

Additional Estimates 2011–12

Report to the Senate

Introduction

1.1 On 9 February 2012 the Senate referred to the committee for examination and report the following documents in relation to the Industry, Innovation, Science, Research and Tertiary Education; Resources, Energy and Tourism; and Treasury portfolios:¹

- particulars of proposed additional expenditure in respect of the year ending on 30 June 2012 [Appropriation Bill (No. 3) 2011–12];
- particulars of certain proposed additional expenditure in respect of the year ending on 30 June 2012 [Appropriation Bill (No. 4) 2011–12]; and
- estimates of proposed additional expenditure for 2011–2012 (Portfolio Additional Estimates Statements).
- the final budget outcome 2010–11; and
- consideration of the issues from the advances under the annual Appropriation Acts.

Portfolio structures and outcomes

1.2 The committee notes that changes have been made to the portfolio structure and outcomes of Innovation, Industry, Science and Research since the 2011–12 Budget Estimates round.

1.3 The portfolio has been renamed Industry, Innovation, Science, Research and Tertiary Education. As a part of this restructuring, the Tertiary Education and Skills portfolio has been shifted to the department formally known as the Department of Innovation, Industry, Science and Research. Tertiary education and skills has been designated as the department's third outcome and the department has been renamed the Department of Industry, Innovation, Science, Research and Tertiary Education.

1.4 The structures and outcomes for each of the portfolios are summarised in the appendices as indicated below:

- Industry, Innovation, Science, Research and Tertiary Education (Appendix 4);
- Resources, Energy and Tourism (Appendix 5); and
- Treasury (Appendix 6).

¹ *Journals of the Senate* No. 75, 9 February 2012, p. 2090

Questions on notice

1.5 The committee draws the attention of all departments and agencies to the deadline of Thursday, 29 March 2012 for the receipt of answers to questions taken on notice from this round. As the committee is required to report before responses to questions are due, this report has been prepared without reference to any of these responses. The secretariat has prepared indices for questions taken on notice during and after the hearings and these will be made available on the following website: http://www.aph.gov.au/Senate/committee/economics_ctte/estimates/index.htm.

General comments

1.6 The committee received evidence from Senator the Hon Christopher Evans, Minister for Tertiary Education, Skills, Science and Research; Senator the Hon Kim Carr, Minister for Manufacturing; Senator the Hon Mark Arbib, Assistant Treasurer; Senator the Hon Penny Wong, Minister for Finance and Deregulation; and officers from the Industry, Innovation, Science, Research and Tertiary Education; Resources, Energy and Tourism; and Treasury portfolios.

1.7 The committee thanks the ministers and officers who attended the hearings for their assistance.

1.8 The committee conducted hearings on 15, 16 and 17 February 2012. In total the committee met for 24 hours and 20 min, excluding breaks.

Procedural issues

1.9 On 16 February 2012, there was discussion regarding the Future of Financial Advice bills (currently the subject of inquiries by both the Parliamentary Joint Committee on Corporations and Financial Services and the Economics Legislation Committee) which required a judgement from the Chair about whether the discussion was approaching the provisions of the bill rather than, for example, the process of developing the bill.

1.10 The Chair referred to the Clerk's advice about the discussion of bills (rm.adv.17256) and moved the questioning on to an examination of the Regulation Impact Statements that accompanied the bills.

1.11 The same issue emerged in relation to the Minerals Resource Rent Tax bills, into which this committee was to hold hearings the following week (21 and 22 February 2012). The chair limited the discussion to areas not related to the provisions of the bills.

Record of proceedings

1.12 This report does not attempt to analyse the evidence presented over the two and a half days of hearings. However, it does include a brief list of the main issues that were traversed by the committee for all portfolios.

1.13 Copies of the Hansard transcripts are available on the internet at http://www.aph.gov.au/Parliamentary_Business/Hansard/Estimates_Transcript_Schedule. Copies are also tabled with this report for the information of the Senate.

Matters raised – Industry, Innovation, Science, Research and Tertiary Education portfolio

1.14 On 15 February 2012, the committee examined the estimates for the:

- Commonwealth Scientific and Industrial Research Organisation (CSIRO);
- Office of the Chief Scientist;
- Australian Nuclear Science and Technology Organisation (ANSTO);
- Australian Research Council (ARC); and
- Department of Industry, Innovation, Science, Research and Tertiary Education.

1.15 Matters examined included the following:

Commonwealth Scientific and Industrial Research Organisation (CSIRO)²

- CSIRO's ability to comment on public policy (p. 5);
- the Carbon Tax and a debate about the science that underpins it (pp 56, 12–14);
- the resignation of Dr Spash and the publication list of CSIRO (pp 6–8);
- Merbein CSIRO Research facility, its sell off and the impact this has had on research (pp 8–9);
- CSIRO's final report into the Murray Darling Basin and socioeconomic data (p. 9);
- the CarbonKids program and its educational content (pp 9–12);
- the effect of climate change on the oceans and the usefulness of oceans in predicting or analysing climate change (pp 14–15);
- Dr McDougall and the circumstances surrounding the termination of his employment at CSIRO (pp 15–16);
- staffing related issues (p. 17); and
- *The Conversation* website and CSIRO's contributions to it (p. 18).

