spirits at the same rate, no matter how they are served.

Senator COONAN—What then was the justification for taxing products with the same alcohol content by volume differently?

Mr Ray—If you look at Budget Paper No. 1, on page 21, it says:

This measure addresses a distortion in the tax treatment of spirits and will discourage the consumption of these beverages by some young people.

Senator COLBECK—I think this is encapsulating it a bit. The budget papers quite clearly say that this is a targeted measure. Your costings effectively are based on expected revenue flows without any reference at all to age cohorts as part of the costings. Effectively you have gone to your excise figures, you have made a calculation on the curve to say, 'This is where we think it will go,' and you have made an allowance for what you think the change in

consumption might be. So it is not a targeted measure at all. There is nothing in your calculations that provides any targeting of this measure towards young people as you have just read out of the budget papers—not a thing.

Mr Ray—The modelling is about a costing.

Senator COLBECK—That is exactly right. So you are costing a tax measure across a broad range of product. The government's stated intention is that this is a targeted measure to stop young people drinking RTDs, yet there is nothing in the costings at all. There is no health data. You did not talk to the health department; you said they did not have anything you needed. Yet, this is supposed to be a measure targeted at stopping or reducing the consumption of RTDs by young people. You just read that out of the budget papers yourself, but there is nothing in your costings that actually directly applies to that.

Mr Ray—As we commonly do in these sorts of costings, we have used aggregate data and effectively in this case applied an average price elasticity of demand.

Senator COLBECK—But there is an inherent contradiction in the way that this has been costed with no reference to any age cohort data at all, yet the government comes out and tells us quite clearly—and it is written in the budget papers—that this is a targeted measure at reducing the consumption of RTDs by young people as a measure to reduce binge drinking.

Senator Conroy—I am a little confused. Again, I freely acknowledge that this is not an area of personal expertise, but there is data that indicate that there seem to be some young people who currently drink the product. Are you trying to suggest that the drinking profile for that product is no more than the national age average? Is that what you are suggesting, because that is the only rational basis for your question?

Senator COLBECK—What the data actually show is that there has been a growth in the consumption of RTDs—

Senator Conroy—By whom, though? I am only trying to get to the basis of 'by whom', because there is no other rational basis for this question unless you believe it has got the same profile—

Senator COLBECK—in a certain age cohort, and you have said that this was targeted. The budget paper said that this is targeted. So how is the measure targeted when it is—

Senator Conroy—According to your information, is there a disproportionate number of young people who drink alcopops? Is it a small disproportion or a large one? What are you suggesting the data says?

Senator COLBECK—What the data actually says is that there has been very little increase or a slight decrease in the number of young people consuming alcohol. What they have done is change the types—

Senator Conroy—That is alcohol.

Senator COLBECK—We are talking about drinking across-the board. We are talking about binge drinking.

Senator Conroy—Your criticism is that this is not targeted—

Senator COLBECK—That is exactly right.

Senator Conroy—The point I am trying to draw from you in your question is: if there is a greater proportion of young people drinking this particular product then a measure that is aimed at that particular product is by definition going to impact on those people.

Senator COLBECK—Eighty per cent of the people who drink this product are drinking black spirits. It is not your term ‘alcopops’, it is—

Senator Conroy—That is your term, I thought. I am borrowing your term.

Senator COLBECK—Actually, it is your term that you have taken from the UK. If you want to know the derivation of the term, that is where it comes from. It comes from the UK Labor policy document, so you can sort that out. But 80 per cent of the people who drink RTDs, drink black spirits—rums, dark spirits and things like that.

Senator Conroy—I think you are avoiding the question I asked, but I appreciate it is your job to ask the questions and mine to answer them at this point.

Senator COLBECK—I am glad you appreciate that—

Senator Conroy—I appreciate you have retained your ability to dodge a question even though we have changed places.

Senator COLBECK—Your budget paper is saying this is a targeted measure, and 80 per cent of the people who consume the drinks are drinking dark spirits. I am just trying to make it add up, and it doesn't. In fact, it is not just me who says that.

Senator Conroy—I think you have dodged the question. Your assertion that it is not targeted does not stand up on your own statements.

Senator COLBECK—By the agency's own admission there was no age cohort data and no information from the department of health considered as part of this. All they did was look at the revenue base for this product, based on excise, and made a calculation of what they thought the reduction—

Senator Conroy—Treasury's job is to cost a model.

Senator COLBECK—That is exactly right.

Senator Conroy—You are actually asking the wrong people this question. The people you need to be asking this question and then making an assertion to Treasury about—

Senator COLBECK—There must be some cohort information put into the assumptions and there were not.

Senator Conroy—No. You need to address those questions to the estimates in the next few days of health.

Senator COLBECK—Do not worry, we will.

Senator Conroy—That does not disprove anything that Treasury has said.

Senator FIERRAVANTI-WELLS—Did Treasury consider the report from the Institute for Fiscal Studies in the UK called the *Revenue effect of changing alcohol duties*, which was published in 1999? That finding is that the cross-price elasticity between wine and spirits is positive and is equal to 0.77. This means that they find that wine and spirits are substitutes

and that a 10 per cent increase in the price of spirits increases wine consumption by 7.7 per cent. Are you aware of that statement?

Mr Ray—I am not aware of that particular study. We have undertaken that we will come back with a list of the studies that we did look at. As I think I explained—

Senator FIERRAVANTI-WELLS—It could have been one of the 10 to 12 studies that you referred to earlier?

Mr Ray—Yes, but we will come back with that. In the meantime, as I said, those studies had conflicting numbers. I would want to have a look at how statistically reliable those estimates are on a range of things before commenting.

Senator COONAN—The RTD tax increase leads to distortions in prices in the market, where RTDs are taxed significantly higher than competing products with twice the alcoholic content. On a slightly different question, did Treasury take into account the distortionary effects of this policy?

Mr Ray—I am not quite sure what you mean, because all taxes distort—

Senator COONAN—I will give you an example. A can of Australian-made Bundaberg rum and coke with an alcohol content of five per cent by volume and an imported wine based ready-to-drink beverage which is 70 per cent fermented wine and 12.5 per cent by volume attracts a 70 per cent tax for the product that has the least alcohol volume, doesn't it?

Mr Ray—I think that is just a variation on the question that you asked earlier about the differential tax on different types of alcohol, which we discussed earlier. As I said, this measure is about equalising the rate on alcohol in spirits, no matter how it is sold.

Senator COONAN—An Australian-made product which has the lowest alcohol content of all the products cops the 70 per cent tax slug, while the imported product, one with more than double the alcohol content by volume, is not subject to the tax. How does that deal with anomalies?

Mr Ray—Again, what we were discussing before is that wine is taxed differently from beer and from spirits so that—

Senator COONAN—I am just trying to understand the rationale for it. I must say that, the way in which the policy is presented, it just seems to be full of contradictions.

Mr Ray—The difference in taxation of wine, beer and spirits goes back a long way in the system.

Senator COONAN—Yes, I know that.

Mr Ray—I guess we can go back and talk about previous changes to the tax treatment of alcohol but, again, I am not quite sure it is going to be helpful.

Senator COONAN—It is just a reversal, I understand that. But I might talk about that in a little while, because my recollection of it was that it was introduced to address those sorts of distortions.

Senator Conroy—I am not sure if that is a question. That is more of a personal recollection.

Senator COONAN—It is my recollection. I can go into it in more detail, unless Mr Ray is able to deal with it in a more general way.

Mr Ray—Other than to say that, when the wine equalisation tax was introduced as an ad valorem tax, the former government knew what it was doing.

Senator COONAN—Does the wine equalisation tax mean that the cheaper the wine based RTD the less tax it will pay?

Mr Ray—If it meets the definition of ‘wine’ it gets taxed like other wine.

Senator COONAN—So the less tax it will pay. If it is a wine based RTD, the wine equalisation tax means that the cheaper it is the less tax will be paid.

Mr Brown—Yes. The wine equalisation tax applies to the wholesale value of the wine, so it is like all other wine.

Senator COONAN—If a producer of a wine based RTD is in receipt of a wine equalisation tax producer rebate, would it be the case that this wine based RTD would effectively pay no excise and no wine equalisation tax?

Mr Ray—The concept I am having trouble with is of a wine based RTD.

Senator COONAN—They do exist.

Mr Ray—This government’s measure applies to a specific thing for other excisable beverages not exceeding 10 per cent alcohol by volume. You are talking about a different category of good.

Senator COONAN—Yes, but you are aware that wine can be the base for an RTD? It can be flavoured in any way that you like, really.

Mr Brown—It would still have to meet the definition of ‘wine’, which means that it has to exceed a certain alcohol content by volume, which is eight per cent.

Senator COONAN—But it can be flavoured any way you like, can’t it?

Senator MURRAY—Just eight per cent?

Mr Brown—Yes, that is right.

Senator COONAN—But it can be flavoured any way you like, and it can be the basis of an RTD?

Senator MURRAY—The clarification you just made is that an 8½ per cent RTD that is wine based will be cheaper than a five per cent RTD that is spirits based, which does seem strange.

Senator COONAN—Yes. I thought it had to be eight per cent. Is that right?

Senator COLBECK—And it will taste no different to a spirits based one?

Senator COONAN—What is the rationale for that?

Mr Ray—This pre-dates—

Senator Conroy—Aren’t these measures you used to administer?

Senator COONAN—Yes, but I am interested to know why you picked out spirit based RTDs as opposed to RTDs more broadly?

Senator COLBECK—You are the one removing anomalies, Senator Conroy, as you say—

Senator Conroy—You created the anomaly.

Senator COONAN—No matter who created it, you have set out to fix it. So what is the answer?

Senator Conroy—The RTD industry itself purports that its sales increased by over 250 per cent since the loophole was created.

Senator COONAN—I am sorry?

Senator Conroy—The RTD industry itself has reported that its sales increased by over 250 per cent since the loophole you created.

Senator COONAN—I do not think that really answers the question that I was asking.

Senator Conroy—You are asking about why are we addressing this particular issue. Why did you create a loophole that saw an increase of 250 per cent?

Senator MURRAY—Alcohol fell in aggregate.

Senator COONAN—Yes.

Senator COLBECK—Just because one product increases does not mean that alcohol across the board increases, Senator Conroy, which is what you have been trying to assert on several occasions, including during question time.

Senator Conroy—I have not asserted that at any stage—not today or in question time.

Senator COLBECK—You keep on reading figures out about these enormous increases. Because people—

Senator Conroy—This is from its own industry—

Senator COONAN—Senator Bernardi has been waiting patiently to ask questions on a different topic—and I am not finished—but I want to leave you with this proposition because I want to come back to it: if wine based RTDs are taxed according to their value so that the cheaper products pay less tax, and wine based RTDs must be at least eight per cent alcohol by content to be taxed under WET, wine equalisation tax, isn't it true—and I think this is the nub of it—that this tax measure has now created an incentive to produce cheap wine RTDs with a higher alcohol content than RTDs not made from wine?

Senator Conroy—That is an assertion rather than a question.

Senator COONAN—No, it is a question.

Senator Conroy—Not, it is an assertion. 'Isn't it true' is an assertion.

Senator COONAN—Is it the case? That is a question.

Senator Conroy—I am not sure whether a Treasury official is in a position to give an explanation of what the manufacturing policies of brewers are.

Senator COONAN—As a matter of policy, Senator Conroy, you are the minister at the table and I appreciate it is not your portfolio, but it is the single largest tax measure and it defies belief if you do not have some knowledge of it. Has it created an incentive to produce cheap wine RTDs with a higher alcohol content than RTDs that are not made from wine? Inevitably, the answer has to be yes. But, if so—

Senator Conroy—You are asking and answering your own assertions.

Senator COONAN—No, I am asking a question. If that is a concern to you—

Senator Conroy—You just answered it. You said that inevitably it has to be yes. You just answered your own question.

Senator COONAN—Do you agree that that needs to be addressed to be consistent?

Senator Conroy—We have made the point already in reference to one of Senator Murray's questions that we will be examining all of these issues as part of the Henry review. If you would like to put in a submission, we look forward to receiving it.

Senator COONAN—That seems to me to be a yes. It sounds very much like the fact that you have realised—

Senator Conroy—If you believe there is an anomaly, you can feel free.

Senator COONAN—I am not doing anything other than pointing out that this measure so far seems to me to be riddled with inconsistencies. If it has to wait to get fixed up until the Henry review, the Ergas review or whoever it is—the Henry review, I should say—

Senator Conroy—Yes. I do not think Mr Ergas will be conducting the review.

Senator COONAN—Maybe Mr Ergas might have a better view of it, but so be it. It certainly cannot be presented now as having been a comprehensive treatment of the taxing of ready-to-mix drinks because, as I say, it is riddled with inconsistencies where higher values—

Senator Conroy—These are your assertions, but if you have a question I am happy to try and answer.

Senator COONAN—I will take it that you cannot answer it, and we will move on. I have not finished with RTDs but I am happy to—

Senator BERNARDI—I have some questions for Mr D'Ascenzo in regards to the AVO. Are you happy to take those, or are there are people around who will?

Mr D'Ascenzo—I will take them and see if I can answer them.

Senator BERNARDI—You may recall that I asked you some questions in regard to the operation of the AVO at estimates last year. Specifically, they were about Dr Parker, who had been retained as a consultant by the AVO. Is he still subject to that retainer?

Mr D'Ascenzo—Not that I understand.

Senator BERNARDI—Could you detail whether he was at any stage engaged in a consultancy role?

Mr D'Ascenzo—Yes, he was. He provided work on a number of AVO matters, and he was paid for that service.

Senator BERNARDI—Would you be able to take on notice and perhaps table the matters, if you are happy to provide us with those, and also the time involved, the payments that were received and, in particular, the dates.

Mr D'Ascenzo—We can do that.

Senator BERNARDI—You also said in your evidence at estimates that there was a suggestion that you could 'get the AVO people more on board' with a change of leadership. Has that been the case, in your opinion?

Mr D'Ascenzo—I think AVO has performed very well for the government over the last 12 months, and it has returned a good profit. Part of that has been a good relationship with its main customer, Centrelink.

Senator BERNARDI—I will get onto that in a moment. Who is the general manager now of the AVO?

Mr D'Ascenzo—Steve Vesperman.

Senator BERNARDI—He was moved into that position around this time last year. Is that correct?

Mr D'Ascenzo—That is right. We had John Ryan first and then he was promoted to another area in the organisation, and Steve Vesperman was moved into the AVO general manager role.

Senator BERNARDI—Mr Vesperman is staying in that role?

Mr D'Ascenzo—He is a very valuable officer, and I would need to look at other areas of the organisation over time, so I cannot guarantee that he is going to stay in that role forever.

Senator BERNARDI—There has been some suggestion that he may, indeed, be moving on quite shortly. Do you know anything about that?

Mr D'Ascenzo—There are no current plans but in a large organisation you always move your senior executives to critical areas as those areas emerge.

Senator BERNARDI—You would be aware of any current plans if that were to be the case?

Mr D'Ascenzo—Yes.

Senator BERNARDI—How much time does the AVO actually occupy of your time?

Mr D'Ascenzo—Not substantial amounts. We have normal reporting through our monthly reporting to the ATO executive. We have plenary governance processes. There is a full range of corporate governance processes. The AVO is involved with that. Last year I engaged with AVO in a number of workshops to set their directions for the coming year.

Senator BERNARDI—So, would it be five per cent of your time that is dedicated to AVO related matters. Is that fair?

Mr D'Ascenzo—That would be about right. It would be no more than that.

Senator BERNARDI—So, five per cent or less? What process takes place for valuations with the AVO?

Mr D'Ascenzo—It depends on what sort of valuation is called for. It is a part of the contractual arrangements. Take Centrelink, which is our key client. I think something in the order of 60 to 70 per cent of AVO's work is linked to Centrelink activity. Often they require valuations based on information in our computer system about comparable valuations of property, particularly houses. Sometimes you require a drive-by type approach that means that the valuer has to sight the property. It is split between metropolitan and rural, and you have people with different skills doing different valuations depending on the type of valuation work required. We also do plant and equipment and valuation of other activities.

Senator BERNARDI—If a bank was valuing a home they would engage a valuer and the valuer would have to go out and inspect the property. Are you suggesting that is not necessary?

Mr D'Ascenzo—I do not think all the banks do that. They often just do it off the information in the computer.

Senator BERNARDI—They seem to charge us for it.

Mr D'Ascenzo—They do charge for the valuation. It is not necessarily a drive-by valuation. I do not know what the banks do.

Senator BERNARDI—Do you regard it as a necessary process to actually inspect a property to establish its value?

Mr D'Ascenzo—I am not a valuer. I think it is a matter of agreement under contract between us and our clients. We work out what is within the realms of a requirement for their activities.

Senator BERNARDI—If someone is revaluing their home or having their assets revalued for Centrelink purposes, it may indeed be that no-one actually visits, inspects, sees or can verify the existence of the assets; is that right?

Mr D'Ascenzo—I think that can happen to valuations more generally.

Senator BERNARDI—There is a clear area in which a valuation could be arrived at fraudulently or erroneously, isn't there?

Mr D'Ascenzo—You base it on information. It really depends on whether the information is sufficiently comparable to the sort of property you are trying to value. If you have got a similar four-bedroom house, for instance, on the same street, you are able to say that it is likely to be of that order.

Senator BERNARDI—You are hoping you know that it does exist? That is what the visual inspection normally engages?

Mr D'Ascenzo—Part of the contractual arrangement in that sort of situation is that the person can object to valuations. In fact, we provide a service to Centrelink where we take calls from people who are not comfortable with the valuations provided.

Senator BERNARDI—What percentage of people are unhappy with the visual valuations?

Mr D'Ascenzo—I do not have that figure with me.

Senator BERNARDI—Could you find out for me?

Mr D'Ascenzo—We could see what sort of telephone responses there are. I am not sure that it is broken up. I am not even sure what the proportion of off-the-computer to drive-by valuations is.

Senator BERNARDI—Could I ask you to perhaps find out what the proportion is? Specifically, I would be interested in whether the AVO has any decision in the pipeline or has considered increasing the rate of non-visual valuations.

Mr D'Ascenzo—We can provide those strategies.

Senator BERNARDI—You should be able to do that by this afternoon or this evening?

Mr D'Ascenzo—I think that could be a little bit difficult. I am not sure. We could try.

Senator BERNARDI—But you would know whether there was any suggestion that there was going to be an increase in non-visual valuations in regard to Centrelink? You would know that, wouldn't you?

Mr D'Ascenzo—No, I would not.

Senator BERNARDI—Why not?

Mr D'Ascenzo—I do not know everything.

Senator BERNARDI—It would be a big change though, wouldn't it?

Mr D'Ascenzo—I think we already have a mix of activities that are already agreed with under the Centrelink contract.

Senator BERNARDI—Who would know?

Mr D'Ascenzo—It would be the AVO people managing the contract.

Senator BERNARDI—That is why I am asking you as representing the AVO.

Mr D'Ascenzo—That is right. I am saying that I will have to go back and get the information.

Senator BERNARDI—When do you think you could do that for me, Mr D'Ascenzo?

Mr D'Ascenzo—We will try now and we will see what happens.

Senator BERNARDI—Perhaps after dinner we can come back and ask it again. A nonvisual valuation is reliant on guesswork, really, or informed guesswork.

Mr D'Ascenzo—I will get the details for you. I am not an expert in valuations, but my understanding is that you work out with the client the sort of valuation that meets their needs. If you want any valuer to do more in terms of going there to visit and inspect rather than using information that is available to them, the price goes up. People make choices about how much they are prepared to pay.

Senator BERNARDI—My concern relates to the fact that, if there is so much focus on the price of the valuation, there is a temptation to go to a more efficient model from a cost basis that may indeed incorrectly value key assets that would affect pension entitlements, in particular, or any Centrelink entitlements. I am looking for an assurance that there will not be

an increase in these what I term desktop valuations, because it could have a very big impact on people's eligibility to receive Centrelink benefits.

Mr D'Ascenzo—I understand that, but that is a question you should be putting to Centrelink. We are the provider of the service. Centrelink are saying that this is the sort of service that they need for their business.

Senator BERNARDI—But you would know if there has been any request or change in this.

Mr D'Ascenzo—I think the contract had a mix of both desktop and drive-by type valuations.

Senator BERNARDI—I am interested in whether there was any suggestion of an increase in that mix.

Mr D'Ascenzo—I will have to find out. I do not know of any at the moment.

Senator BERNARDI—Is it correct that the AVO has recently joined the ATO in Melbourne? When I say joined, I mean: are they now in the same building?

Mr D'Ascenzo—Yes. We are rationalising our accommodation holdings and moving AVO into where we have ATO accommodation.

Senator BERNARDI—Where was the AVO previously?

Mr D'Ascenzo—I am not sure.

Senator BERNARDI—Are you sure whether there was any requirement to maintain an existing lease or break an existing lease?

Mr D'Ascenzo—I am not aware that that is the case. It would be unlikely if that was the case, but I can get that checked out as well.

Senator BERNARDI—That would be great if you could. We have got a couple of hours. I am interested in the cost of the lease, if it had to be maintained for a period of time and also the length of tenure. Can you tell me why the decision was taken to move the AVO in with the ATO?

Mr D'Ascenzo—It has some cost benefits all round. If you have fewer holdings, you are going to pay less rent. It is as simple as that. The other benefit is the wiring of the technology support that we provide ATO and AVO. By having them in one area it is easier to network all our computers and make sure that everyone has available to them the full facilities of a bigger organisation.

Senator BERNARDI—Does that not have potential for a conflict of interest?

Mr D'Ascenzo—Not really.

Senator BERNARDI—Are you aware of any report that may have suggested that sharing accommodation between the AVO and the ATO would give rise to a conflict of interest?

Mr D'Ascenzo—I do not know of any report of that nature.

Senator BERNARDI—It has never been brought to your attention?

Mr D'Ascenzo—No, it has not. In fact, the AVO is not a separate entity in its own right. It is basically part of the ATO.

Senator BERNARDI—Yes, I understand that.

Mr D'Ascenzo—One of the reasons why you want to have them accessing the same networks is that one of the bases upon which we operate is that you have the right level of probity and way of operating that is common across the organisation, so the reports that we have had have been that to improve that level of coherence in its operations it is best to have it in the ATO.

Senator BERNARDI—If there were a genuine report that suggested the co-domicile of the ATO and the AVO could give rise to a conflict of interest, you be most disappointed that it was not brought to your attention, wouldn't you?

Mr D'Ascenzo—The people involved in the accommodation move might be. I was not personally involved with that move.

Senator BERNARDI—I would like to go to another office relocation. I understand the AVO in South Australia moved out to Marion.

Mr D'Ascenzo—I do know that the AVO in Canberra has moved into our new building in Canberra.

Senator BERNARDI—I am specifically interested in South Australia.

Mr D'Ascenzo—I do not know the details.

Senator BERNARDI—It moved out to Marion and I understand that it has now moved back out of that place. Are you familiar with the details?

Mr D'Ascenzo—No, I am not aware of that.

Senator BERNARDI—I am assured that it has. I have a question that perhaps you can take on notice. I am interested in why the decision to move to Marion was made and then the decision to move back a very short time later was made. I would like the costs of the move in the initial instance. I would also like the cost of the move in the second instance and whether there were any circumstances that gave rise to that move.

Mr D'Ascenzo—I will take that on notice.

Senator BERNARDI—You will have to. Perhaps you could also take on notice whether there were any incidences of vandalism of employee's cars or indeed any loss of particular equipment in the AVO. Are you aware of any theft issues within the AVO?

Mr D'Ascenzo—I am not aware of any.

Senator BERNARDI—What would be the AVO policy in regard to insuring any expensive equipment?

Mr D'Ascenzo—We have the normal insurance policies that cover all of our equipment. It should be common.

Senator BERNARDI—Is there a minimum threshold at which the insurance is taken, or is their some self-insurance?

Mr D'Ascenzo—I am not sure of the level at which we operate our insurance.

Senator BERNARDI—Can you find out for me?

Mr D'Ascenzo—I can take that on notice.

Senator BERNARDI—I would be interested whether there has been any loss of equipment, in particular for the Marion office. Mr D'Ascenzo, I would say that I will have some continuing questions on the AVO and it would be of great help if perhaps someone who is more able to answer questions could actually be in attendance in future estimates.

Mr D'Ascenzo—If I knew these questions were on notice I would have brought Steve Vesperman from Brisbane to here.

Senator BERNARDI—We can make that suggestion for the next time.

Mr D'Ascenzo—I am happy to oblige.

Senator FIERRAVANTI-WELLS—I have another question. The Office of Best Practice Regulation August 2007 *Best practice regulation handbook* states:

Like other regulatory proposals, a RIS for tax proposals should articulate the costs and benefits associated with the alternative options that can feasibly address the identified problem. Where possible, the benefits and costs should be quantified. Where the objective of the tax proposal could also be achieved through options other than changes to the tax system, the RIS should examine such options.

Following on from your previous answers and the questions that have been raised, where is the RIS for the alcopops tax proposal and has the correct regulatory process been followed?

Mr Ray—This is just a rate change.

Senator FIERRAVANTI-WELLS—A rate change?

Mr Ray—Yes. It is not required under the normal rules for there to be a RIS. I cannot remember a case where we have had a rate change with a regulation impact statement. There may have been one, but I cannot remember one.

CHAIR—Senator Abetz?

Senator ABETZ—Minister, can you indicate to us whether the government's proposal to increase the luxury car tax is just to gain extra revenue? Is there any industry or economic imperative behind the move, or indeed health reasons? Come on, it was just a tax grab. Just tell us and we can move on to the next question. Come on, surely there was no industry or economic imperative. It was to try to get a bit more money.

Senator Conroy—This is a quote from Budget Paper No. 1:

Since 1979, successive Australian Governments have taxed 'luxury' vehicles more heavily than other vehicles.

That would include your government. It continues:

The Government believes that Australians who can afford luxury vehicles have the capacity to contribute to revenue at a higher rate than other car buyers. The Government considers it appropriate to increase the luxury car tax rate from 25 per cent to 33 per cent from 1 July 2008. The measure is expected to raise \$555 million over four years.

Senator ABETZ—So it was to raise extra tax revenue and you looked around for people that you thought could afford to pay the extra tax and, for whatever reason, you picked on those people that buy higher priced vehicles. That being the case, why did the government not consider a luxury tax on things such as Greg Norman's yacht or James Packer's aeroplane or antique clocks? If this was to get revenue from those people that you thought were able to pay extra money into the revenue coffers, why was the car sector picked upon, as opposed to luxury planes, luxury yachts, antique clocks or fur coats? Why the car industry or sector?

Senator Conroy—I thought the statement in Budget Paper No. 1 was fairly clear, but I will repeat it for you:

The Government believes that Australians who can afford luxury vehicles have the capacity to contribute to revenue at a higher rate than other car buyers.

Senator ABETZ—We know that. Just because you can afford to buy, say, a \$60,000 Tarago van does not necessarily mean you have the same capacity to give extra money to Mr Rudd as somebody who is buying a multimillion dollar luxury yacht, a multimillion dollar aeroplane or indeed a simple antique clock, for exactly the same amount of money, that might sit on a mantelpiece. Why is it those people who might be buying cars, as opposed to any other product that might be described as 'luxury'?

Senator Conroy—I am pleased to see you are advocating some alternative taxation measures, given your stated indication. I think that you are going to vote against this one.

Senator ABETZ—I am not. I am just asking why you picked on this one, as opposed to anything else.

Senator Conroy—This does return to a discussion we had at the last estimates whereby the opposition continues to delude itself about the inflationary challenge that this country is—

Senator JOYCE—There is a question that I was going to ask. Can you please define the Labor Party's concept of 'luxury'?

Senator Conroy—The statement contained in Budget Paper No. 1 clearly explains itself, but I will read it again for you Senator Joyce, seeing as you have interjected on the answer that I was giving Senator Abetz. It says:

The Government believes that Australians who can afford luxury vehicles have the capacity to contribute to revenue at a higher rate than other car buyers.

Senator JOYCE—The question is quite specific. What is 'luxury'? Is it having a butler?

Senator Conroy—In 2000 the luxury car tax was introduced by—no prizes for guessing, Senator Joyce; you probably even voted for it in the Senate—you to ensure the price of luxury cars fell by about the same amount as the price of cars just under the LCT threshold following the removal of the wholesale sales tax.

Senator JOYCE—You failed to answer the question.

Senator Conroy—The LCT, which you introduced, currently applies to cars that have a GST inclusive price over \$57,000. You defined that.

Senator ABETZ—I am only talking about the increase.

Senator Conroy—The tax applies to the GST exclusive value—

Senator ABETZ—You cannot answer the question.

Senator Conroy—My apologies that Senator Joyce has jumped in to interrupt your questions.

Senator JOYCE—What are the attributes of ‘luxury’?

Senator Conroy—The same attributes as the attributes that you defined when you were a minister and when you set the price at \$57,000.

Senator JOYCE—Can you table one attribute of ‘luxury’?

Senator Conroy—You must know what they were because you voted for them.

Senator JOYCE—You are the government. Can you table one?

CHAIR—Senator Joyce, can we get back to Senator Abetz’s question please?

Senator JOYCE—You would prefer to go back because he cannot name one.

CHAIR—Senator Abetz.

Senator Conroy—The luxury car tax currently applies to cars that have a GST inclusive price over \$57,000. You introduced that. You set that rate.

CHAIR—Minister!

Senator ABETZ—As you know, that rate was set in consultation with the car industry to ensure that when we changed to the GST and away from the wholesale sales tax there was not a sudden dislocation within the car market. This was done in consultation with the car industry. Minister, can you tell us, having picked on that example, what consultation there was with the car industry on this occasion to increase the LCT?

Senator Conroy—This is a budgetary decision, so it was something that was done in the confines of the preparation of the budget.

Senator ABETZ—Was there any consultation with the industry prior to the announcement?

Senator Conroy—I do not believe we consult on budgetary matters.

Senator ABETZ—Was there any consultation? Whether you believe or not believe is irrelevant. I want to know the fact of whether or not there was consultation and the answer must be either yes or no. I would assume it is no.

Senator Conroy—We would have to take that on notice to be absolutely accurate in our answer to you.

Senator ABETZ—All right. Thank you. Take that on notice.

Senator Conroy—As you have asked for an absolutely accurate answer, we are happy to give you one.

Senator ABETZ—Thank you. I would like to ask if Treasury has done any modelling into the effects of increasing the luxury car tax? This will be a two-part question. I assume some modelling must have been done in relation to the projection of revenues. Is that correct?

Mr Ray—That is correct.

Senator ABETZ—Was any modelling undertaken in relation to the impact on the motor vehicle industry itself?

Mr Ray—I suspect that is a second round effect, so we are back on to those grounds. The short answer to your question is that the costing assumes no change in the demand for these vehicles.

Senator ABETZ—I am told by many great authorities in this area that, in fact, when the motor vehicle tax regime has been altered in the past there has been a substantial decrease in sales. You are not counting on any decrease in motor vehicle sales in the \$57,123 category? Is that the threshold now?

Mr Ray—That is correct.

Senator ABETZ—You are not predicting any decrease in the sale of motor vehicles in the price category of \$57,123 and above?

Mr Ray—The costing is based on no change. That is correct.

Senator ABETZ—That is what it is based on. What led you to that conclusion? Was it that past experience of increasing taxes on products would lead to exactly the same consumption, because, if that is the modelling, I would be interested to understand how it relates to alcopops. But I will leave that area to Senator Coonan. I thought tax increases led to a reduction in demand, according to the Prime Minister's mantra on alcopops, but not so on cars.

Mr Ray—You need to think about the magnitude of the price changes for one thing. In the case of alcopops, as we have discussed, it is a considerable price change.

Senator ABETZ—Yes. What would it be, about 8c or 40c on a little bottle and we are talking \$500 on a motor vehicle. For these working families that is quite a bit.

Mr Ray—The way these things are modelled is in percentage terms, not on price. The price increase for alcopops is quite considerable, as we have discussed at some length, and therefore you would expect a change in demand. This tax increase only applies to the GST exclusive value of the car that exceeds the threshold and therefore for quite a few of these vehicles the price increase is quite modest as a percentage of the value of the car. It is less than one per cent. As you go up the price range to vehicles that I do not pretend to understand, but are very expensive, you are getting price increases of around about four or five percent. Again, they are not that large compared with the other measure that you were talking about and where the average price increase in RTDs is over nine—

Senator ABETZ—Let us cut through if we may, Mr Ray.

CHAIR—Let the witness answer.

Senator ABETZ—We cannot. All right.

Mr Ray—We think that the demand for Porsches and the like probably is not going to be affected by this.

Senator ABETZ—Chances are that you are right in relation to that, but it is in relation to the other sectors. Do we now have economic modelling out of Treasury that says, 'As the price increases, demand remains steady.'? Is that the take-out of what your analysis has shown

us? Can I tell you if the manufacturers and sellers of these motor vehicles had discovered this great economic theory, they would have been bumping their prices up all the time knowing that it would not impact on the demand for their motor vehicles, and they are undoubtedly kicking themselves saying, 'Why didn't we increase the prices and get more money for them?'

Senator Conroy—We do not think it is unreasonable for those people who have done particularly well from recent government top-end tax cuts to pay a little bit more when it comes to a luxury car.

Senator ABETZ—That is one issue. We have dealt with that. I disagree with you and your patronising approach in relation to those people that might be buying a people mover. What I am concerned about is the economic modelling—

Senator Conroy—I think your patronising approach to working families is to block revenue measures—

Senator ABETZ—Minister, if you do not have anything sensible to contribute, just keep quiet.

CHAIR—Can the Minister and Senator Abetz let each other finish questions and answers please? Senator Abetz.

Senator ABETZ—Thank you, Chair. The question is—

Senator Conroy—The government—

CHAIR—Minister, please.

Senator ABETZ—The question is: what is the robustness of the economic modelling which tells me that a price increase on a product will see the sale of that product maintained? All I am putting to you is if that were the case all the car vendors around this country must be exceedingly stupid, because they could have increased the price of their vehicles by an extra \$500 without impacting in any way, shape or form on the number of vehicles sold. I confess I do not get it.

Mr Ray—We are talking at slight cross-purposes, because you are talking about the pricing behaviour of an individual vendor, whereas this is a one-off increase in the tax applying to all these vehicles.

Senator ABETZ—If the vendor gave the one price increase, instead of incrementally, you are saying that they could have got away with selling their Taragos and whatever for \$500 more than they have been charging in the past without impacting on the sales.

Mr Ray—I am not saying that at all. What I am saying is that there is a difference between a change which affects the price of every one of these vehicles compared with the behaviour of an individual dealer.

Senator ABETZ—I do not think we will get much further on that. Does Treasury consider the LCT a tax on a tax? It is, isn't it?

Mr Brown—No. The way the luxury car tax is calculated is to remove the effect of GST.

Senator ABETZ—Minister, is this going to be considered by the government's tax review? If we do not consider this to be a tax on a tax, is this therefore going to fall within the province of the government's tax review?

Senator Conroy—It is something that we would be looking at as part of the review.

Senator ABETZ—Thank you. Has Treasury given the benefit of its modelling to the Bracks review into the automotive industry?

Mr Ray—The costing is publicly available.

Senator ABETZ—Yes, but the modelling and analysis may be of interest to them. Have you made it available by way of a submission?

Mr Ray—No.

Senator ABETZ—Did this decision and modelling take into account the effect on such things as car safety, environmental features and other things that might now be removed from particular motor vehicles to ensure that they fall below the luxury car tax threshold?

Mr Ray—The modelling has assumed that on average over the forward estimates there will be very little or no behavioural change.

Senator ABETZ—By consumers?

Mr Ray—By producers, in this case.

Senator ABETZ—And producers; that is interesting. You have just made that assumption but you have not actually gone out into the marketplace to find out whether that might be the case or not?

Mr Ray—Our judgement was that that was the best available assumption.

Senator ABETZ—What increase in the tariff rate would this potentially be seen as equating to? Did you do any modelling in relation to that or not? You can take it on notice if you do not know.

Mr Ray—I have a slight conceptual difficulty in that some of these things are Australian made and therefore not subject to tariffs and they are subject to this. I have a conceptual difficulty, but I am happy to take it on notice.

Senator ABETZ—Thank you. I would like to turn to three other areas very quickly.

CHAIR—Senator Joyce, was yours on the luxury car tax.

Senator JOYCE—No, just answers to questions.

CHAIR—You have one question on that?

Senator JOYCE—Minister, I am trying to drill down to your amorphous definition of luxury, which we do not seem to be able to get to the bottom of. Do you consider leather seats to be luxury?

Senator Conroy—I did call back to you that your government drew a line, which presumably you voted for and supported, about what a luxury car was.

Senator JOYCE—I am asking you a simple question: do you consider leather seats to be luxury?

Senator Conroy—Your government came up with the luxury car tax concept.

Senator JOYCE—I am just asking you: as the Minister, do you consider leather seats to be luxury?

Senator Conroy—It is not actually a question relating to these estimates.

Senator JOYCE—It is a question.

Senator Conroy—It is a question but it is not related to the Senate estimates.

Senator JOYCE—There is a definition of luxury. Maybe seven seats. Do you consider seven seats to be luxury?

CHAIR—Senator Joyce, the Minister is attempting to answer your question and he is having trouble talking over you.

Senator Conroy—I am pointing out your question has no relevance to Senate estimates.

Senator JOYCE—It does. It has a lot of relevance because you have defined things in the revenue-raising scheme as the luxury car tax. This amorphous concept needs to be fleshed out.

Senator Conroy—The Australian public are not going to be fooled by you having amnesia that started six months ago. You introduced the luxury car tax. You defined it yourself.

Senator JOYCE—The point is that they want to know your definition. You are the government. You might not realise that but you are, so can you define luxury?

Senator Conroy—You might not realise that you cannot walk away from 11½ years of decisions.

Senator JOYCE—Is that another term you are going to hide behind?

CHAIR—I am sorry. Senator Joyce! Minister! Senator Joyce, this is now just a debate.

Senator JOYCE—I will go to something you brought up earlier on. You said certain people are doing particularly well. Can you please define the people who are doing particularly well?

Senator Conroy—I was talking about those who received the tax cuts at the top end.

Senator JOYCE—Just for the record, can you tell us who are the ones that are doing particularly well?

Senator Conroy—Those who received the top-end tax cuts from your government. And we do not think it is unreasonable—

Senator ABETZ—That you voted for.

Senator JOYCE—Yes, that you voted for.

Senator Conroy—We do not think it is unreasonable.

Senator ABETZ—You voted for certain things as well.

Senator Conroy—We do not think it is unreasonable for those who had received the top-end tax cuts to pay a little bit more.

Senator JOYCE—They are the ones doing particularly well. Is it only them or anybody else?

Senator Conroy—I am not going to let you put words in my mouth. Let us be clear.

Senator JOYCE—That would be a good trick.

Senator Conroy—We do not think it is unreasonable for those who have received those top-end tax cuts to pay a little bit more. They did particularly well out of your government on tax cuts.

Senator JOYCE—Just going back to what you said, they are the people you refer to when you are talking about people being particularly well.

Senator Conroy—The people who received the top-end tax cuts—

Senator JOYCE—They are the particularly well ones?

Senator Conroy—They received the top-end tax cuts from your government.

Senator JOYCE—Can you say the word you said before?

Senator Conroy—I will answer the questions the way I want to, not the way you want me to.

Senator JOYCE—I am just asking you, before you said there are certain people who are doing particularly well who by reason that they are doing particularly well deserve a luxury car tax. Since we cannot define luxury, I want you to define your own term ‘particularly well’. Who are these people?

Senator Conroy—I am not going to let you verbal me. I was talking about those who received the top-end tax cuts.

Senator JOYCE—They are the ones doing particularly well?

Senator Conroy—Those are the people who we believe should pay a little bit more in a luxury car tax.

Senator JOYCE—They are the ones doing particularly well?

Senator ABETZ—Minister, as there are literally hundreds of thousands if not millions of Australians in the category of not being in the top-end tax bracket buying these vehicles, will the government be remitting the luxury car tax to those people?

Senator JOYCE—The ones who are not—

Senator ABETZ—We are only talking the increase here. Will you be remitting the luxury car tax increase to those small businesses, to those families, to those primary producers that require these sorts of vehicles?