Office of the Chief Scientist

- Chief Scientist's role in providing advice to the government regarding climate change (pp 19–21);

² Page numbers refer to the *Proof Committee Hansard*, Wednesday 15 February 2012. Transcript page numbers in the *Proof Hansard* may differ slightly from the *Official Hansard*.

- the promotion/advocacy of science throughout the community and the debate on Darwinism versus Creationism (pp 21–23); and
- the Chief Scientist's knowledge of the Climate Commission report and other articles relating to climate change (pp 23–24).

Australian Nuclear Science and Technology Organisation (ANSTO)

- the Department of Health and Aging review into ARPANSA's handling of safety matters at ANSTO (pp 24–25);
- the sale and production of isotopes and issues relating to pricing (pp. 25–26);
- Comcare report on incidents at ANSTO and subsequent action by ANSTO (pp 26–28, 29);
- ANSTO's whistleblower policy (pp 28–29);
- the treatment of nuclear waste (p. 29); and
- ANSTO's compliance with the government's competitive neutrality guidelines, particularly in relation to ANSTO's investment in PETNET.

Australian Research Council (ARC)

- the final appearance at estimates by Professor Sheil (p. 30);
- funding for the Hearts and Stones project (p. 31);
- the Industrial Transformation Program and the use of the ARC Linkage Scheme (pp 31–32); and
- quality controls on privately funded research in universities (pp 32–33).

Department of Industry, Innovation, Science, Research and Tertiary Education – outcome 1 – Industry and Innovation

- machinery of government changes to the department (pp 33–36);
- AusIndustry and government funding (p. 36);
- the Green Car fund, the car industry in general and the government assistance it is being provided (pp 37–53, 55–57);
- free trade agreements, specifically with Thailand, car exports and excise (pp 53–54);
- manufacturing support and the importance of manufacturing to the mining industry (pp 54–55);
- the Carbon Tax and its impact on aluminium production (p. 57);
- the Steel Transformation Plan and the assistance it is providing (p. 58);
- the impact of the Carbon tax on the steel industry and groceries (p. 59);
- Ethical Clothing Australia and the support the department is providing to the Textile, Clothing and Footwear Union of Australia (pp 60–61);

- Senator Arbib's attendance at the Olympic games and the National Small Business Summit (pp 61–62);
- the impact of payroll tax and the Carbon Tax on small business (pp 63–64);
- the implementation of a new small business dispute resolution policy (p. 64); and
- small business' reluctance to seek interest payments on overdue invoices paid by the department (pp 65–67).

Department of Industry, Innovation, Science, Research and Tertiary Education – outcome 3 – Tertiary Education and Skills

- machinery of government changes to the department (p. 67);
- cattle deaths at Mataranka Station and Charles Darwin University's continued license to deliver rural operations training (pp 67–69);
- agricultural subjects and curriculum material taught at universities and the need for greater sponsorship (pp 69–71, 80);
- interest earned on the Education Investment Fund and its expenditures (p. 71);
- the release of the Lomax-Smith base funding report and government's response (pp 71–72);
- voluntary student fees, their amounts and the number of students who defer their fees (pp 72–74);
- the rise in student debt levels in the United States and Australia and the amount of debt being repaid (pp 74–75);
- questions surrounding the relevance of certain research projects (p. 75);
- the financial difficulties experienced by regional students when attending university and the lack of financial assistance provided to regional students by the government (pp 76–80);
- the funding of skills and workforce development and related negotiations between states and territories (pp 80–82); and
- the establishment of the Australian Skills Quality Authority (ASQA) to regulate the quality of skills training in Australia (pp 82–83).

Tertiary Education Quality and Standards Agency (TEQSA)

- issues surrounding a current investigation into a matter at the University of Queensland (pp 84–86, 87);
- TEQSA's risk assessment of all education providers (p. 86);
- TEQSA's fee schedules and its consultations (p. 87); and
- budget allocations and agency structure (pp 88–89).

Australian Skills Quality Authority (ASQA)

- ASQA's role as regulator, its relationship with the states and territories and fee schedules (pp 89–90, 91);
- the number of complaints lodged with ASQA in the last 6 months and the regulator's responses (p. 91);
- referral of state regulatory powers to ASQA (p. 91); and
- the selection process for the three commissioners at ASQA (p. 92).

Matters raised – Resources, Energy and Tourism portfolio

1.16 On 15 February 2012, the committee examined the estimates for the:

- Department of Resources, Energy and Tourism; and
- Tourism Australia.