Senator Conroy—You introduced the luxury car tax.

Senator ABETZ—I am only talking about the increase.

Senator Conroy—You introduced the luxury car tax.

Senator ABETZ—Sorry?

Senator Conroy—You introduced the luxury car tax. We did not change the definition of it. We increased the rates.

Senator JOYCE—What about the people—

CHAIR—Senator Joyce, it is impossible hear any questions or answers when we have more than one person talking at once.

Senator JOYCE—I just want to find out now about the people who are not doing particularly well.

CHAIR—No, Senator Joyce. The minister is answering Senator Abetz's question and he should be allowed to finish. Minister, have you finished?

Senator Conroy—You introduced the luxury car tax. You did not introduce—

Senator ABETZ—In consultation with—

CHAIR—Senator Abetz, please allow the minister to finish.

Senator Conroy—You did not do any remitting process. Do not come in here and try and cry crocodile tears while you try and blow a hole in the budget surplus that will put pressure on interest rates and hurt working families. Do not come in here and cry crocodile tears. You introduced this tax. You set the definitions of it. You did. Leather car seats and all. You introduced it and you voted for it.

Senator ABETZ—I do have another question and it is this. Yes, we did introduce the luxury car tax in consultation with industry and at their request. Let us put that to the side. What we are debating this evening is the increase or the proposed increase which you, Minister, said was for those people receiving the top-end tax cuts. That was your definition of those people that would be paying the luxury car tax increase—increase. I am only talking about the increase. I am now inviting you, Minister—

Senator Conroy—Don't those people pay the actual luxury car tax?

Senator ABETZ—I am now inviting you—

Senator Conroy—So they do not pay the luxury car tax? They only pay the increase, the people you are talking about now?

Senator ABETZ—We are only talking about the increase. That is the only proposal the government has put forward, as I understand it. That is the issue.

Senator Conroy—So they do not pay? You remit to those people you are now defending the luxury car tax.

Senator ABETZ—Can I finish my question, Chair. This minister has got himself into all sorts of trouble over his silly comment about those people getting top-end tax cuts.

CHAIR—Senator Abetz, just ask your question, please.

Senator Conroy—I suggest—

Senator ABETZ—Will you remit the difference of the increase of the luxury car tax, the increase to those people that are required to buy vehicles that exceed the sum of \$57,123 for

their business because of where they live in an isolated area of Australia and who are not the recipients of the top-end tax cuts to which you referred?

Senator JOYCE—You bequeathed to this nation when you left government the highest inflation in 16 years, and we are having to deal with that. You are in denial. I would like to think you are in denial. One minute you say it is not a problem; the next minute you say it is.

CHAIR—The minister is finishing his answer.

Senator Conroy—Thank you, Senator Abetz. I have not finished. The luxury car tax will not increase the burden on working families.

Senator JOYCE—Who are they? Who are the working families?

CHAIR—Senator Joyce, we will have one question at a time, please, and the minister has not finished his answer.

Senator Conroy—The luxury car tax recognises that Australians who can afford luxury vehicles have a greater capacity to contribute to revenue and that, if everyone pays their fair share of tax, then we will be able to ensure that the potential of increased interest rates is reduced from the mess that you have left us in.

Senator ABETZ—The *Hansard* will speak for itself as to what the minister said in relation to top-end tax cuts and the difficulties he has got himself into.

CHAIR—Are you going on to the next—

Senator ABETZ—If I can move on.

CHAIR—Thank you.

Senator ABETZ—Have officials given consideration to the treatment of—and somebody will correct me if my terminology is wrong; undoubtedly, Senator Cormann will—when MBF demutualises, is it, or becomes a company, there is—

Senator CORMANN—Demutualising.

Senator ABETZ—Demutualising, thank you. When that occurs, I understand those that are MBF policy holders may become the recipients of multi-thousand dollar cheques. That has been put—

Mr Ray—I need to declare an interest: I am an MBF policy holder.

Senator Conroy—Can I do the same?

Mr Ray—I know the answer to your question is yes.

Senator ABETZ—All I want to know is: how will that be treated? Will it be treated as income? Will it be treated as a gift? Will it be treated as capital gain? I understand there may have been a special provision when a previous one demutualised—AMP, for example. I am not sure if it is going to be treated the same way. Are you currently giving consideration to that and, if so, are you providing advice potentially to Centrelink as to how they should be dealing with this windfall that will fall to some people who are on a full pension—whether Centrelink should treat it as a gift, as an income that should be divided by 52 over the full year, so it becomes a weekly income that does not affect the pension. The potential of the

windfall also has the potential of a downfall for certain people, and I am just wondering what the thinking is. If people are scratching their heads, could I invite them to take it on notice.

Mr Ray—I have to be a little bit careful, because you are talking about a specific event involving a particular company and therefore particular policy holders, including Senator Conroy and me.

Senator ABETZ—Yes, that is right—and it is still hypothetical.

Mr Ray—The previous government announced a measure to provide some form of CGT relief for policy holders of health insurers that demutualised. The current government announced a measure back in February, which I think is broadly consistent with relief to that which applies to AMP. I am happy to take it on notice but I think the short answer to that question is that a CGT event, the cost base is such that, if you receive cash for your shares, effectively there is no tax to be paid.

Senator ABETZ—There will not be any tax to be paid?

Mr Ray—Yes, and I am happy to take that on notice.

Senator ABETZ—However it is treated, what, as a capital gain?

Senator Conroy—Agreed.

Mr Ray—There is a capital gains tax event. Policy holders who give up their rights in health insurers for shares do not incur a CGT liability when they do that. There is relief for preliminary transactions relating to the particular mechanism in each case. There are special provisions for so-called lost policy holders, presumably when they are found. Then policy holders whose policies are post-CGT assets receive a cost base for their shares based on their share of the health insurer's net tangible assets at the time of demutualisation. I think that is the right time. Pre-CGT policy holders receive a market value cost base.

Senator ABETZ—I am not sure I am understanding all of this, but what I will do is I will read the *Hansard* and see if I can—

Mr Ray—Rather than the *Hansard*, I think a discussion paper has been released—

Senator ABETZ—Could you refer me to it in your—

Senator Conroy—Could I indicate that the government did indicate by press release from I think Minister Bowen that we will provide tax relief for health demutualised policy holders and the details will be announced shortly.

Senator ABETZ—And they have not been announced as yet. Is that right?

Mr Ray—What has happened is that we released a discussion paper and then we have had targeted confidential consultations with people in the industry, and then we will go from there to draft legislation.

Senator ABETZ—So we will need special legislation to protect these policy holders?

Mr Ray—There will need to be legislation to implement this set of measures, yes.

Senator ABETZ—Minister, I know it is not necessarily in your portfolio, but is government or cabinet in general giving consideration to the impact that it might have on people's social security and Centrelink benefits?

Senator Conroy—I will take that onboard and ensure that it is passed on.

Senator ABETZ—I would be obliged. Two quick questions. The forestry managed investment schemes have now been legislated. Are they under any special scrutiny by the Australian Taxation Office these days? We have a regime in place and that is operating?

Mr D'Ascenzo—The regime is operating. They still look for product rulings.

Senator ABETZ—That is right.

Mr D'Ascenzo—We provide assistance to them through product rulings. The scrutiny that we provide is normal follow-up to ensure that the product rulings have been implemented in accordance with the way they are put back to the office.

Senator ABETZ—In general terms it would not be correct to say that plantation managed investment schemes are under close scrutiny by the Australian Taxation Office?

Mr D'Ascenzo—Only to the extent—

Senator ABETZ—Everything is under close scrutiny.

Mr D'Ascenzo—No. To the extent that we are involved with helping them with product rulings.

Senator ABETZ—So in fact the close scrutiny is to assist them in making sure that they comply with the new legislation?

Mr D'Ascenzo—Can I move on to agricultural MIS and ask in relation to that: is there a test case underway and whereabouts are we at with it?

Mr D'Ascenzo—There is a test case underway. We have been working with the industry or industry players for some time. We recently went to the Chief Justice of the Federal Court, jointly, and asked for an expedited hearing. The Chief Justice has agreed to allow the case to be heard by the full Federal Court and the Chief Justice expressed a preference that it be heard in August by the Full Federal Court. That is where it is at.

Senator ABETZ—Could I have the indulgence—and I dare say these will be taken on notice—to quickly revisit the luxury car tax and ask whether the Treasury did any revenue projections in the budget in relation to impact on demand. I think we have been told that you do not anticipate any impact on demand; is that correct?

Mr Brown—The costings, as Mr Ray noted, do not assume any behavioural. There is no change in demand from that which was projected.

Senator ABETZ—That is what I thought. Was any modelling done or any information received as to what percentage of the increased luxury car tax revenue is going to be raised on vehicles priced over \$70,000?

Mr Ray—Thinking about our earlier conversation, our costings do not assume where the incidents fall. While we could make an assumption, if the incidence of tax is completely passed forward, of what the price impacts would be and therefore we would get that, we could probably break it down by that. We have not done that because we are not sure that that is the right incidence assumption.

Senator ABETZ—What I am interested in—possibly if you could take this on notice—is what percentage of all luxury car tax revenue is raised on vehicles priced over \$70,000, on vehicles priced over \$100,000 and over \$120,000. What would be the impact on revenue from leaving the luxury car tax at 25 per cent up to, let's say, \$100,000 motor vehicles but applying the proposed rate of 33 per cent only on vehicles over \$100,000; if you could take that on notice?

Mr Ray—We are happy to take it on notice.

Senator ABETZ—Thank you. Would it be fair to say that from its original—

Senator Conroy—You are well past your two last questions, Senator Abetz that you asked for as an indulgence.

CHAIR—I am very indulgent.

Senator ABETZ—Since the luxury car tax was originally introduced, are you able to tell us how many extra models and vehicles are now captured in the luxury car tax threshold as compared to when it first commenced? I dare say you do not have that information on you, either.

Senator Conroy—Good guess. We will take it on notice.

Mr Ray—Many things have changed since that time, including the incomes of a lot of people in Australia, but we are happy to take that on notice.

Senator ABETZ—Are you saying that with that smug little laughter to yourself that the price of motor vehicles and the luxury car tax has in fact been maintained in comparison to wage increases over that period of time?

Senator Conroy—I do not mind if you want to engage in banter with me and commentary about my performance, but I think it undersells yourself to start adding commentary in terms of the officials.

Senator ABETZ—You are absolutely right. Can I invite officials not to make those sorts of expressions and it will not occur. You are quite right to chastise me, Minister. I think that would apply to both sides of the table.

CHAIR—Is that concluded?

Senator EGGLESTON—I would like to ask some questions about all of these funds that Labor has set up.

Senator Conroy—This is the wrong section, I think.

Senator EGGLESTON—I thought this was outcome 2.

Mr Ray—No, this is outcome 3.

Senator EGGLESTON—On my notes it says outcome 2.

CHAIR—No, outcome 1 and then outcome 3 this evening.

Senator EGGLESTON—I thought some of these questions sounded terribly like outcome 2 to me—all right then.

Senator CORMANN—I have some more questions in relation to the government's decision to impose a \$2.5 billion excise on condensate from the North West Shelf. There will be a specific inquiry by this committee into it, so I will just go on higher level terms. When did you first provide advice on this measure?

Mr Ray—We will take that on notice.

Senator CORMANN—Did you conduct any consultations either with other departments or industry stakeholders to assess the impact of this measure?

Mr Ray—No.

Senator CORMANN—That was, no, was it?

Mr Ray—Yes.

Senator CORMANN—So, no departments nor stakeholders?

Mr Ray—That is a misleading answer.

Senator CORMANN—Hence my follow-up.

Mr Ray—I am having difficulty because this goes to cabinet's decision-making processes, which we do not—

Senator CORMANN—I am not asking you to provide me with the content of your advice.

Mr Ray—No, I understand that. We did have some discussions with some other departments.

Senator CORMANN—Would you be able to tell me which other departments they were?

Mr Ray—I will take that on notice.

Senator CORMANN—I asked some questions yesterday of the resources department in relation to this and specifically referred them to comments by Woodside CEO Don Voelte, which you would be aware of:

“This is not a loophole—

referring to the excise exemption on condensate—

which is being closed, or a free ride which has come to an end. This is a negotiated fiscal arrangement which formed the basis of Australia's largest resource development,”

Was it the negotiated fiscal arrangement?

Mr Ray—You are testing my memory, because this was introduced back in 1977.

Senator CORMANN—You do not have any information available to you to either confirm or reject the assertion that was made by Mr Voelte?

Mr Ray—The exact circumstances of the negotiations that may have taken place back in the 1970s I am not privy to, but I am happy to see if we can find out something for you.

Senator CORMANN—Did Treasury seek any legal advice on Mr Voelte's assertions? Again, I am not asking you for any content of that advice, but did you seek legal advice?

Mr Ray—I am not sure that we sought legal advice in drafting the bill. No, we have not.

Senator CORMANN—Thank you. Officials from the resources department yesterday confirmed that the North West Shelf project is in fact the only offshore gas project which pays royalties and excise on production, and the only project which paid those royalties and excise on production from the word go. Can you confirm for me that as of 13 May—

Mr Ray—Sorry, ‘from the word go’?

Senator CORMANN—From the word go as far as production is concerned. All offshore gas projects, other than the North West Shelf project, are subject to what is called the petroleum resource rent tax arrangements.

Mr Ray—That is now the case, yes.

Senator CORMANN—Since 1987?

Mr Ray—You are testing my memory again.

Senator CORMANN—Other than the North West Shelf project today—

Mr Ray—That is right.

Senator CORMANN—all other projects offshore other than the North West Shelf project are subject to PRRT.

Mr Ray—That is correct. But I was just questioning the word go, because I think Bass Strait used to pay royalties and excise.

Senator CORMANN—What is the arrangement for Bass Strait now

Mr Ray—It is now subject to PRRT, but that was changed I think in the 1990s.

Senator CORMANN—In effect, the consequence and the correlation of that is that, as of 13 May, the North West Shelf project will be the only offshore gas project that will have to pay the excise on condensate; is that correct?

Mr Ray—The only offshore project—that is correct.

Senator CORMANN—Summarising the PRRT arrangements at a high level, essentially that is a tax paid on net cash flows, and in practice that means those projects do not pay anything for five to 10 years and for marginal projects sometimes do not pay any PRRT at all. That is consistent again with advice that was provided yesterday by the resources department. I just want you to confirm in terms of your own estimates what your assumptions are on how soon after commencing production you expect projects that pay PRRT to start paying that.

Mr Ray—I think the answer to that is that it varies from project to project.

Senator CORMANN—What is your experience in terms of all of the current offshore gas projects that are subject to PRRT? How soon after commencing production did they start paying PRRT?

Mr Ray—I think we would need to take that question on notice.

Senator CORMANN—Thank you very much. Mr Hartwell, head of the resources division, gave evidence on 31 May 2005. Mr Hartwell told this committee that if you had applied petroleum resource rent tax to the North West Shelf the total collection of secondary taxation would have been approximately the same. Yesterday, when asked about this, Mr

Hartwell confirmed that he stood by that assessment at the time but that since then there have obviously been significant increases in the prices of gas and oil. Is that the reason why the government chose to go down this path and impose this tax?

Mr Ray—I think that the reason that the government chose to do this is set out in the budget papers. If you look, for example, at page 20 of Budget Paper No. 2, the government said this measure will increase the return to the Australian community for allowing the extraction of non-renewable energy resources located in the North West Shelf project area and onshore.

Senator CORMANN—So it is an additional tax for sure, but I guess what I am trying to get to is what the policy intent is. I guess maybe there is not much that you can do to help me with that. Going to the implementation of the policy, I refer you to the third paragraph on page 19 of Budget Paper No. 2:

Under the crude oil excise arrangements, the first 4,767 megalitres (30 million barrels) of oil produced from a field is exempt. Past production of condensate from a petroleum field will contribute towards meeting this threshold before crude oil excise becomes payable. This threshold means that certain petroleum fields—

I assume in the North West Shelf—

may not pay any crude oil excise as a result of this measure.

How are you going to implement that in practice? How will that work from an administration of the policy point of view?

Mr Ray—The same way that the crude oil excise applies to crude oil.

Senator CORMANN—Can you talk me through that?

Senator CORMANN—In light of the fact that you are changing the fiscal framework, I guess. And in the past you might not have collected all of that information. I guess that is where I am—

Mr Ray—Mr Flavel, who is the acting general manager of our Business Tax Division, can help you, I think.

Mr Flavel—You would be aware that legislation has been introduced to give effect to this and that lays out the administrative framework which will apply. In terms of the administration, the taxpayers involved will be the same as those who are currently paying the crude oil excise. In terms of things like measurement arrangements and the like, this is really just removing the exemption for condensate and applying the same legal framework to condensate as currently applies to crude oil.

Senator CORMANN—So the measure came into effect at midnight of 13 May; is that correct?

Mr Flavel—That is correct.

Senator CORMANN—Are you in a position today to administer it?

Mr Flavel—It will not have legal effect of course until the parliament passes the legislation. There are provisions within the bill that allow the measure to operate as though the legislation were in fact in place as at midnight on 13 May.

Senator CORMANN—I do not think you have answered my question. Are you in a position today to implement that particular policy measure, in practice, in terms of the way it applies across the various gas fields et cetera?

Mr Flavel—Yes, the arrangements will apply once the legislation is passed.

Senator CORMANN—From day one, once the legislation is passed, you will immediately be in a position to give notification to the North West Shelf joint venture partners and say, ‘Okay, this is how much is due today on the basis of—

Mr Ray—The North West Shelf part already values the condensate production for royalty purposes.

Senator CORMANN—How long have they done that?

Mr Ray—A long time.

Senator CORMANN—Do you not see any practical complications at all that you have to overcome as part of implementing this policy measure?

Mr Flavel—No. Again, both the combination of measurement occurring for the purposes of the offshore petroleum royalty and the fact that the same taxpayers are involved in all the administrative arrangements insofar as their crude oil excise obligations are concerned, I am not aware of any reason that the administrative arrangements surrounding the measure will not work as intended.

Senator CORMANN—Let me just go back to the way the fiscal arrangements were set up at the beginning. The North West Shelf project started off and still is a project which pays royalties and excise, and they paid royalties and excise from the moment they commenced production; is that right?

Mr Ray—From the moment they produced beyond the relevant thresholds.

Senator CORMANN—Is that correct?

Mr Flavel—Yes.

Senator CORMANN—If you compare that to all of the other offshore projects which are subject to PRRT, they essentially are able to deduct all of the exploration expenditures, operating expenditures, and there are various formulas to compound exploration expenditures that exceed revenue with the long-term bond rate plus 15 per cent et cetera; is that correct?

Mr Flavel—Yes, that is correct.

Senator CORMANN—None of those offshore projects that are subject to the PRRT arrangements actually pay an excise on condensate; is that correct?

Mr Flavel—That is correct. The North West Shelf project is the only project which is subject to that arrangement whereby they pay the crude oil excise and the offshore petroleum royalty.

Senator CORMANN—So they are paying royalties and excise on production from earlier on in the piece compared with projects which I heard about yesterday in evidence that do not pay anything for between five to 10 years, sometimes longer, is it not fair to say—

Senator Conroy—This has been in place for 30 years.

Senator CORMANN—I am asking questions, Minister. Is it not fair to say that at the beginning of the project the project accepted a higher degree of risk compared to the level of risk carried by projects today that are subject to PRRT arrangements?

Mr Brown—The arrangements are not really comparable. It would also depend on the size of the field concerned.

Senator CORMANN—I agree they are not really comparable.

Mr Brown—Under the crude oil excise, as we have mentioned, the first 30 million barrels is exempt. For a small field that may give an exemption from crude oil excise for quite some time. It would depend upon the size of the field. The PRRT arrangements allow you to write off the development costs against the tax that is assessed and carry them forward with an uplift. That may give you a different period before tax becomes payable in a net sense. But the two things are not really comparable.

Senator CORMANN—If you look at Mr Voelte's statement that was publicly released to the Stock Exchange, he clearly thought that he had a deal, that he had an agreement involving the Commonwealth and the state government of Western Australia that gave him some certainty in terms of the investment environment that the project would operate in. I guess from their point of view they have an incentive that compensated them for accepting a higher level of risk at the beginning by paying excise and royalties on production. But now that they are able to benefit from the upside of it, the Commonwealth comes in and says, 'We are going to hit you with another \$2.5 billion tax.' Is that a fair assessment? You cannot comment on that? Let me take you to the expected revenue from petroleum resource rent tax in the 2008-09 financial year compared to the 2007-08 financial year. I think the source is table 6, part 1, statement 5, which is on revenue estimates by revenue head. Have you got that?

Mr Ray—Yes.

Senator CORMANN—In 2007-08 revenue from PRRT is expected to increase by \$250 million, but then in 2008-09 the PRRT revenue is expected to increase by \$1.1 billion, which I assume reflects recent rises in the price of oil and related energy resources, and by a further \$500 million in 2009-10. Can you tell me which projects that expected increase in revenue will mainly be coming from?

Mr Ray—Your assumption about the reason for the rise is correct; it reflects rises in the price of oil and other energy resources. I am not sure that I can tell you exactly which projects it is from.

Senator CORMANN—Can you provide us with that information on notice?

Mr Ray—I can take the question on notice.

Senator CORMANN—Can you take on notice which projects that additional revenue from 2007-08 to 2008-09 and 2009-10 will be coming from—\$1.1 billion and \$500 million respectively. I note that in 2010-11 and—

Mr Ray—We think it is the existing projects that are paying now, so from the existing payers. This information we get from our colleagues in resources and energy we will check.

Senator CORMANN—I asked the same question yesterday of Mr Hartwell. Mr Hartwell says this is administered by Treasury and that I should ask you. So you tell me that—

Mr Ray—He is correct to say that the budget estimates are ours, but the information that we get on projects for PRRT we get from the department of resources and energy.

Senator CORMANN—Why was the resources department not in a position to answer that question?

Mr Ray—Because they are not responsible for the revenue estimate. As I have said, the reason for the change to the revenue estimate is oil and other energy price changes. But, if you want us to see what we can provide on a specific project basis, we will need to go back to them.

Senator CORMANN—I would very much like you to do that. I would be very grateful if you could provide me with that information. Related to this, I note that in 2010-11 and 2011-12 the PRRT revenue drops off significantly. Can you indicate to me why that is? Are there not new projects coming on stream?

Mr Ray—There are new projects coming on stream, but what has been happening in the older fields is that production volumes have been falling.

Senator CORMANN—Again, can you provide us some detail on that, like which projects you are assuming will lead you to reduction in revenue and which projects you expect to come on stream?

Mr Ray—The short answer to the first bit about the loss is Bass Strait. But we will take it on notice.

Senator CORMANN—Woodside, again in my home state of Western Australia, has a major gas project expected to come on stream towards the end of 2010 beginning of 2011 at the latest. Why are there no PRRT or expected PRRT payments from the crude oil projects in the forward estimates?

Mr Ray—We would need to check whether there are not, first, which is the answer to your earlier question, but it would depend on the sort of discussion you were having with Mr Brown about what time after a project comes on stream it starts paying PRRT. We will need to check all of that.

Senator CORMANN—I will conclude on those questions, which I would ask you to take on notice. Do the 2010-11 or 2011-12 forward estimates include provision for a PRRT revenue from crude oil from Pluto—yes or no? If yes, how much? If no, when do you expect PRRT payments from Pluto to start flowing to the Commonwealth? These are my additional questions on notice.

Mr Ray—We will take them on notice.

CHAIR—Senator Bushby?

Senator BUSHBY—Is it the case that the Henry review will be examining the interaction between the excise on fuel and the GST payable on fuel?

Mr Ray—I think that question has been answered on several occasions. Yes.

Senator BUSHBY—Most VATs are imposed on the consideration payable for the goods or service, which would include taxes, fees and charges that are linked to the good or service being supplied. Does the Henry review include the potential to break this general approach to taxation?

Senator Conroy—Are you asking the officials to speculate on the outcome on something that has not happened?

Senator BUSHBY—Do the terms of reference include looking at that type of thing?

Mr Ray—Your first point that a value-added tax is usually imposed where taxes have been embedded into the prices in the production, in the supply chain, is correct. I think the way this has been put, including in the parliament, is that Dr Henry and his colleagues will look at the whole so-called tax on tax issue. It is not narrowed to GST and fuel excise.

Senator BUSHBY—But it may well look at that issue, as you say, the tax on tax issue, and maybe do something different? There is the potential that it could do something different in terms of its findings. Would it also consider alternative indirect tax regimes to address the interaction between excise and GST?

Mr Ray—It is clearly within the terms of reference for it to consider excise in the broad. The things it is clear that it is not able to consider are changes to the rate and base of GST.

Senator BUSHBY—Presumably you would not rule out then the potential for it to examine a retail sales tax as a way of dealing with the issue—or a reintroduction of the wholesale sales tax or something similar, just for supplies of petrol only? Theoretically, it could cover that.

Mr Ray—It is a rather theoretical thing. I think that the basic architecture of the GST as being a broad based consumption tax is clearly going to remain. I do not think that the issue of replacing it with a retail sales tax is—

Senator BUSHBY—Another alternative could be—and I think you might have addressed this just a minute ago—for example, imposing differential rates of GST?

Senator Conroy—Now I think you are asking him to speculate on matters that will be properly—

Senator BUSHBY—The terms of reference could extend to looking at these types.

Senator Conroy—The terms of reference are out. They are a public document and now you are seeking to speculate on them.

Senator BUSHBY—What we are trying to establish is that the issue of trying to solve this problem is a fairly complex one. There are a number of different things that you need to look at. Would that be a fair comment?

Mr Ray—Indeed. The terms of reference discuss enhancing the taxation arrangements on consumption, including excise, and item 5 of the terms of reference is that the review will reflect the government's policy not to increase the rate or broaden the base of the goods and services tax. That is sort of what is carved out.

Senator BUSHBY—So, essentially, once you start looking at this it becomes fairly complicated because there are effects on effects and things like that?

Mr Ray—I think there are a lot of complicated things on the Henry review's plate.

Senator BUSHBY—Particularly in terms of the interaction between GST and excise tax?

Mr Ray—As I said, I think there are a lot of complicated things. While this is obviously a complex issue, it is not necessarily more complicated than some of the others.

Senator BUSHBY—If the government wished to reduce the taxation of fuel, would it be more efficient and less complex to reduce the fuel excise or to reduce the GST on fuel?

Senator Conroy—I think you are now asking an opinion on a policy question.

Senator BUSHBY—No. You can see by the direction I came at this from that I am talking about—

Senator Conroy—I do not mind how you snuck up on this. You are now seeking to—

Senator BUSHBY—I am not asking from a policy perspective. I am asking from the perspective of Treasury, which gives advice on these sorts of things, whether in their opinion it would be more efficient and less—

Senator Conroy—That is policy; that is an opinion which Treasury officials—

Senator BUSHBY—Based on their expertise—

CHAIR—Senator Bushby, I think that is right.

Senator Conroy—Whether it is based on their expertise or whether they are clairvoyant, they cannot answer that question.

Senator BUSHBY—On what basis do they answer any question?

Senator Conroy—On fact. You are to ask them about budget matters of fact, not about their opinion on tax policy and—

CHAIR—Senator Bushby, officers cannot give their opinions on matters of policy.

Senator BUSHBY—As a matter of fact—

Senator Conroy—You can keep sneaking up on this from every direction you want, Senator Bushby!

Senator BUSHBY—Would it be more efficient or less complex to reduce taxation on fuel by reducing the fuel excise or by reducing the GST on fuel?

Senator Conroy—I am not trying to embarrass you, Senator Bushby. I am sure he could give you a comprehensive opinion on this, but this is neither the time nor the place. This is Senate estimates and you are here to ask him about budgetary matters and not Mr Ray's personal views on tax policy.

Senator BUSHBY—What would be easier to implement from a practical perspective?

CHAIR—Senator Bushby, I think the minister has given the answer. The minister has indicated that that is not—

Senator Conroy—Mr Ray needs no protection of mine, I assure you!

Senator BUSHBY—I am sure he doesn't.

Senator CORMANN—A non-answer speaks for itself.

Senator BUSHBY—I am sure that Mr Ray could answer the question if he was given the free license to do so, and the answer would be quite interesting, I think.

CHAIR—I am sure he would provide that advice passed by his minister.

Senator BUSHBY—Moving on, page 20 of Budget Paper No. 2 shows the measure depreciation of computer software, which is estimated to raise \$1.3 billion over the forward estimates. Would you be able to provide the assumptions underlying this estimate of funds raised?

Mr Brown—The measure there reflects the change in the timing of deductions from 2½ years to four years. The assumptions underlying that are based on national accounts estimates of the value of computer software that is purchased each year they assume that the value of that software purchased each year would remain unchanged.

Senator BUSHBY—On page 118 of the 2007 tax expenditure statement, for B85, accelerated depreciation for software, in relation to software which has an effective life of greater than 2.5 years, the TES estimates the cost of the concession to be around \$70 million per annum. Can you reconcile the large discrepancy between the TES figure and the BP No. 2 figure?

Mr Brown—Yes. The effect is due to timing of deductions. In the TES estimate, the numbers reflect the settled down system, in which case you have people who are writing off their software over 2½ years, and you have software which on average lasts longer than that so they do not get deductions after that period. Under the costing, what happens is that people get a smaller deduction over that 2½-year period but continue to deduct for the remaining 1½ years. The cost goes up for a couple of years, then it comes back down. The numbers would actually settle down to around about the same level as in the TES if you took the estimates out over a longer period.

Senator BUSHBY—That is very useful. How robust is the estimate of \$1.3 billion for this measure, given that the Treasurer acknowledges in his second reading speech for the budget measures taxation bill, introduced last week, that taxpayers who decide to write off their software before the four-year period elapses, say, after 2.5 years, will be entitled to a deduction for the unwritten down value?

Mr Brown—The costing and the costing base that are used there, both in the tax expenditure statement and in the costing, takes account of people who would either be not subject to the change—either because they are on other provisions or, in some cases, because they would either get an immediate deduction or be able to write down the software.

Senator BUSHBY—Do you have evidence that software lasts longer now than it did in the past—its applicability and usefulness?

Mr Brown—The main feature of the costing is that it aligns the effective life of the software with the effective life of the relevant hardware. In terms of the life of software, no.

Senator BUSHBY—Will government departments have a reduction in their depreciation funding as a result? Will they be required to return any funding to the budget?

Mr Ray—That is really a question for my colleagues in the Department of Finance.

Senator BUSHBY—Turning to income tax cuts, would you care to explain why on page 10 of the budget overview it shows that the budget includes personal income tax reductions worth \$46.7 billion over four years? How does this relate to page 39, which shows personal income taxes are being increased by \$5.3 billion over the forward estimates?

Mr Ray—It is because the number in the budget overview relates to the tax cuts that are taking effect from 1 July this year. The measure description in Budget Paper No. 2 relates to the difference between what was already in the forward estimates and what is now in the forward estimates as a result of the government's policy to defer part of the tax cuts that were announced by the previous government at the time of MYEFO.

Senator BUSHBY—Forgive me if I am wrong—and I am not the expert in this; that is why I am asking you—but is it not true that the budget does not actually cut taxes but they were cut in MYEFO last year? Would it not be true to say that the budget increased personal income taxes by \$5.3 billion over the forward estimates, just looking at that document itself?

Senator Conroy—MYEFOs are not legislation in parliament.

Mr Ray—I think the budget overview summarises what this budget delivers in terms of the commitments the government made at various times in the past, including an election campaign. These tax cuts are part of that.

Senator Conroy—We have delivered on our election commitments, as we said we would.

Senator BUSHBY—I am not arguing about that. I am just trying to get to the bottom of why this is shown the way it is shown.

Senator Conroy—We took some of the revenue that you were giving to the top end, the top tax bracket, and we put it into measures like—

Senator BUSHBY—I understand all of that.

Senator Conroy—If you understand all of that, why are you asking why there is a difference between the two numbers? The difference between the two numbers is Education Revolution, computers in schools, laptops and connectivity, under our education package, and a number of other measures that I am happy to take you through.

Senator BUSHBY—That explains the difference between the tax cuts that the Howard government then promised and what you promised and what you are delivering, as you say. But I am talking about the way it is recorded in the Budget Papers. I just wanted to understand fully why it is recorded the way it is and why it is shown the way it is. I may be wrong, but I suspected that because these were already factored into the forward estimates it is not showing up this time in these Budget Papers; it is showing up the way that it does.

Mr Ray—Yes. Because these tax cuts were already incorporated in the forward estimates, the costings that you see in Budget Paper No. 2 are against those forward estimates.

Senator BUSHBY—Which is why page 39 shows personal income tax as being increased by \$5.3 billion? Because the cuts had already been factored in in forward estimates?

Mr Ray—The tax cuts that are taking effect from 1 July this year, less the change at the top end that was announced in the election campaign, have already been incorporated into the figuring that was included in PEFO. That is right.

Senator BUSHBY—That is why it was shown as a \$5.3 billion increase rather than a decrease, which is the—

Mr Ray—Of \$41 billion or something, yes.

Senator BUSHBY—The government said that it would defer the coalition's changes to the top marginal tax bracket for two years. Why have these changes not been made or shown in 2011-12?

Mr Ray—That is partly asking me a policy question, but perhaps I can answer it by saying that what the government has done is that it has made provision in 2011-12 for, if you like, the next tranche of implementing its so-called aspirational tax goal. It announced during the election campaign a tax goal over six years, and it has made a provision of \$6 billion in 2011-12 for the next stage. It has made a provision towards it, but it has not announced a particular scale yet.

Senator BUSHBY—Thank you for that. I refer to the article in the *Australian* on 28 May 2008 by David Uren in relation to the budget change for family trusts, which quotes the Taxation Institute of Australia saying that the changes are retrospective and represent a fundamental breach of the rule of law. Do you agree that retrospective legislation should be avoided as far as possible?

Senator Conroy—That is a policy question.

Senator BUSHBY—You can answer that, Minister. Why was it considered necessary to make this measure retrospective?

Senator Conroy—The most famous retrospective tax cuts—and perhaps someone who is a bit older than me might be able to remember them—were in the eighties when John Howard introduced retrospective—

Senator BUSHBY—You are saying that because we did it it is fine; it is a good thing?

Senator Conroy—No. There was fairly strong language used to describe these things.

Senator BUSHBY—I was quoting somebody else there.

Senator Conroy—No, but I said there was some fairly strong language.

Senator CORMANN—Parliament cannot change what happened in the eighties, but the parliament can change what is happening now, and we are dealing with the estimates.

Senator Conroy—So it was okay for John Howard to introduce a retrospective tax?

Senator CORMANN—I am not making any comments on history.

Senator Conroy—The Western Australian branch of the Liberal Party never forgave him, but you should not be engaged in these sorts of witch-hunts. Thirty years later you should not be engaged in these sorts of witch-hunts.

Senator CORMANN—We are dealing with the estimates here before us.

Senator BUSHBY—We were all in school back in those days.

Senator Conroy—No, I was not far out of it myself.

Senator BUSHBY—I have not actually received an answer from the minister. Do you agree from a policy perspective that retrospective legislation should be avoided as far as possible?

Mr Flavel—For the measure to have actually been retrospective there would have in fact had to have been a change in the test individual. The family trust elections work off a concept of a test individual. That election would have had to have been changed and distributions would have needed to have been made to somebody who would not otherwise have qualified under the family trust arrangements. My recollection is that the measure was legislated by parliament in late September. I understand that the now government, during the election, said that they would overturn these measures. I guess in a practical sense there is a fairly limited range of circumstances where in fact a retrospective aspect of this might apply.

Senator BUSHBY—I apologise for quoting you in terms of what is a policy decision, but you are essentially saying that your understanding is that the policy decision was because it was only for a short period of time it was okay in this case to take retrospective action?

Mr Flavel—I am not commenting on the issue of retrospectivity other than in terms of its practical effect on the number of taxpayers affected. The circumstances are fairly limited that I just outlined. I would note, too, that in coming to these decisions there was consultation with the various stakeholder bodies who are often involved in these sorts of things.

Senator BUSHBY—I will move on to the next question. Are the increases in the passenger movement charge and passport fee consistent with the Commonwealth's cost recovery guidelines?

Mr Brown—The passenger movement charge change is actually a charge administered by Customs and is in the Attorney-General's portfolio. The passport fee is something that is within the Foreign Affairs portfolio.

Senator BUSHBY—Thank you. I appreciate that. The cost recovery guidelines are something to be developed and administered by Treasury; is that correct?

Mr Ray—I think it is Finance.

Senator BUSHBY—I will move on, then. In schedule 1 of Tax Laws Amendment 2008 Measures (No. 3) Bill 2008 there are amendments to the tax legislation to overcome the impact of the High Court's decision in the McNeill's case. Are you aware of the Assistant Treasurer's press release No. 6 of 2008 entitled 'Tax design review panel to look at ways to streamline processes for changing tax laws'?

Mr Ray—Yes.

Senator BUSHBY—You will recall the Assistant Treasurer said in that release that there would be improved consultation at the earlier stages of tax laws changes and that would result in better law? Do you recall a statement along those lines?

Mr Ray—I do not have the advantage of the Assistant Treasurer's press release in front of me. I am just looking to see if I have it. I do not think I have got that press release in front of me.

Senator BUSHBY—For the purposes of the question, can we assume that that is what was actually said—I do not have a copy with me, either—in the minister’s press release? Would you acknowledge that this has not happened with schedule 1 because the tax profession was given only three days for consultation, that period starting from budget night and ending on Friday, 16 May 2008? For tax professionals the days following the budget is a fairly busy time, and they were given three days. Would you say that that would constitute a reasonable period of consultation given the proposed change?

Mr Ray—There have been previous consultations with industry on this particular measure or this particular issue. The other thing was that the government wished in this particular case to move quickly because the uncertainty around the way that the tax law would operate post McNeill was causing problems for Australian companies that wanted to manage their capital. I am not denying that the three-day consultation period was less than you would expect in the normal course.

Senator BUSHBY—But you are saying there was an imperative?

Mr Ray—I think the government would say there was an imperative that justified it. In addition, this was an issue that had been consulted on with industry over some period.

Senator BUSHBY—Can you tell me, as a result of the three days of consultation that was allowed, how many changes were made to the draft?

Mr Ray—We would have to take that on notice.

Senator BUSHBY—When doing so, can you also let me know whether any of those changes made it to the legislation and to which provisions?

Mr Ray—We will take all of that on notice.

Senator BUSHBY—Can you describe for me the time line for completing your drafting instructions for the Office of Parliamentary Counsel and when was the drafting returned to the department for review or comment concerning this change?

Mr Ray—Again, we would need to take that on notice.

Senator BUSHBY—Was the Australian Tax Office consulted on either or both of the drafting instructions or the legislation as drafted by the Office of Parliamentary Counsel?

Mr Ray—Yes. It was consulted on by us, not by the Office of Parliamentary Counsel.

Senator BUSHBY—That is what I asked. That is fine. I might move on now to some questions to the ATO, if that is okay?

CHAIR—I have a question on the revenue section, so I might ask it now. It is regarding the estimate for the GST revenue. Is that here? At the suggestion of Senator Murray, I was going to ask if you were aware that the Treasurer of Western Australia, Mr Eric Ripper, had said that his state expected \$1 billion less in GST revenue than the federal government estimate and he felt that his modelling was more rigorous than that of federal Treasury. Were you aware of those comments?

Senator EGGLESTON—These are forward estimates.

Mr Ray—This is over the whole of the forward estimates.

Senator EGGLESTON—Over the next four years.

Mr Ray—I was not aware of Mr Ripper's comments. He may have been referring to estimates of GST based on some earlier parameters and his people may not have had the most up-to-date parameters that were used in the budget numbers.

Senator EGGLESTON—A billion dollars is quite a lot of money, though. It is a serious issue, I think, if there is a discrepancy in those forward estimates of a billion dollars. I have actually seen figures. I do not have the piece of paper with me at the moment. That is obviously something that would be of concern, I would have thought, to both governments, both the Commonwealth and the state governments, that there should be that difference.

Mr Ray—Indeed, Senator. There are some special circumstances around GST estimates in this year's budget concerning a court case, but in general this is a revenue head that is a relatively consistent in the way it responds to changes in parameters.

Senator EGGLESTON—Have there been discrepancies with other states in the past between their estimate of what GST they should receive and what the Commonwealth has predicted they would receive?

Mr Ray—There are two issues here. One is we estimate here the total amount of GST that will be collected. And then the allocation to individual states is based on the formula through the Commonwealth Grants Commission, so there a different element.

Senator EGGLESTON—The states allocation is based on a Grants Commission estimate?

Mr Ray—That is right.

Senator EGGLESTON—And yours is not?

Mr Ray—We are estimating the total envelope.

Senator EGGLESTON—Why is the same basis of estimation not used by the states? I do not really quite follow why there should be a difference.

Mr Ray—That is a question for my Fiscal Group colleagues, because that goes to the allocation of the total GST pool. The relevant expert will be with us tomorrow morning. Perhaps we could take that question then.

Senator EGGLESTON—Could you take it on notice. I have some documentation about this, which I might see if I can bring down and perhaps you could accept that documentation and give me an answer on notice on the basis of the actual estimated figures that Mr Ripper has referred to.

Mr Ray—We are happy to take it on notice and have a look at it.

Senator EGGLESTON—I was going to ask you a little more about how the states estimate their GST. But if that is not your area then we will leave it.

Mr Ray—It is my area tomorrow morning, although again it is probably not our area how they go about estimating their GST. I guess we are more concerned about estimating how much—

Senator EGGLESTON—I am just interested in the differences and how and why such a difference would have occurred. If it is tomorrow morning that is the more appropriate time to ask you this, I may come and ask you this tomorrow.

Mr Ray—That would be preferable, because we will have the relevant experts with us.

Senator EGGLESTON—That is very good.

CHAIR—Senator Bushby, can you ask your questions on notice?

Senator BUSHBY—I would like to ask one or two of them, the short ones. Mr D'Ascenzo, when will the findings of the Tax Design Review panel be made public given that the findings were delivered on 30 April 2008?

Mr D'Ascenzo—That is a Treasury question.

Senator BUSHBY—When will the findings of the Tax Design Review panel be made public given that the findings were delivered on 30 April this year?

Mr Ray—The government is considering the recommendations of the review panel, and it will make the findings public when it releases its response.

Senator BUSHBY—In the interests of brevity, a question to Mr D'Ascenzo, which hopefully is correctly directed. On page 12 of Budget Paper No. 2 there is a measure titled an ATO compliance dividend. I understand the Treasury and the ATO advised the previous government in 2007 that there was no further scope for a compliance dividend from the ATO. On what basis does the ATO now consider that there is scope for a compliance dividend?

Mr D'Ascenzo—I think it was part of the government's election policies to seek further funding of the Tax Office in exchange for more attention particularly in relation to large companies and high-wealth individuals. The proposition then is can we use that money for that purpose and produce the suggested outcomes that are envisaged by government? We put to government that there would be some qualifications about our ability to utilise the funds. Firstly, can we get the right level of resources to go further? Secondly, it cannot be a quick turn-off and turn-on the tap activity because we would have to develop some capabilities. Thirdly, there were some qualifications about funding levels across-the-board. Based on all of that, the proposition is, 'Look, government, if you say, here is some money, we want you to do this, we will do the best we can to meet those outcomes.'

CHAIR—So what has changed?

CHAIR—It is 6.30. We will adjourn until 7.30 and then resume with outcome 3, Effective Taxation and Retirement Next Arrangements.

Proceedings suspended from 6.30 pm to 7.35 pm

CHAIR—I bring the committee to order. We welcome the Senator the Hon. Nick Sherry to the table to talk about Treasury outcome 3, Effective Taxation and Retirement Income Arrangements.

Senator EGGLESTON—I have some questions on superannuation, which I will begin the evening with. In the current economic circumstances I suppose we can expect less than desirable returns on superannuation. I suppose more people are liable to turn to self-managed superannuation options if they think they can get better returns, but many of these funds

would be under about \$200,000 in capital and consequently classified as small DIY funds, which I am advised can lose up to 10.5 per cent of their money through annual operating expenses, meaning that there is less potential for them to achieve good returns and there is a greater risk of people losing out in the long run. Does the government have any views about discouraging people with smaller amounts of capital from getting into self-managed funds and DIY funds?

Senator Sherry—I think I can indicate that there are a range of issues that have been identified in respect of self-managed superannuation funds. It is not an exclusive list, but I spoke to the SPAA conference in February—I forget the exact date—where I ran through a set of issues. This would not be an exclusive list but I outlined a set of concerns: trustees not fully understanding obligations, unauthorised early access, personal use of fund assets, breaches of in-house asset rules, acquisitions of assets from related parties, failure to lodge or the late lodgement of returns and forms, failure to lodge complete accurate returns, instalment warrants and their use by the general superannuation sector but more likely by the self-managed super fund sector, audit confidence—there are a range of issues I outlined—overweighting in cash and fees and charges. Fees and charges generally are higher as a proportion of a lower balance in a self-managed super fund. There were a range of issues that I outlined. There was also the aggressive selling of higher-risk products. I will not go into the details of Westpoint unless you want me to, but a significant proportion of Westpoint, a property investment collapse, was invested through self-managed super funds. There was a range of issues.

We sought submissions, which closed on 30 April, as to how we could improve what would be broadly known as the governance of self-managed super funds. We have had a range of submissions. I have not yet read the submissions. I am awaiting a full summary and analysis and, as I say, they broadly fall in the broad definition of governance of self-managed super funds. I have two points that I would make. When I have given a number of speeches subsequently I have referred to areas of risk in self-managed super funds and areas of governance. Areas of governance and duty of care and trustee oversight in our system are issues of general concern; they are not confined just to self-managed superannuation funds. That is the process and the issues that I have touched on. I am aware that from time to time representatives of the ATO, when they have been present at similar types of conferences, have expressed a range of issues that they have under examination. That is a summation of the approach.

Senator EGGLESTON—Are there any industry standards for fund managers, specialists or advisers in regard to the advice they might give DIY funds that are classified as small? Does the government plan on creating a charter for the industry or legislation, which I suppose the last answer helps to answer.

Senator Sherry—There are basically two entry points into a self-managed superannuation fund. One is through accountants. I think the last time I looked, about 45 per cent—the largest group of individuals who went into a self-managed superannuation fund—were through accountants and I think approximately 30 to 35 per cent of entries are through a financial planner. Planners, as a matter of law, are included in the financial services FSR disclosure regime. Accountants are not. We have two entry points. One is covered by FSR; the other is

not. That has been raised as an issue in the consultations. It is not an issue that is confined to smaller balanced funds. It is a general issue across all sized self-managed super funds.

Senator EGGLESTON—The changes to superannuation might mean that salary sacrificing into super will no longer reduce an individual's income for particular purposes. Matthew Esler, general manager of strategy and technical services at Midwinter Financial Services, has produced some calculations published in the *Australian* last week based on the government's changes. These calculations show that, rather than slugging the rich and helping everyone else, these changes mainly hurt middle-income earners. He says these changes actually make it harder for low and middle-income earners to generate additional income for retirement savings. In the light of these calculations will the government be reconsidering its stance?

Senator Sherry—Are you referring to the announced budget measure in respect to salary sacrificing and the treatment of gross income for a range of income test purposes?

Senator EGGLESTON—Yes.

Senator Sherry—It is not a superannuation provision. However, one or more of the officers might be able to assist you. But it is not a direct superannuation issue. I think it more appropriately should have gone in the session before dinner, but if there is anyone here who can help you about the specific issues—

Senator EGGLESTON—I have, I must say, been a little bit confused about what belonged where.

Senator Sherry—That is understood. If there is anyone here who can help you explain the impact of the measure, we will assist.

Mr Gallagher—The measure that you describe is outlined on page 29 of Budget Paper No. 2. That gives the costings by department and nominates some of the income tests which are affected by the inclusion of salary sacrifice. Most of the income testing will be in the area of family tax benefit and other social security payments. However, it will also affect the superannuation co-contribution in terms of its operation as an income test. In general, the higher salary sacrifice contributions are higher up the income scale, but it is also correct to say that salary sacrifice contributions are spread through the income distribution. There is also an issue in actually identifying those contributions accurately and discriminating between what is an award contribution, which is just above the SG and standard across the workplace, and what is actually salary sacrifice.

Senator EGGLESTON—Last week there was an article in the *Age* by Nick Bruining, who is a financial adviser in Perth. He says that treatment of income eligibility for the health card means that certain people who are approaching retirement may deliberately lower their super contributions so as not to be affected by the changes and still receive the Seniors Card which, of course, has a lot of benefits which are highly valued by pensioners, particularly the medical benefits. Did the minister consider this outcome, the ineligibility for a Seniors Card, when these changes were being considered?

Mr Gallagher—The costings did look at the issues of eligibility for seniors card, including the exemption of tax-free superannuation from the income test for the seniors health care card and its consistency with other social support income tests.

Senator EGGLESTON—What does that mean; that these people will end up not being eligible in many cases?

Mr Gallagher—It is not typical that a person who is over the age of 65 and not in receipt of a pension would have income sufficiently high to be salary sacrificing. Salary sacrificing above age 65 is comparatively rare and although I do not doubt that there will be individuals—and we could even estimate the number of individuals—it is not something that I would take to be common.

Senator EGGLESTON—Nick Bruining says:

The benefit is based on taxable income rather than the complicated Centrelink combination of deeming and assessable income - single retirees can earn \$50,000 and couples \$80,000 before losing the card. The limit is increased to \$100,000 a year if you are separated from your partner by illness.

But he says that there was a change in the treatment of income from account based pensions and that might produce situations in which people lose—

Mr Gallagher—That is what I am referring to. That is the situation where I said tax exempt income streams, which are income after all, should be assessed the same way as the other social security payments. That was the principle.

Senator EGGLESTON—You do not see that as something that needs to be reviewed?

Senator Sherry—No, because it is a budget measure. For the purpose of superannuation, the concessional tax treatment is to encourage people to make additional contributions, depending on their marginal income tax rate. They gain varying degrees of benefit from salary sacrifice. The purpose of it is for superannuation, not for an additional benefit—accessing some level of additional social security support via a lower income for the purposes of an income test.

Senator EGGLESTON—That may be. I suppose healthcare cards are pretty important to elderly people on the margins, especially.

Senator Sherry—I understand why elderly people see the health card as important. However, the purpose of superannuation and the concessions—and they are significant, depending on your income level—is to assist people with their retirement income, not to assist access to things like the co-contribution and other social security payments or benefits.

Senator EGGLESTON—In the week before the federal election the now Treasurer, Wayne Swan, made a guarantee to David Koch on the *Sunrise* program that he would never water down the existing advantages to super. He said that was an ironclad guarantee. But, given the changes that have been made to salary sacrificing for super, couldn't we say that that ironclad guarantee was probably made out of silver paper?

Senator Sherry—Firstly, I would have to check the wording of the commitment that the Treasurer gave, but I am aware of it in a general sense. But I will accept your quote for the purposes of the question. We have not touched superannuation concessionality in this budget. There has been no change to superannuation salary sacrifice measures. There have been

changes to the income testing treatment of some benefits that flow as a consequence of salary sacrifice, but there have been no changes to superannuation, or the tax concessionality of superannuation salary sacrifice.

Senator EGGLESTON—I suppose it is those income assessed benefits which we are talking about, like the health care card.

Senator Sherry—But they are not a superannuation benefit. They are not a direct consequence of a superannuation benefit.

Senator EGGLESTON—We are saying that they are a secondary gain, are we?

Senator Sherry—The purpose of salary sacrificing into superannuation is that there is an advantage of tax concessionality, depending on your marginal income tax rate. That is the purpose of salary sacrifice for those who choose to make a salary sacrifice contribution. That is a very significant advantage to assist people to save for retirement. The purpose of salary sacrifice is not to allow an expanded, greater access to other social security benefits. That is not its purpose. So we stand by the budget measure and we think it is reasonable.

Senator EGGLESTON—I suppose if people thought they were going to get some benefits then they would feel that they had been disadvantaged. As you said, you are conducting a review of DIY funds. Given the involvement of taxation in this issue, could that not have been carried out as part of the taxation review?

Senator Sherry—No. I think it is important to understand the issues that were broadly classified as governance in respect of self-managed superannuation funds and, for that matter, other areas. I have indicated that we will look at governance issues in other sectors, in retail and industry—the corporate space—if you like. They are not dealing with tax policy superannuation issues. They are not dealing with superannuation benefit issues. So you really have two categories of issues: superannuation governance type issues, structural issues, and then you have superannuation retirement incomes policy issues that will be dealt with as part of what has now been referred to as the Henry review.

Senator EGGLESTON—Yes.

Senator Sherry—It is really two categories of issues.

Senator EGGLESTON—Are we going to have an interim report, do you think?

Senator Sherry—From the Henry tax review?

Senator EGGLESTON—From this review, yes.

Senator Sherry—I do not think it is this area. Questions on Dr Henry's tax review should have gone earlier. I could take it on notice and come back to you and inform you as to the extent of any detailed time frame. Personally, I am not aware of one but one may have been set down. There may have been some announcements on a time frame, so we will have to come back to you on notice with that.

Senator EGGLESTON—Thank you.

Senator Sherry—The commissioner has just informed me that there will be a green paper by the end of July.

Senator EGGLESTON—A green paper by the end of July, which is two months away.

Ms Vroombout—What is coming out at the end of July from the tax review is a Treasury paper on the architecture of the tax system. As I understand, it will not be a paper that deals with all of the sorts of issues that the review will consider but it will be a framing paper that sets out the features of the current tax system.

Senator EGGLESTON—I do not know whether Senator Bushby has any questions on superannuation.

Senator BUSHBY—I do have a few. You would no doubt be aware of the report of the parliamentary Joint Committee on Corporations and Financial Services into the structure of the superannuation industry.

Senator Sherry—I am.

Senator BUSHBY—What is the government's view on the committee's recommendation for mandatory unit pricing?

Senator Sherry—I am just trying to recollect. I think at the present time I am in the unusual situation, I have to say, that as a new government and a new minister I have to respond to those recommendations and I am just trying to recollect whether we have sent something back to the committee or published a response. I do not believe we have as yet, so it is still being prepared.

Senator BUSHBY—In terms of the response to that, it is still being prepared?

Senator Sherry—Yes.

Senator BUSHBY—For the current management of superannuation funds are there any guidelines that have been issued on the appropriate procedures for unit prices for those super funds that do unit prices?

Senator Sherry—Not that I am aware of, but it would be a question for APRA. They may have done some work in this area that I am not aware of, but I am not aware of any guidance notes from the regulator about unit pricing. I would suggest you put it to APRA when they appear.

Senator BUSHBY—The same answer may well apply to my next question which is: what percentage of super funds have implemented daily unit pricing?

Senator Sherry—Again, APRA would know. Perhaps if you could just get the secretary to flick the question to APRA—

Senator BUSHBY—APRA are coming along, so I will ask that question then.

Senator Sherry—I know but that sort of question, if it were flicked over tomorrow morning they would get the material for you.

Senator BUSHBY—I have asked for some information on unit pricing and current statistics, so if we can get that information that would be good. You would not be aware, I guess, of what guidelines are in place for disclosure of returns, et cetera, from funds that do not unit price? I guess that would be another question for APRA?

Senator Sherry—Yes.

Senator BUSHBY—It is a policy issue, ultimately, but we have established where we are at the moment to start. Are you able to help me with what do you see are the prudential risks—

Senator Sherry—You could raise it in the markets group tomorrow as well. I am not aware that markets group are doing any specific work on unit pricing. However, they would certainly be able to comment about it in terms of an issue analysis as well as APRA.

Senator BUSHBY—We will see how we go. I have had trouble getting questions in the areas I wanted to today, so whether I will get to ask the same questions in a number of different groups remains to be seen.

Senator Sherry—You might have a fight in the ACCC but elsewhere it might be less crowded, I suspect.

Senator BUSHBY—In a general sense, what do you consider to be the prudential risks that arise when funds do not use daily unit pricing? It is more a matter of policy rather than—

Senator Sherry—It is a policy issue.

Senator BUSHBY—Were you part of the parliamentary—

Senator Sherry—Yes. I recall the report. That is why I made the earlier comment. I was in the unusual situation of being in opposition—

Senator BUSHBY—And now you have to respond to your own report?

Senator Sherry—To the previous government's report that had been chaired by Senator Chapman. Because I do need to respond and I am hopeful that my response will be in the next month—certainly no longer—I do not think I should respond here. I should respond in the appropriate way which is, with due respect to this committee, showing respect to the joint committee and responding to their specific recommendations.

Senator BUSHBY—I will ask one final question, which I would imagine you will respond to when you do that. I imagine the joint committee has actually looked at this. Rule 22c-2 of the US Investment Company Act requires all mutual funds to unit price on a daily basis. I was just wondering why we do not do that in Australia.

Senator Sherry—I am not aware of that provision and I am not sure whether to the best of my recollection that provision in the United States was actually raised at committee hearings. It may have been but I am not sure. But I will certainly—

Senator BUSHBY—Would you mind taking it on notice?

Senator Sherry—I will take it on notice and I will check that out for you but, obviously, a response on unit pricing will be to the joint House-Senate committee.

Senator BUSHBY—You have indicated your interest in introducing a new scheme to deal with lost superannuation with the aim of—

Senator Sherry—Correct.

Senator BUSHBY—consolidating effectively people's—

Senator Sherry—Auto rolling together—

Senator BUSHBY—Could you tell us where we are at with that?

Senator Sherry—I do not have any further progress report beyond that which we discussed back in February. We have been waiting for the busy budget period to be completed. It is my intention that there will be a discussion paper issued to industry because there are some complex issues and we discussed those in February. It is our intention to do that, but there are no dates set down for doing it. I think I have indicated in a general sense we are not going to rush it because there are some significant administrative issues which we discussed on the last occasion. So I really have nothing further to report as of this week on that matter.

Senator BUSHBY—Have you conducted any consultation on your proposal since February?

Senator Sherry—Not since we last spoke. Certainly, people raise it with me in a general sense when I have given a speech or if they have a question about our proposal but, beyond people questioning or commenting in a general sense, no, no specific consultation has been set down on which I was there to consult on this particular proposal.

Senator BUSHBY—Has there been a peak superannuation advisory group of some sort set up by anybody?

Senator Sherry—Yes, there has.

Senator BUSHBY—Has that met at all?

Senator Sherry—Yes, it has and it is scheduled to meet again in Brisbane next week.

Senator BUSHBY—What is the name of that group?

Senator Sherry—The Superannuation Advisory Committee. I can run through some details for you. They were in the press release that was released. The committee was established on 3 March. I am happy to run through terms of reference and membership now if you want—

Senator BUSHBY—I would be interested in membership, if you can?

Senator Sherry—Associate Professor Marilyn Clark-Murphy, Mr Richard Gilbert, Ms Rosemary Vilgan, Mr Terry McCredden, Mr Garry Weaven, Ms Andrea Slattery, Professor John Piggott, Mr John Maroney, Ms Pauline Vamos and Ms Jo-Anne Bloch.

Senator BUSHBY—I am not familiar with all those names and I apologise to the people concerned, but I presume that represents a fairly broad representation of the industry?

Senator Sherry—Firstly, I would make the point they were not selected and appointed on the basis of the organisations they represent, even though some represent organisations. They were selected on the basis that they represent a very broad range of academia and the superannuation industry, with very extensive knowledge across a whole range of areas. Say, for example, John Maroney is the president of the Actuaries Association. He is not there to represent actuaries but by virtue of his knowledge—

Senator BUSHBY—His knowledge and expertise?

Senator Sherry—Yes. Richard Gilbert is the chief executive officer of IFSA. I am not sure what Garry Weaven's precise title is, but he is associated with industry funds and is certainly a well-known figure, sometimes controversial. Professor John Piggott is an academic, one of the few I would have to say, in superannuation. They are people with a strong policy and practical background.

Senator BUSHBY—And a reasonable balance in background between retail and industry funds?

Senator Sherry—Yes. Garry Weaven is obviously typically associated with the industry funds but look through the list of the others. There is no-one who has had any direct involvement with industry funds as such, so Garry Weaven would be the only one of the 10. Andrew Slattery is from the Self-Managed Superannuation Professional Association. Pauline Vamos is from ASFA. She had previously worked with ASIC, I think, as a regulator. Jo-Anne Bloch is currently chief executive officer of the Financial Planning Association.

Senator BUSHBY—Thank you. Do you intend to run through any of the proposed amendments to the law relating to superannuation with that advisory group?

Senator Sherry—It will depend on the circumstances and the issues. It is a group brought together to confidentially discuss the issues that are listed on the agenda. There is no requirement to present legislation or issues. For example, one of the matters we will be discussing in Brisbane next week will relate to issues around what we think the reaction will be to lower rates of return, single digit positive or single digit negative—that will be an issue of discussion—and what we think the likely impact will be on the industry as a consequence; as to consumer response, whether contributions decline and whether there is a loss of confidence. There will be a whole range of issues around that matter. There is no fixed agenda. It is to meet three times a year. This will be the second occasion.

Senator BUSHBY—Presumably what is referred to for the consideration of that committee is in your discretion?

Senator Sherry—It is. I have made it clear that—and there were a few people who were interested who unfortunately were not selected because I thought 10 was a reasonable sized group—I have a considerable range of contact with a very considerable range of organisations and individuals in superannuation. It is not a group that provides me in any way with exclusive commentary, feedback or analysis. They are an important and valuable sounding board but certainly I, and I know officers of the department, continue to carry out our normal range of contacts and consultations.

Senator BUSHBY—The existence of this group will not actually limit the extent of consultation that you will make on changes anyway?

Senator Sherry—Certainly not.

Senator BUSHBY—Is the change that you are proposing in relation to lost superannuation something you would run by that group?

Senator Sherry—At the appropriate time, yes it is. Because of the significance of the change, as I have indicated, there will be a public discussion, an industry discussion, paper made available. It would be a very significant change. That would certainly be raised with the

advisory committee, but not exclusively so. I expect, with a change of that type, that I and the departmental officials will be raising issues with literally hundreds of individuals and organisations.

Senator BUSHBY—I have a question which may well be for Mr D'Ascenzo. I understand that the Australian Taxation Office has delayed an upgrade of its superannuation systems by up to six weeks—I think this is a fairly recent report—as it works to install an array of new computing platforms in the final years of its \$724 million information and technology overhaul. What has led to this delay?

Mr D'Ascenzo—Basically our testing is showing that it is not robust enough to go into operation in its current form, so we are going to do more testing. In the meantime, we are reverting to our legacy system, which we have been maintaining as a contingency in the event that this could occur.

Senator BUSHBY—What are the advantages of the new system? How is that going to work?

Mr D'Ascenzo—The newspaper reports were incorrect when they talked about the final year. That was under the original four-year window we had under the original \$453 million program. Subsequent to that, we had super simplification measures that required an extra \$200 million extension to that program. So you would have to splice into an existing program of \$453 million an extra \$200 million and that has added a range of complexity to that whole exercise. The whole plan has been pushed out because of that issue.

When you get to change programs of that nature and with that level of complexity, there is always going to be a range of risks. Basically what we have been trying to do is to work in parallel using our existing maintenance legacy systems as contingencies so that we do not deploy systems that ultimately have not been properly tested and then cause more harm than good to the general public.

What is the benefit of the whole program? We have already delivered some parts on the income tax side but superannuation benefits are twofold. Firstly, it provides a more integrated system. In other words, all the information can be brought together into one system, including tax and super. Secondly, the design of the system needed to change into a more robust framework. With the new system, once we get it working, it will be more modularised, so when you have new government policies it will be easier to make those changes. In the past, one of our superannuation systems, super guarantee, fell down causing a lot of concern to everyone involved. This system should have a much more stable platform upon which we can add whatever changes government wishes to make, subject to the architecture of the system, of course.

Senator BUSHBY—For both of those reasons you gave then, the two benefits changes, like the means testing of government support to include certain salary sacrifice contributions, might match up better and make it easier—

Mr D'Ascenzo—All of that. In fact, one of the things about the new system that is going to be a little bit easier is what happens about the matching of one, say, employer to an employee, whereas our old system had some difficulties with that. We have patched it up for the time being but it is not as robust as I would like it, going into the future.

Senator BUSHBY—Super clearing houses is a proposal to start on 1 July 2009; is that right?

Senator Sherry—I am not sure that there is an operative start-up date in the budget paper but there is certainly an allocation of funds. I am not sure we had a start-up date, though. We will just double check.

Senator BUSHBY—My notes say that it is starting at end of next year, which I took to mean—

Senator Sherry—I previously indicated that I would like it operating by the end of the next calendar year because there are some significant administrative and development issues. Going on from the answers to the previous question, administration systems in superannuation are generally under significant pressure when you are introducing changes that are significant on the admin-side. Yes, it is commencing in the 2009-10 financial year. So that could be up to the middle of the 2010 calendar year, effectively

Senator BUSHBY—It could be a few years away.

Senator Sherry—There was a sum of money of \$16 million allocated.

Senator BUSHBY—I understand that this will actually simplify things, which is obviously the reason for doing it, but there are a number of complex issues that will need to be resolved before we can put it in place.

Senator Sherry—Yes.

Senator BUSHBY—For example, do you at this stage have any idea how you would decide who could be a super clearing house?

Senator Sherry—We have just had the allocation of the funds in the budget. I am aware of that issue. There is a significant range of administration and legal issues in regard to this. As I have indicated earlier, with the auto-rolling together of lost accounts, we would be putting out a detailed consultation paper. There will need to be very significant consultation about administration, design and legal features. We are not at that stage yet.

Senator BUSHBY—With something like a super clearing house, obviously 70 to 80 per cent of employees, as I understand it, at the moment do not specify a fund to which they want their super contributions to go. If you have got a super clearing house that is getting that from many, many businesses, that is a lot of money that is coming in without any direction. Do you intend to put some accountability around where that super clearing house may choose to send that, in terms of ensuring that there is full transparency into the decisions that a super clearing house like that might make?

Senator Sherry—The concept of the central clearing house is to effectively transfer a range of form-filling, red-tape compliance issues as a consequence of the choice of fund regimes that are imposed on the employer to the clearing house. That is the concept.

Senator BUSHBY—I understand the concept.

Senator Sherry—But the clearing house has to obey and follow the legal instruction of the employee as notified and the employer where it is appropriate. It would need to follow the legal instruction of those two parties.

Senator BUSHBY—That may well solve some of it. It just seems to me if you have a small business with four or five employees and four of them have not nominated a super fund, then there is not much scope there for under-handedness, in a sense. But if you have 10,000 small businesses all sending in super funds from four people without any direction as to which fund they should go to, then I would like to see some pretty good regulation around that to make sure that those super clearing houses are, in fact, above board.

Senator Sherry—In the absence of an individual direction—that is, the individual has not filled in the choice of fund form—the employer is covered by whatever the appropriate default fund is.

Senator BUSHBY—So whatever that employer's default fund is will actually then be appropriate.

Senator Sherry—Correct.

Senator BUSHBY—That may well answer that question. I think that is probably all the questions I have at this point.

CHAIR—You have no more questions, Senator Eggleston?

Senator EGGLESTON—No, I do not.

CHAIR—I thank the officers for that and we will move on from Outcome 3 of Treasury and Outcome 1 of the Australian Taxation Office and call to the table officers of the Inspector-General of Taxation.

Senator Sherry—Chair, could I suggest a five-minute break while Senator Conroy is notified?

CHAIR—Yes, indeed.

Proceedings suspended from 8.15 pm to 8.23 pm

Inspector-General of Taxation

CHAIR—I welcome to the table Minister Conroy and officers of the Inspector-General of Taxation.

Senator EGGLESTON—In 2006 you recommended the new arrangement for the management of the Australian Taxation Office's test case funding program. The Assistant Treasurer has now announced that this review panel established by the coalition government will be wound up. Do you have any comments about that? What is your reaction to that decision? Is it going to mean that there is a great gap there that needs to be addressed?

Mr Vos—The issue when we first looked at this matter was to the extent that there was very little transparency at all from the tax office's approach to test case funding. That was more our concern. If I remember rightly—and I have not got it with me—I think our precise recommendation was to suggest that the government look at taking the test case program out of the control of the tax office to give it the semblance of independence. That recommendation did not go forward in that light in that the way forward by the government was to suggest the idea of having a review panel of Treasury to look at any dissatisfied taxpayers who had put their case to the test case panel. In the meantime, the tax office had created a test case panel made up of outsiders and gave the sense of the test case panel a much

more independent focus flavour, and to our knowledge there has been absolutely no input to our office of any complaint to the current system of test case funding compared to what it was four years ago.

Mr Matthews—I think the Inspector-General mentioned the need for increased transparency, and there is no doubt that that has occurred through increased reporting and additional appendices in the tax office annual report, where the results and the funding of test cases are now reported whereas in the past they were not.

Senator EGGLESTON—You said that four years ago there were a lot of test cases; is that what you said?

Mr Vos—No. There has been—

Senator EGGLESTON—There were complaints?

Mr Vos—There was an argument that many taxpayers were not aware that there was test case funding available. That was the first point. The second point was that there was an inability to determine how much money was being spent on test cases, and the third point was that there was confusion in that there were two types of funding made by the tax office to fund certain appeals or disputes—one that was processed through the test case panel and other funding that was just unilaterally approved by the tax office with apparently neither rhyme nor reason. I think that what has happened now is that the tax office firstly published, during the term of this review that we were doing, a whole booklet on test case funding and, as Mr Matthews has just said, has now agreed to publish in annual reports the details of test case funding. As far as I am aware, the commissioner is about to reissue an amended version of this test case booklet and, as I suggested earlier, the sorts of concerns that were put to my office three or four years ago are not being put to us at the moment.

Senator EGGLESTON—Okay, I misunderstood that a little bit. So these are cases funded by the Australian Taxation Office to get a clearer determination of tax rules—

Mr Vos—There are a number of different ones. For instance, if the tax office has, say, won a case in a lower court but feels as though the decision did not represent what it wanted the law to look like, it might ask the taxpayer to seek to take the matter to the next level of the process at its cost.

Mr Matthews—I think the common denominator of these cases is that the commissioner is recognising that it would be advantageous to have litigation clarify points of the law. Getting back to an earlier question you asked, our review did not show that there were a lot of cases. In fact, our review identified that there was a significant underspending of the notional amounts in the tax office budget that could have been applied to these test cases. There were probably more issues that could have gone forward within the funding envelope but the community was clearly confused between a test case which was one that an applicant, a taxpayer, took to the test case panel and sought funding for as opposed to lead cases that the tax office itself took forward to the courts and wished to have matters clarified. I think the community was confused because they saw funding applied to some and not to others, when in fact they were not the same type of case. We are hoping that the tax office's revised test case guidelines will clarify that for the community.

Mr Vos—There is much more clarity now to the community on these issues.

Senator EGGLESTON—What level of funding is the budget for this? Can you help me with that?

Mr Matthews—For the test case program?

Senator EGGLESTON—Yes.

Mr Matthews—To my knowledge, there is no specific appropriation these days that is allocated to the test case program. I think that is up to the discretion of the commissioner. That is partly because the origin of the test case program went back quite a number of years and the tax office's budget framework has been reviewed and renewed since then, so specific appropriations are no longer made. What we did identify in the review was, I believe my memory tells me, an original funding of about \$2 million per annum that was originally provided when the test case program was set up and that was put into the tax office space. I think our review sort of used that as a basis for saying notionally—and that is why I used the word earlier—that there is about a \$2 million kind of quasi-appropriation somewhere in the tax office's base funding that could be used for that.

Senator EGGLESTON—Can you give us some sort of broad idea of the kind of money that is spent each year on this area?

Mr Matthews—It would vary greatly. In some years it has got close to \$2 million but in many other years it has fallen well short of that. In some ways—and I am recalling our review—an up-to-date picture, I am afraid to say, might be best asked for from the commissioner himself.

Mr Vos—Certainly within the report, as we published it two years ago, we had an outline for the previous six years or something like that, but we have not done an update on those numbers to present time.

Senator EGGLESTON—It is obviously a very important activity to clarify the law about taxation. Were you invited by the government to participate in its taxation review?

Mr Vos—The role of the inspector-general is to look at the conduct of the tax office in its systems established for tax administration and the underlying laws subject to administration. Ordinarily we would not be expected—and I do not believe that my law would allow me—to be involved in designing tax admin issues nor to be involved in big 'p' policy setting of tax. However, we would be available, if we were asked, to comment if that was appropriate, but our focus is to look at established laws and at established issues under those laws rather than the projection to what it might be in the future. But, yes, if we were asked—

Senator EGGLESTON—If you were asked—

Mr Vos—If we are asked, we would consider at that time the extent to which we would be prepared or able to get involved.

Senator EGGLESTON—That is very good.

Mr Vos—There is another point I would like to make, and that is that we have very limited resources and it would depend on the availability of the workload that we would have at the time as to what extent we could be involved in any process with that review.

Senator EGGLESTON—What do you mean when you say you have very limited resources?

Mr Vos—We have six staff and me, and that is it.

Senator EGGLESTON—It is a small office.

Mr Vos—It is a small office. But we seem to get by quite well with that number.

Senator EGGLESTON—Could you assist us with an update on your current inquiry into areas of tax administration that would benefit from a safe harbour?

Mr Vos—We have five reviews underway, but one of the reviews underway is a review into the tax office's administration of public binding advice. The amendments made following the review on self-assessment back in 2004 have led to what I think was a perception that more public advice coming out from the tax office on income tax matters was binding. Let me define the word 'binding', because it is important to understand that a lot of advice or administration issues protects taxpayers from penalty and interest but not from the primary additional tax. If it is binding on the commissioner, it protects the taxpayer if they have acted on that advice from the tax office for the primary tax, and then the issue of penalty and interest is an academic issue.

That review is currently looking at the extent to which a public advice is binding. We have an adjunct review that we are yet to issue terms of reference on, and that is to the extent to which so-called safe harbours could be better employed by the tax office in the course of issuing guidance to taxpayers. But that one has not yet been commenced. It is in our list of forward work programs, but because we have five reviews currently underway it was silly, I thought, to issue further terms of reference and call for submissions when we would not be getting around to that for another six months or so.

Mr Matthews—As background to the safe harbour review, I think we have observed that there are a number of areas where the tax office have usefully provided guidance to taxpayers that they will stand by. They say: 'If you stay within these rules and follow those, we will not audit you. You will effectively be safe.' I think we have a general view that those are very useful provisions. They are clearly part of the tax office's risk management profile. But they do seem, especially where large numbers of taxpayers are involved, to provide very helpful certainty around where they can go and be confidently managing their affairs. That review that we are proposing will try to examine whether there are other areas that could usefully be covered in that way.

Senator BUSHBY—I am immensely pleased that the government reversed its decision to close the Office of the Inspector-General of Taxation, as I believe to do so would have robbed taxpayers of their primary option for independent tax law, protection and advice and would remove taxpayers' ability to seek review of tax laws and rulings anonymously. I am very happy that they have done that. That said, I have a question for the minister. In March 2007 the then opposition said they would reduce duplication in tax administration by abolishing the Office of the Inspector-General of Taxation to save \$6.6 million over four years. On 9 April 2001, the Assistant Treasurer announced that they had changed their mind on this. Was your initial statement not a promise that you were going to do something? You have now basically

broken that promise and, as I said, I am very pleased that you have. But is it not in breach of an undertaking that you provided to the electorate prior to the election?

Senator Conroy—Following extensive representations from perhaps you and others, we reconsidered our position and felt that there was an opportunity to promote, as I think you described it, independent review.

Senator BUSHBY—As I said, I am very glad you have done that. I note, as you have just mentioned and as the Assistant Treasurer mentioned in his media release at the time, that the decision was made after consultation with the accounting and legal professions. It is good to hear that you finally did that. Can you tell me what consultation the then opposition conducted with the accounting and legal professions prior to making a public announcement that you were going to abolish the office?

Senator Conroy—I will take that on notice.

Senator BUSHBY—Mr Vos, you indicated that you have how many people working for you?

Mr Vos—Six.

Senator BUSHBY—How many of those are investigators?

Mr Vos—Five. There is a deputy plus four investigators and an executive assistant.

Senator BUSHBY—It is a pretty lean machine.

Mr Vos—It is.

Senator BUSHBY—And very well focused in terms of people who are actually doing the core work of your office?

Mr Vos—Yes.

Senator BUSHBY—How would you say the role, just for the record, that you undertake differs from that of the Board of Taxation?

Mr Vos—The Board of Taxation broadly can only take matters at the request of the government, whereas I almost have sole control in setting my work programs. The second point is that the Board of Taxation essentially is focused on review and consideration of tax policy per se: boundary drawing exercises, rates of tax and those sorts of things, as distinct from tax administration issues.

My area of responsibility is limited to tax administration issues, which in statutory terms are the systems established by the tax office to administer all of the things it does and the systems established by the tax laws to deal with issues of assessment, compliance, debt and the like—any type of tax administration issue. In the second reading speech to the bill introducing the statute under which we operate, the examples given included reviewing self-assessment—that is, reviewing the concept of replacing self-assessment with another type of tax system. So far, all that we have focused on has been the effective conduct of the tax office in how it administers the tax laws. Where we have looked at tax laws themselves, it has only been as an adjunct to that issue—the issue that gives rise to the tax office's conduct. We have had our hands full in just doing that.

Senator BUSHBY—Thank you. That is very helpful. I understand you have limited resources, which brings me on to the next question. When you were last before us, which was in February for the additional estimates, there was a cloud over your future and, in fact, it looked like the office was definitely going to be closed. I did not have an opportunity to ask at that point about the efficiency dividend. Is it applied to your office?

Mr Vos—That is correct.

Senator BUSHBY—You have a very small office, with very limited resources and, presumably, with very limited room to move. How have you managed to deal with that?

Mr Vos—We have to the end of June 2008, despite having a \$2 million to \$2.2 million a year budget, accumulated \$1.8 million worth of reserve, or unutilised appropriation. It cannot be put to me that we have not had enough. I am very comfortable that we should be able to manage fine for the 2009 year. Beyond that, I have to wait and see.

Senator BUSHBY—You obviously have had more than you have needed in the past, if you have been able to accumulate reserves. To meet operating costs now, will you just be utilising your recurrent budget or will you need to dip into the reserves to cover the cost?

Mr Vos—No, it is my plan not to need to dip into reserves.

Senator BUSHBY—Have you been trying to manage so that you do not have to use your reserves?

Mr Vos—That is correct.

Senator BUSHBY—In the budget, how did you fare?

Mr Vos—The estimated actual income for 2008 is \$2.234 million. The estimated budget for 2009 is \$2.219 million, so we go backwards \$15,000.

Senator BUSHBY—How did the estimated budget for next financial year compare with what you got last year?

Mr Matthews—As a result of the efficiency dividends and looking at the percentages, at the bottom line, I guess, the budget in nominal terms increases for 2008-09 by three per cent and then by 0.75 per cent, 0.7 per cent and 1.4 per cent. In nominal terms there is still a marginal increase, but in real terms I think that clearly represents a reduction, as the inspector general has just mentioned. For 2008-09 we believe that is a manageable situation. I think for the out years, particularly in a small office where the largest component of the costs is employee costs, effectively that is outside our control, and it may well be expected to increase probably by between four per cent and five per cent. Clearly, there will be a squeeze on some of the other ways that we are able to do work in the out years.

Senator BUSHBY—In a way that leads to my final question, which is related to personnel in the office. Mr Vos, I believe your five-year term ends this year? Is that correct?

Mr Vos—On 6 August.

Senator BUSHBY—I hope to receive a positive response to this, but are you hopeful that you will be able to continue for a further time?

Mr Vos—I have said publicly that I have applied for a reappointment. The process of selection is one that is currently under way. I will have my interview in due course and await the outcome of the selection process and then the decision of the minister. I do not know whether it has to go through cabinet, but there is a process to be followed and I will wait out my time. In the meantime I have till 6 August. I am just assuming that I am flat chat until the point in time that I am either replaced or stay.

Senator BUSHBY—I wish you the best of luck with that process as it works its way through. Depending on the outcome, that may have some impact on salary costs and so on. Change often introduces impacts and certainly bumps in those circumstances. But, as I say, I wish you the best of luck.

Senator ABETZ—I claim not to be an expert, but in 2006 I understand the IGT recommended new arrangements for the management of the Australian Taxation Office's test case funding program. Is that correct?

Mr Vos—That is correct.

Senator ABETZ—The Assistant Treasurer has recently announced that the review panel established by the coalition government to look at this will now be wound up. Is that also correct?

Mr Vos—That is correct. This line of questioning has already been put to me tonight.

Senator ABETZ—It has?

Mr Vos—Yes.

Senator Conroy—Yes.

Mr Vos—You are more than welcome to go through it again.

Senator ABETZ—As I say, I am not an expert in this and somebody just emailed these questions to me. Thank you for drawing my attention to that.

CHAIR—I thank the Inspector General of Taxation. I now call to the table the Australian Office of Financial Management.

[8.50 pm]

Australian Office of Financial Management

CHAIR—Good evening, gentlemen. Would you like to make an opening statement.

Mr Hyden—I will not make an opening statement.

Mr Bath—I also have no opening statement.

Senator BUSHBY—The Treasurer announced on 20 May 2008 that the government will be legislating to allow an additional \$25 million in Commonwealth government securities on issue and would specifically seek to increase the supply of CGS instruments by \$5 million in 2008-09. The Treasurer also announced that the AOFM will be able to invest the proceeds of the bonds in a broader range of assets specifically because of the additional resources to be held by the AOFM. The government will change its investment powers to allow it to invest in a broader range of assets than under its current mandate. At present, the AOFM invests in term deposits with the Reserve Bank of Australia, and by modestly widening the range of the

AOFM's investments it would be able to better offset the cost and risk of the additional insurance. This appears to allow the AOFM to invest in investment-grade products—that is, those with an S&P rating of BBB or greater. Is a BBB rating one level above junk bond status?

Mr Hyden—It is investment-grade status. Some people call anything that is not investment grade junk. But that is perhaps a derogative term.

Senator BUSHBY—I am not an expert, but it is often coined that way in investment circles.

Mr Hyden—I think you can take it that any investment-grade investment is of a substantial quality.

Senator BUSHBY—How does the AOFM investing in BBB instruments correlate with a modest widening of the range when the current mandate requires investments of AAA rating with RBA term deposits? That seems to be quite a major change.

Mr Hyden—The changes that the Treasurer announced two weeks ago will be embodied in legislation to be introduced into this current sitting of parliament. The current investment powers of the Treasurer are under the Financial Management and Accountability Act and they allow for a wide range of investment instruments to be used. At present, we are investing only in term deposits with the Reserve Bank. We expect to take up some of the wider powers already embodied in that act. The legislation to be introduced will allow some widening of that range of instruments that are acceptable under the legislation, essentially by adding investment-grade instruments, as you said.

Senator BUSHBY—Would you say it is a fairly broad widening rather than a modest one, in terms of the options that will now be available to the AOFM?

Mr Hyden—It depends on how it is exercised. The intention is that the legislation will provide that the Treasurer will have to authorise which investment instruments are to be accepted within the range specified in the legislation. So the minister will have control over the range of instruments that we exercise.

Senator BUSHBY—It is the case, is it not, that there are two other ratings between AAA and BBB, being AA and A?

Mr Hyden—Yes, that is correct.

Senator BUSHBY—Is the change not at all exchanging risk free assets for risky assets, and will this not potentially increase the risk exposure of the Australian taxpayer?

Mr Hyden—It is a matter of balancing return and risk. The legislation will provide for the Treasurer to give directions in relation to that. It is also a matter of looking at the overall balance sheet of the government and the portfolio that we will be managing. We have on our portfolio a substantial volume of debt—that is, Treasury bonds—and we will be able to invest in instruments that will better match the risk characteristics and return characteristics, including risk relating to interest rate risk that varies according to the tenor of the bond or the length to maturity. We will be able to get a better balance between the assets and the debt.

Senator BUSHBY—I have a fairly high degree of confidence in your ability to manage the funds and to pick investments that are sound and likely to earn a decent return, but this did concern me. Could you explain a bit more how the Treasurer may have some ability to influence how and where you might be investing? Is it just parameters or is there an ability to have a greater degree of influence?

Mr Hyden—As I said, the legislation will provide for the Treasurer to give directions. The current legislation already provides for that.

Senator BUSHBY—But you have a more secure range of options at the moment than what you will have after the changes?

Mr Hyden—Yes, except that we are only exercising term deposits at the present time.

Senator BUSHBY—Is that a result of a direction of the Treasurer?

Mr Hyden—It is a result of decisions by the previous Treasurer.

Senator BUSHBY—With the broader ability to invest, presumably the current Treasurer or any subsequent Treasurer may be able to provide directions to invest in less secure investments that were greater than BBB or thereabouts?

Mr Hyden—That is correct.

Senator BUSHBY—Potentially, subject to those directions, you obviously do the best job you can. As I say, I have a lot of confidence in your ability to do that job. But if you have directions telling you to go and look at BBB-grade investments with a view to trying to maximise the return, and effectively increasing the risk, then you have to comply with that. But theoretically that could happen?

Mr Hyden—The Treasurer's directions will be public; they will be required to be tabled in parliament. There will be scrutiny of those directions and there will obviously be scrutiny of our performance.

Senator BUSHBY—But it does open up that possibility. Will only the new issuance be subject to the new investment mandate or is it the intention that the entire stock of issuance be eventually rolled over into high-risk instruments or potentially high return, I guess, but by consequence high risk?

Mr Hyden—The investment powers do not distinguish between the source of the funds being invested. So it will apply to all investments by the Treasurer under that division.

Senator BUSHBY—In your experience, what percentage of BBB rated instruments fail or fall over and the risk—

Mr Hyden—The AOFM has not had any experience of investing in BBB instruments.

Senator BUSHBY—That is probably a fair comment.

Mr Hyden—The rating agencies do publish information on the incidence globally of failure or default on the different ratings that they publish. I cannot recall offhand what the proportion is for BBB grade?

Senator BUSHBY—Would it be fair to say that the fact that credit ratings in respect of instruments can get changed ex post some significant event indicates that they are not a particularly good guide to the actual risk ex ante?

Mr Hyden—Credit and risk can change and assessments of them can change. We have certainly seen examples of that over recent months globally. But any investor has to make his judgment at the time he makes the investment of the risks involved, and those judgments can change over time.

Senator BUSHBY—Subject to the Treasurer's directions, if the Treasurer directed to allow it, would the AOFM consider buying state government bonds?

Mr Hyden—State government bonds will certainly be permitted investment as they are at present under the legislation.

Senator BUSHBY—It does not mind if you do, but under the new mandate would you consider buying state government bonds?

Senator Conroy—You are allowed to buy state bonds now, so there is no change in the legislation.

Mr Hyden—But the mandate that we are working on is for investment in term deposits.

Senator BUSHBY—That is a mandate that came from the previous Treasurer?

Mr Hyden—That is right.

Senator BUSHBY—But if the new Treasurer or a subsequent Treasurer under the new mandate indicated that he was happy for you to buy state government bonds, is that an investment that you would consider?

Senator Conroy—That is a hypothetical. It is asking him an opinion. You are welcome to ask him about questions of fact, not hypotheticals.

Senator BUSHBY—But the office's primary responsibility is to make investment decisions and to manage the portfolio of the government. They are here before us because they have expertise in this area. I am interested in hearing the officers' thoughts.

Senator Conroy—In a forum where that was appropriate that would be fine. This is a forum for budget estimates. The questions that you are entitled to ask me are about facts, not about his opinion on whether they would go and do something if the Treasurer told them they could. That is a hypothetical question.

Senator BUSHBY—Do you consider that state government bonds are a safe investment?

Mr Hyden—State government bonds have a high credit rating, so they are a safe investment. Whether we would invest in them would depend, firstly, on the authorisation that we obtain from the Treasurer and, secondly, how the characteristics of the bonds in terms particularly of tenor are fitted into the overall mandate of the portfolio.

Senator BUSHBY—Are corporate bonds a safe investment?

Mr Hyden—There is a wide range of corporate bonds with different grades of creditworthiness. But as I have said, the proposed legislation will allow us to invest in investment-grade corporate bonds, if the Treasurer authorised us to.

Senator BUSHBY—You will recall that some time ago the then Labor opposition made a political storm or fuss over some paper losses that were made by the AOFM from exchange rate fluctuations. How much worse would it be to actually lose taxpayers' money by investing in instruments that fail?

Senator Conroy—They lost a billion dollars. They did not lose it on paper. The program was closed down and it actually paid out the losses.

Senator BUSHBY—Maybe Mr Hyden can explain. Was it a paper loss or was it a real loss?

Mr Hyden—We did not lose any money.

Senator BUSHBY—That answers the question.

Senator Conroy—You keep on believing that.

Senator BUSHBY—I asked the officers for a statement of fact. Minister, how much worse would it be to actually lose taxpayers' money by investing in instruments that fail?

Senator Conroy—That is a hypothetical question.

Senator BUSHBY—But we are talking here about changing the mandate to allow the office to invest in riskier products, and presumably the government is not changing the mandate if it does not intend to then change the direction by the Treasurer, otherwise why bother doing it?

Senator Conroy—You have made so many assumptions to construct this question. I would have to say I disagree with the assumptions on which the question is based. So the question is not valid.

Senator BUSHBY—Just humour me and answer the question anyway.

Senator Conroy—I am not going to humour you. This is Senate estimates.

Senator BUSHBY—Given that the risk potential for these investments would be higher, how would the government respond if the office were to, through investing in accordance with directions, lose taxpayers' money by investing in instruments that failed?

Senator Conroy—You are asking now a completely hypothetical question.

Senator BUSHBY—Do you acknowledge that the risks would be higher for investments failing under this revised mandate?

Mr Hyden—I think we can say that any investment involves risk to some extent. It can be a risk relating to changes in interest rates or it can be risk relating to credit and the ability of the issuer to repay the debt that they have incurred. When one looks at investing in high-quality investment-grade instruments, one is looking at instruments of low risk as far as credit is concerned. Within that category there are grades and they are reflected in the AAA down to BBB scales that the ratings agencies have. But I think one is still looking at a small range of risk, and that has to be weighed against the higher returns that one can get from some investments rather than others. The skill of managing the investment is to get that balance right or in a way which reflects the broader intentions of the government.

Senator BUSHBY—But, as I said a couple of times, I have the utmost confidence in your ability to manage the portfolios and to get that balance as good as possibly you can, but it is still subject to the overriding direction of the Treasurer as to how you might go about that. That does essentially shift the dynamics of the portfolio that you might put together? As you yourself said, there are varying risks and that is why the rating of different types of investments exists—to show that some have higher risk than others. I have asked the minister this question but I do not think I got an answer. Does changing the mandate potentially put more of the Commonwealth's investments in investments that are higher risk?

Mr Hyden—All these things are relative. We will not be permitted to invest in equities, for example. We will not be permitted to invest in property. They are higher risk than investment in higher quality investment-grade bonds for fixed interest. Governments have been happy to invest in bodies like the Future Fund, which will be investing in equities and other investments which have higher risk and show greater fluctuation over time than the investments we will be undertaking. In doing that, they are expecting to get a higher return on average even though there will be a volatility and the possibility of losses of value in individual years. They are the judgments that any investment manager has to make. The mandate that we are expecting to get from the government under the announcement that has been made is essentially a higher quality conservative investment strategy.

Senator BUSHBY—But with a higher risk inherent in the portfolio than currently exists?

Mr Hyden—Modestly or marginally higher.

Senator BUSHBY—But a risk that is currently higher than that we face. How will the decision be affected by the Commonwealth's competitive neutrality guidelines?

Mr Hyden—I do not think there is any issue of competitive neutrality. They apply to procurement. We are doing investment.

Senator BUSHBY—That is fine. Is there a risk that the Commonwealth's competitive position, being able to issue risk-free debt instruments, might stifle the return of the private sector securitisation market?

Mr Hyden—I think the short answer is no. There is a considerable demand for the high-quality debt that the Commonwealth currently issues and that is why the government has decided to issue more of it. That debt is used by financial markets to help manage their overall risks and it facilitates liquidity in operations of the overall financial system. In the quantities that we are talking about there is no likelihood of squeezing out other issuers. There is of course the question of what the credit quality of the securitised instruments is. But there is a range of those. Some of them are rated as being of higher quality by the credit rating agencies.

CHAIR—I thank the Australian Office of Financial Management. I will now call to the table the Australian Bureau of Statistics.

[9.11 pm]

Australian Bureau of Statistics

CHAIR—I welcome the Australian Bureau of Statistics. Would you like to make an opening statement?

Mr Pink—No.

Senator EGGLESTON—Firstly, the collection of the ABS job vacancy data has been put on hold, at least until the 2009-2010 financial year. Vacancy data does provide a deeper insight into the state of the Australian market than unemployment figures alone can provide. Who made the decision to cease collecting the ABS job vacancy data?

Mr Pink—That is an easy one. I made the decision. Dealing with a difficult financial situation that we had in 2008-09, we looked right across our portfolio of statistical activities and we had to make some hard decisions around a range of different collections. Job vacancies is one that, as you correctly said, was put on hold in 2008-09.

Senator EGGLESTON—This is due to cuts to the budget?

Mr Pink—A range of factors is impacting on our costs. We have an increasingly difficult environment in which we are collecting information. The household surveys program over time has become more difficult in terms of finding people. They just happen to be busier these days. Our window of opportunity to make contact with people has been reduced. Our interviewers are having to go back more often to try and make contact in many of those programs and so we have had to balance out in the end a finite resource across a very wide portfolio of statistical activities.

Senator EGGLESTON—That is a very interesting change in behaviour and culture. When you do get your job vacancy data, who uses the information and for what purposes?

Mr Pink—It is a set of data used as an indicator of potential demand for employment. It is used obviously by departments such as Treasury, by the Reserve Bank, by the Department of Employment, Education and Workplace Relations. But it has also been used, obviously, in the business community. There is a wide range of users that would have preferred that I had not had to make that decision. They were disappointed but understood the nature of the decision. Of course, there is a partial alternative in the private sector series from the ANZ Bank, which, whilst not the same as the job vacancy series that we produce, is a partial alternative.

Senator EGGLESTON—You regard the ANZ survey as fairly credible, obviously?

Mr Pink—I regard it as a series that attempts to measure the advertising of available jobs in newspaper ads. They have had a long series running. They now also try to pick up the advertising of jobs on the internet. But that is a far more difficult area to get a reasonable measurement because whereas with newspaper ads you pay for the period of time that the ad runs, with the internet there are a number of incentives both for the provider of the service and for the job advertisers to see the ads remain.

Senator EGGLESTON—That is a very interesting point. That is a totally different environment, the internet?

Mr Pink—It is.

Senator EGGLESTON—People do not usually pay to put those ads like that there. The advertisers are usually on the periphery of the page. But you might get a totally false impression from looking at internet based statistics; would you agree?

Mr Pink—Yes. I have certainly had discussions with the ANZ Bank on that series. They do recognise that there are some challenges there when any of us try to use that internet environment as a way of measuring movements over time in the apparent demand for employment.

Senator EGGLESTON—You said your service is constrained. What would you say it is reduced to? What survey sizes are you looking at? Would you like to make an estimate?

Mr Pink—I am not sure what you are asking me.

Senator EGGLESTON—Your labour force survey, it says here, will be decreased in size by about 24 per cent from 1 July 2008. Is that the case?

Mr Pink—Yes. It is 24 per cent.

Senator EGGLESTON—Did you make that decision?

Mr Pink—Yes, I did.

Senator EGGLESTON—I suppose we can say that the government will in part be judged by its record of employment, labour force participation rates, et cetera, just as the previous government was. Will this decrease in the size of your labour force surveys not make it difficult to accurately record employment records?

Mr Pink—No, I would not say that. It leads to some greater variability in the estimates of labour force participation. At the national level we still get good estimates, and pretty good estimates at the state level too. Where the impact of the reduction in the sample size is greatest is as you disaggregate those broad indicator series and break it down, whether it is by industry, by age group, et cetera. The more detail you are looking for in the sample results, the reduction in sample size starts to have a more significant impact.

Senator EGGLESTON—And produces a greater margin of error, I guess, too.

Mr Pink—There is more variability around the estimates. There are people who want to measure change. It makes it more difficult to measure that change; measuring the statistical significance of differences from one sample in one period to the next at one of those levels of disaggregation becomes more difficult. In some cases it is not possible to be able to state that there has been a statistically significant change in that particular number for that particular period.

Senator EGGLESTON—I believe that the government's decreased appropriation in the 2008-09 budget will result in reduced activity of the census program among others. That of course must mean that the policies of the government which are said to be facts based have less validity if the statistics on which they are based are not as accurate and as comprehensive as they might have been. It must create difficulties for government in policy formulation directed at specific problems and areas, I would have thought? Would you agree with that?

Mr Pink—It is always a balancing act each time we consult with user communities around the content of the next census. There is quite a wide range of users who would like to see changes in the content of the census. The census has an important role in providing contemporary views of our society but it is also a fundamentally important way of understanding change that takes place in the population. If you look over the last few

censuses, a very large proportion of the questions asked in each of those censuses remains the same. Whilst there are a small number of questions that would have, through the consultation process, probably been included as new questions replacing certain questions on the 2011 census, that now will not happen. But I reinforce the point that the large majority of the questions that are going to be asked in the 2011 census would have been asked whether we changed any of the content or not.

Senator EGGLESTON—I understand the ABS census program is planning to review census questions prior to funding being cut. How would you say this will affect the census, the flexibility to alter questions on the census form and to add extra questions, and the general quality of information obtained?

Mr Pink—There will be no change to the content of the census. That is the decision that has been taken. The process of both determining any new questions that might potentially be included in the census and then the testing and final decisions on whether to include those questions—whether in fact it is reasonable to ask the community to provide that data accurately and then the changes to various of the systems to process that data—are all costs that are associated with the new content, and none of those will be incurred. The accuracy of the census itself will not be impacted by the content. We go to great lengths to ensure the quality of the census.

As I say, a very large part of the census in every census is a repeat of the questions asked in the previous census. There are only a very small number that vary from one census to the next. In terms of the range of data that the census provides for governments to be able to evaluate their policies and understand the changes taking place in our society and in our populations, this is supported by this decision but there are a couple of questions that I am sure key users would have liked to have seen considered, at least, which we will not be able to do in order to make those savings.

Senator EGGLESTON—One question I would have liked to have seen is one that might have measured the number of fly-in fly-out workers who go to mining communities in the north-west of Western Australia as well as other parts of Australia, because this has now become quite a significant phenomenon around this country.

Mr Pink—Certainly, there have been a number of representations even since the decision to repeat the questions in 2011 from a range of users who were interested in fly-in fly-out workers. We are looking at whether it is possible to get some information from the census on that particular phenomenon. We ask for the usual residence of all the people in the census and we ask for the name and address of the employer. We also know where we enumerated each person in the census, and perhaps by some analysis of some of that information we will be able to get a reasonable view of the fly-in fly-out phenomenon in a number of parts of Australia. I think that will go a fair way to satisfying that need, although I am sure that some of those users would argue they would prefer to see the question itself appear on the 2011 census. I think we have got a reasonable way of providing some information there.

Senator EGGLESTON—I think you have had a \$20 million funding cut, have you not?

Mr Pink—It was \$22 million.

Senator EGGLESTON—The thing that I find extraordinary about it is that your organisation is the organisation that measures change in the Australian community, and it evolves over time and different trends appear. I think it is quite extraordinary that you, and this organisation particularly, the Australian Bureau of Statistics, had this \$22 million funding cut. It seems that it is going to mean that we will not be able to pick up trends as easily as we might have in the past and gather data on changes in the Australian community.

Mr Pink—We still have a very extensive range of information that we will continue to provide for governments and Australian society to understand the changes that are taking place both in the economy and in the society. Certainly, some of the collections will not be held quite as frequently. Some of the collections, as we have indicated with the labour force, will have a reduction in the sample. But I think overall in taking decisions around the shape of the program that we can run in 2008-09 within our appropriation we have continued to ensure that we provide a very wide range of data that will inform governments and society about the trends and changes taking place. I would also reinforce the fact that the \$22 million are not all cuts. There is a consequence of increases in input costs. I explained with our household survey program some substantial increases in costs there. With an appropriation that is maintained at a particular monetary level. Then we have to shape the program to fit. It was not a case of the \$22 million being cuts.

Senator EGGLESTON—It was reported as a cut.

Mr Pink—I think that is shorthand that the journalists may have picked up.

Senator ABETZ—How much were you cut by?

Mr Pink—Like all other government agencies, we were asked to accommodate an additional two per cent efficiency dividend.

Senator EGGLESTON—How much is that in dollar terms?

Mr Pink—That is around \$6 million.

Senator ABETZ—So your cut was \$6 million?

Mr Pink—All of the others were as a consequence of changes that were building up in costs in one way or another. It is \$22 million on next year, a \$300 million program.

Senator EGGLESTON—I understand that during the 2006 census collection authorities advised that census forms were left uncollected. What procedures would we put in place in future to ensure that the ABS adequately resourced and staffed to ensure all census forms are collected? What would you like to see done to ensure that those forms are collected in future in terms of support?

Mr Pink—I will make a general comment and then perhaps ask Mr Paul Lowe, who is head of our census program, to add to my comments. The census is the largest peacetime exercise that is undertaken in the nation.

Senator BRANDIS—I thought the general elections were.

Mr Pink—I would love to run a census like the general election.

Senator BRANDIS—That is what the AEC tell us, that the general elections are the largest peacetime logistical exercise.

Mr Pink—I am a member of the AEC as a commissioner and I can assure you that it is much harder to deliver a census questionnaire to every household where they live than it is to set up polling booths and ask people to attend.

Senator EGGLESTON—That is a good point.

Mr Pink—I would also make the point that we would reinforce the fact that it is the largest peacetime exercise. It is an extraordinary undertaking. Whilst the census is never perfect and we undertake a very rigorous evaluation at the end of each census to understand how well we have done in all sorts of areas, it is certainly the case that by international standards the census that we are able to run in Australia is of the very highest quality. We also run a post enumeration survey, which is a survey run after the census to measure the extent to which we have either undercounted or overcounted people in the census proper. Whilst I think Paul would agree with me that we do not claim that we will ever collect a census form from every Australian—and visitor, by the way—who happens to be in Australia on the night of the census, the post enumeration survey shows that we are doing extraordinarily well.

Senator ABETZ—What is the percentage, do you think?

Mr Pink—The post enumeration survey undercount in 2006 was 2.7 per cent, as an indication of the way in which all of the collections are becoming—

Senator ABETZ—That is less than the informal vote, keeping up the AEC analogy.

Mr Pink—People like to contribute to their society in the numbers as well as voting for their governments. The 2.7 per cent was, from our point of view, a disappointment in the sense that it was 1.8 per cent in the previous census. People are more difficult to find. We put in a lot of effort in this census with homeless people, who are very difficult to find and count, as are the fly-in fly-out people, as you say. There are a lot of people in the metropolitan areas and in the centres of the cities, and it is very difficult these days in secure apartments to even get access. And when you do, our enumerators might ask a neighbour in the apartment whether someone is living in one of the apartments that we are not having luck contacting, and many people do not know who is in the apartment next to them. It could be Hong Kong businesspeople who fly in and fly out or it could be people who live in the country but work in the city during the week. It is getting more difficult with the lifestyles that people have.

Mr Lowe—Further on the uncollected census forms, as Mr Pink mentioned, it is becoming more difficult for us to contact people both at the time of delivery of the census questionnaires and also when the collector goes back. I think for 2011 we will be looking at doing more paid advertising post census night to let people know how they can still participate in the census and, more importantly, how they can get those questionnaires back to us, if they have missed the collector when they have come back to pick up those forms. That is one of the areas we are looking at.

Senator EGGLESTON—I did my census return last time on the net. That is probably the way of the future, I suspect. Most people will be on the internet. That is interesting. It reflects real change in our community.

Senator ABETZ—One of Senator Conroy's policies!

Senator EGGLESTON—Probably one day we will have broadband everywhere in this country.

Senator ABETZ—After there is a change of government.

Senator Conroy—Some of us have only just discovered how to spell it.

Senator EGGLESTON—Thank you very much. That has been very interesting.

Senator ABETZ—You have had a \$6 million cut. On top of that, you have the inflationary pressures that we have heard so much about that would impact. And you have a larger component of your expenditure on salaries; is that correct?

Mr Pink—Not necessarily, if you take the household interviewers, for instance—

Senator ABETZ—What percentage of your expenditure is on salaries?

Mr Pink—Between 60 per cent to 65 per cent.

Senator ABETZ—If push comes to shove with costs, when there is such a high component, positions have to give way. Your budget documents talk about 166 fewer jobs, do they not? Is that correct?

Mr Pink—There are 181. That is what I am advised, in terms of head count.

Senator ABETZ—They are not full-time equivalents, possibly. On page 51 of the PBS—and I never claim to be good at maths—

Senator Conroy—Don't be bashful. You know how many beers there are in a six-pack.

Senator ABETZ—There is average staffing of 2,857 in 2007-08 and then 2,691 for the next year. On my arithmetic that I did learn at primary school, I had that as 166 fewer. That is full-time equivalents, but it might be actually more officers; is that correct?

Mr Pink—Yes.

Senator ABETZ—Whereabouts will those cuts be made? Let us start with the most important place of all, Tasmania! Are we going to be seeing a few cuts in Tasmania?

Mr Pink—The changes in the program for 2008-09 have differential impacts because of the way the statistical program is distributed across our offices. Tasmania runs our agricultural program for the whole of Australia out of Tasmania. The reduction in the agricultural project for 2008-09, which is not as great as had originally been expected, impacts specifically on our Tasmanian office. So, yes, Tasmania has, I think, about 10 staff.

Senator ABETZ—Ten fewer staff as a result of these cuts?

Mr Pink—Yes. We are looking at a number of options there with our colleagues in the state government. The head of our office in Tasmania has been discussing with our state government colleagues whether they may have projects that we could outpost a small number of staff to assist them with over that 12-month period. They would get access to a set of skills that perhaps they do not have. What I have said within the organisation is that where in any particular site the impact of the changes that we have to accommodate within our work programs for 2008-09 cannot be dealt with in a particular site by natural turnover of staff, we will look to move program work to accommodate and absorb those people. We are still talking with our colleagues in Tasmania, the Tasmanian office, around, in the end, how big their

problem is and, secondly, thinking about what work we can move there so that those people can be gainfully employed over that 12-month period.

Senator ABETZ—I confess I do not fully understand. There will be 166 fewer full-time equivalent staff?

Mr Pink—Yes.

Senator ABETZ—Some will occur by natural attrition?

Mr Pink—Yes.

Senator ABETZ—How many do you think that will impact?

Mr Pink—I will be able to tell you at the end of the year how many it was.

Senator ABETZ—Are redundancies being offered?

Mr Pink—No. We believe we can accommodate this through natural attrition. Our challenge is that the natural attrition will not necessarily occur in the offices where we have staff who have been impacted and that is why we are looking at moving work programs from those offices to where we will be able to accommodate their needs through natural attrition and more. So we would move some work from there to the office that has the problem.

Senator ABETZ—Do you think state governments will assist you in providing work and thereby funding for some of these people?

Mr Pink—There will be some, yes.

Senator ABETZ—I wish you the best of luck with that. Perhaps you can report back to us because, as I understand your answer, ‘there will be’, we are looking into the future. When do you think that will be finalised or resolved? I assume it is a moving feast for each state government and each area will be separately explored, so you might lock away a few earlier than you do elsewhere.

Mr Pink—Projects which may be able to take advantage of some of our people’s skills will not all come on stream at one time, at 1 July, for instance.

Senator ABETZ—How would you see this working, these people with skills joining the state public service?

Mr Pink—They will be outposted.

Senator ABETZ—What does ‘outposting’ mean?

Mr Pink—We already have arrangements in most states, where a relatively small number of our staff will be outposted to work with their colleagues in the state government on a particular project where we can bring some knowledge and skills that they do not have access to. And those outpostings, depending on the nature of the project, could be fully funded by the ABS. They may be half funded by the state and half by the ABS, or they may be fully funded by the state government. It varies.

Senator ABETZ—That might be a line of questioning, I assume, for the next Senate estimates, to see how successful you have been. I compliment you, Mr Pink, on that initiative. It is vital that we keep together as much of the corporate knowledge in this specialist area as we possibly can. That we are looking after them in this fashion is something for which you

and the ABS ought be commended. Are you not able to reconsider your position on the Australian yearbook? That is done and dusted?

Mr Pink—That is done and dusted.

Senator ABETZ—That will not be on the bookshelf again?

Mr Pink—No, that is done and dusted for the 2009 yearbook. I have made no decision beyond that. We had to make a decision. The yearbook, as you would imagine, involves not only input from the ABS; there are a number of chapters in the yearbook that are contributed to by a range of authors outside of the ABS. For the 2009 yearbook a lot of the work is done during 2008. We had to make a decision quickly, and that decision has only been in respect of the 2009 yearbook.

Senator ABETZ—If I might—

Mr Pink—I have had a lot of people writing to me complaining about the fact that the 2009 yearbook—

Senator ABETZ—How much does the yearbook cost? What do you imagine or understand you will be saving by that particular cut?

Mr Pink—It is in excess of \$1 million spread over two years.

Senator ABETZ—So \$500,000 per annum?

Mr Pink—It is around that, yes.

Senator ABETZ—Half a million dollars per annum?

Mr Pink—The 2009 yearbook is spread partly over 2007-08 and partly over 2008-09.

Senator ABETZ—The compilation and production of each yearbook is \$1 million, spent as half a million dollars in the year leading up to it and in the year of production; is that correct?

Mr Pink—We are spending a million dollars a year or a little more, I think, on the yearbook.

Senator ABETZ—That is understood.

Mr Pink—And a million dollars within the budget year is spent part on the previous yearbook and part on the next one.

Senator ABETZ—Thank you for that clarification. In the total scheme of things it does seem small fry from a government point of view, but that is a decision that you needed to make in the difficult circumstances with which you were confronted. But it seems to me that the ABS yearbook is an important collaborative work on which many Australians do rely as an important resource. I hope you can reinstitute it and then for the gap in the bookshelf we can just have a little cardboard strip that says, 'Thanks to the Rudd government, this yearbook is missing'.

Mr Pink, in your strategic direction statement we are told that the ABS mission is to assist and encourage informed decision making. This particular Prime Minister that we have at the moment prides himself on making evidence based policy and decisions. It seems another example of where less is more, that the man and his government who pride themselves on

those sorts of decisions being based on information are in fact restricting the source of information available to themselves and indeed everybody else in the Australian community. Interestingly enough, the first dot point in your strategic direction says 'an expanded and improved national statistical service'. I am sure you seek to improve upon it all the time but, realistically, you cannot expand it if you are getting shrinking resources; that would be a fair comment, would it not?

Mr Pink—We expand the statistical service within the envelope of the appropriation we have, and we have done it for many years. In fact, I think the organisation is extremely proud of the fact that over the last 30 years the statistical service to the Australian community and to Australian governments, federal and state, has improved and been expanded substantially, and in most cases with no additional claim on the resources of the Commonwealth. As to the ways that we have been able to do that, if you are interested in the history of what the ABS has been able to achieve, two previous statisticians looked back over a previous 10-year period and wrote articles. The first one was called 'A Quart out of a Pint Pot' and it was about the expansion of the statistical service within a fixed budget allocation over a 10-year period and the very extensive improvements that had been made in that service. That particular article was updated a decade later, and we had another very good set of stories to tell. We are currently preparing for the next annual report the 10-year update. I would reinforce the fact that, through finding more efficient and effective ways of undertaking our statistical activities, through smarter sample designs, through the use of new collection methods, by making greater use of administrative data held already in other areas of government, we have been able to extend the service substantially, as I say, most often without coming back to government for additional funding. I do not share—

Senator ABETZ—It is sounding good. I compliment you and your predecessors on the work they have been able to achieve. But I would imagine in these reports under the item 'budget' there would be an entry 'shoestring', would there not? You guys really do operate on a shoestring budget now. In our 'knowledge society', and all of the cliches we hear, the reality is that information is power. It is vital for decision making. In this era, to be restricting the financial resources to the ABS seems to me—and if I can put on my shadow ministry hat of research and innovation—to be a very retrograde step. I do not expect you could comment on that, Mr Pink. You have to play with the cards that you are dealt. The census is undertaken each four years?

Mr Pink—Five.

Senator ABETZ—Is there an international benchmark that suggests it should be done every five years, four years or six years?

Mr Pink—It is five years.

Senator ABETZ—What do other countries do? If you do not know, take it on notice. It is just an issue that popped into my mind as we have been having this discussion this evening.

Mr Pink—One of the interesting things with the statistical community is that they do share experience with one another, because our peers, in effect, are the national statistical offices in other countries.

Senator ABETZ—What is the average for a census?

Mr Pink—It varies. Quite a number of countries run a census every 10 years.

Senator ABETZ—When you say ‘other countries’, are they comparable to ours?

Mr Pink—The UK and US both run a census every 10 years.

Senator ABETZ—What about New Zealand and Canada?

Mr Pink—New Zealand is every five years, Australia is every five years and Canada is every five years.

Senator ABETZ—What about Singapore?

Mr Pink—Singapore, I think, is every five years. Korea is every five years.

Senator ABETZ—Can I ask about Uruguay? That is a very helpful analysis. Without you people doing any extra work, is there an easily available chart that sets out each country and the timing of each census, be it five years, 10 years or whatever? If there is, could you provide it to the committee? If there is not, do not burn the midnight oil.

Mr Pink—The UN Statistical Commission will have what I will call a table on its website. We will provide you with that reference.

Senator ABETZ—Thank you very much. That would be helpful.

Mr Pink—The other point worth making in terms of the frequency of the censuses is that we know in Australia and New Zealand, because we ask the usual residents five years earlier, that the Australian population is very mobile. Something like half of all people indicated in each census that they are living at a different address from the previous census. So over a period of five years they are living in a different address.

Senator ABETZ—Some of our House of Representatives colleagues, especially those in the inner city seats, tell us that there is a movement of about one-third of the electorate in every election cycle. That is every three years. Trying to get a profile as the local member becomes very difficult when one-third of your electorate is shifting out all the time. It does make the point to which you referred. Page 52 of the budget papers states that the key performance indicator ‘relevance of ABS output’ is:

Statistical output which meets the needs of key users of economic and social data in terms of:

- support to decision making; and
- demonstrated by a high level of use.

Would you agree that the information you do provide gets a high level of use?

Mr Pink—I do not think there is any doubt about that.

Senator ABETZ—I even got an FOI document in recent times that had everything blotted out on a particular page other than the footnote, and the footnote was ‘source: ABS study’, and so we could be told the source but not what you actually told this particular review to help inform the Rudd Labor government. But I will now be sourcing that information through your good work. You are in the business of statistics. Some of us have views on statistics. What they tell is interesting. Do you think it is appropriate to deflate government spending by the CPI rather than the non-farm GDP deflator to measure real growth? Do you get into those sorts of analyses?

Senator Conroy—That is an opinion you are not able to seek. You can ask a factual question.

Senator ABETZ—Are the witnesses able to offer expertise in relation to these sort of matters? Because the approach that you would take to data collection and analysis would undoubtedly be based on your expert opinion as to what is and is not appropriate for you to get what would be considered a robust result.

Senator Conroy—As I said, you are asking for opinions which you are not entitled to seek.

Senator ABETZ—I am entitled to ask, for example, the ABS as to whether it would be appropriate to just ask every 10th household in Australia and whether that would give us the sort of information that we get by in fact asking every household. They would undoubtedly have an opinion as to the robustness of the evidence that we would get through that mechanism. These people are experts in their field and, if they are able to, they can tell us about the robust way in which things ought be done. I have a feeling that you may well not be considering yourselves to be economic experts and therefore would not wish to cast a judgment on that. If that is the case, that would be perfectly understandable.

Mr Pink—In any of our statistical endeavours we seek to provide information to the users in a way that is most appropriate for the use they want to make of the data. But, in the end, we can only provide advice, and they have their choices to make in the case of various alternative sources of information. They are in a better position than we are to make those decisions.

Senator ABETZ—Do other countries use a consumer price index for the purpose of measuring real growth in government spending?

Mr Harper—I am not aware of what is used in other countries.

Senator ABETZ—Would that information be readily available to you or not? I do not want to impose a workload on you by asking you to take that sort of information on notice if it would require a lot of work.

Mr Harper—We could certainly look into what might be readily available. It is not a measure that is typically compiled by statistical agencies. It would be measures that would be compiled by governments themselves.

Senator ABETZ—Right. That is fine. Who publishes the Consumer Price Index?

Mr Pink—We do.

Senator ABETZ—Do you think there would be a benefit in publishing the CPI monthly rather than quarterly, and what would be the cost associated with that?

Mr Pink—The option or the possibility of looking to a monthly CPI rather than a quarterly CPI was addressed in the review of the CPI in 1997. In that review I think the conclusion of the experts, including the ABS, involved in that process was that there were other priorities that were seen as having a higher claim on the resources that would be required to undertake a monthly CPI. A monthly CPI would be expensive. It would increase significantly, of course, the impact on the respondents that provide information currently quarterly.

Senator ABETZ—Is a lot of that information provided on a voluntary basis or not?

Mr Pink—No, it is collected under the Census and Statistics Act. Therefore, there is a legal obligation to provide it.

Mr Harper—The other concern is the increased volatility that would be apparent from a monthly CPI. The signal to noise ratio is not as strong with a monthly CPI as it would be with a quarterly CPI. The bottom line was that it was not seen as a particularly high priority by a broad range of users at the time.

Senator ABETZ—Are you able to cast a judgment as to the best measure of inflation in gathering all the statistical data together? For example, are you able to cast a judgment as to whether the household financial consumption expenditure chain price index in the national accounts is a more superior and broader measure of inflation than the Consumer Price Index? Are you in a position to cast judgments on that?

Mr Harper—The CPI is specifically designed to be a measure of inflation facing the household sector based on the goods and services that are acquired by households.

Senator ABETZ—What does the household final consumption expenditure chain price index measure?

Mr Harper—It measures the impact of prices on households, but it goes beyond the goods and services that are directly acquired by households. For example, it includes imputed rent to the extent that owner-occupied households are seen as themselves paying rent when they live in their own houses, and the CPI has a different method for including housing within its calculation.

Senator ABETZ—Is it normal for us to change indexes when the economic climate changes?

Mr Harper—Are you asking if it is normal to change the method for compiling the indexes?

Senator ABETZ—Yes.

Mr Harper—No. There are periodic reviews of the CPI, where we determine whether the index is still fit for purpose. As a result of those reviews, there are occasionally methodological changes made to the CPI. But they have nothing to do with prevailing economic circumstances. They are about ensuring that the CPI continues to remain relevant for its principal users.

Senator ABETZ—For the CPI, do you think a narrower price index which did not include government purchases would be a better or more accurate measurement?

Mr Harper—If we are measuring household inflation then all goods and services acquired by households, including goods and services acquired from governments, would fit conceptually within that measure.

Senator ABETZ—Have we made a change in recent times to the way that we calculate the Consumer Price Index?

Mr Harper—The most recent significant change was a few years ago, when we introduced financial services into the scope of the CPI.

Senator ABETZ—Does the HFCE chain price index update its weights more regularly than the CPI?

Mr Harper—It is annually reweighted

Senator ABETZ—It is annually reweighted?

Mr Harper—Yes.

Senator ABETZ—What about the CPI?

Mr Harper—It is reweighted periodically.

Senator ABETZ—But it is after more than a year?

Mr Harper—It is every five or six years following the Household Expenditure Survey.

Senator ABETZ—The HFCE chain price index would be more accurate, more current?

Mr Harper—It is measuring a different thing.

Senator ABETZ—What does it measure, again? I think you took me through it before. Can you explain it to somebody who took refuge in the humanities at university?

Mr Harper—It is a weighted measure of changes in the prices of the components of household final consumption expenditures in the national accounts, which includes goods and services that are both directly acquired by households and good and services that are imputed to have been obtained by households, such as, for example, the owner-occupied rental example that I gave earlier.

Senator ABETZ—Thank you for very much for that extended discussion. It has been most helpful.

CHAIR—If there are no further questions, I thank the officers of the Australian Bureau of Statistics officers for their attendance.

Committee adjourned at 10.05 pm