1.17 Matters examined included the following:

Department of Resources, Energy and Tourism – outcome 1 – Resources and Energy

- the Secretary's opening statement (pp 93–94);
- the achievability of the efficiency dividend (p 94);
- the Global Carbon Capture and Storage Institute, funding issues and the appearance of a funding related story on the *7.30 Report* (pp 94–98);
- the future role of carbon capture and storage in reducing greenhouse gas emissions and the funding of related projects (pp 98–100);
- Solar Flagship Program and its budget figures (pp 100, 101–104);
- implementation of the clean energy package and the role of the Australian Energy Market Operator (p. 101);
- government grants to HRL Limited (p. 104);
- departmental employee conflicts of interest when leaving to work in the mining sector (p. 105);
- carbon capture and storage, its importance and the composition of the mining sector (pp 105–107); and
- the skills shortage in the mining industry (p. 107).

Department of Resources, Energy and Tourism – outcome 2 – Tourism; and Tourism Australia

- budget allocations for tourism and the impact of the efficiency dividend (pp 108–109);
- impact of the Carbon Tax on the tourism industry (pp 109–112);

- government support for tourism when compared with other sectors such as manufacturing (p. 113);
- the passenger movement charge, its impact on travellers and its role in Australia's slide from fourth to thirteenth ranking on the World Economic Forum Travel and Tourism Competitiveness Index rankings (pp 113–114); and
- Tourism Australia's research priorities.

Matters raised – Treasury portfolio

1.18 On 15 February 2012, the committee examined the estimates for the:

- Australian Competition and Consumer Commission (ACCC); and
- Australian Office of Financial Management (AOFM).

1.19 Matters examined included the following:

Australian Competition and Consumer Commission (ACCC)³

- discussions regarding the absence of the Chairman (p. 120);
- issues surrounding Woolworth's bid to purchase Franklin, with some discussions regarding SPAR and Coles' bids (pp 121–124);
- the integrity of ACCC research and public comments made by Senator Xenophon (pp 124–126);
- petrol prices, potential predatory pricing issues and concerns surrounding the Woolworths/Coles shopper docket discount vouchers (p. 126);
- moves by Mastercard and other financial service providers to institute a financial blockade of Wikileaks (pp 127–129);
- ACCC's declaration of Telstra's ADSL services (p. 129);
- repair notices issued by ACCC/guidelines on how to repair goods capable of retaining user generated data (p. 131);
- supermarket pricing of fruit and vegetables (p. 132); and
- issues relating to the default super market, the registration of funds and anti-competitive arrangements with employees (pp 133–124).

Australian Office of Financial Management (AOFM)

- value of government securities (p. 134);
- discussion about an article in the *Australian Financial Review* and costs of borrowing in Australia (pp 134–136); and

³ Transcript page numbers refer to the *Proof Hansard* and may differ slightly from the *Official Hansard*.

- Mr Nicholls' presentation at the Australian Business Economists luncheon regarding government debt and international comparisons of debt levels (pp 136–139).

1.20 On 16 February 2012, the committee examined the estimates for the:

- Treasury – outcome 1: Macroeconomic Group;
- Treasury – outcome 1: Fiscal Group;
- Treasury – outcome 1: Markets Group;
- Treasury – outcome 1: Revenue Group;
- Australian Taxation Office (ATO);
- Australian Securities and Investments Commission (ASIC);
- Australian Prudential Regulation Authority (APRA);
- Productivity Commission (PC); and
- Inspector-General of Taxation.

1.21 Matters examined included the following:

Treasury – outcome 1: Macroeconomic Group

- the Secretary's absence and lines of questioning suggested for Friday's session (p. 5);
- risks, including the high-dollar, to the budget bottom line and the impact of international economic conditions on the Australian economy (pp 57);
- the forecasted unemployment rate, participation rates and the disparity between public comments and MYEFO. (pp 7–10, 22–23);
- current interaction between fiscal and monetary policy and its impact on interest rates (pp 10–14);
- the Carbon Tax and its influence on nominal wage rises (pp 14–15);
- mining and its influence on the value of the Australian dollar (pp 15–16);
- the distribution of unemployment and the impact of the mining boom on inflation, interest rates and exchanges rates (pp 16–18, 23–24);
- job losses in the car industry and its impact on the broader economy (p. 18);
- criticism of Treasury's Wellbeing Framework (p. 19); and
- discussions relating to the analysis of the impact of the stimulus package (pp 19–22).

Treasury – outcome 1: Fiscal Group

- meetings between Treasury officials and Mr Wilkie, MP, regarding gambling reforms (pp 24–25);

- government debt, the Gross Domestic Product (GDP) and revenue and expenditure trends (pp 25–32).
- the timing of the establishment of the Parliamentary Budget Office (PBO) (pp 32–33);
- discussions relating to a speech given by Mr Rob Nicholls, CEO of the AOFM, and his views regarding the sovereign debt market (pp 33–35);
- Australia's capacity to service its debt and the impact of the stimulus package (pp 35–36);
- infrastructure spending and the potential contribution to this by the Mineral Resources Rent Tax (MRRT) (p. 36);
- Treasury's involvement in the assessment of Environmental Impact Statements (p. 37);
- Australia's tax rate and the 2008 decision to not let it rise beyond 2007–8 proportions (pp 37–38);
- government spending before and post the Global Financial Crisis (GFC) (pp 38–39); and
- the government's Clean Energy Package, its links to the carbon price and the international carbon market's influence on Australia's carbon price (pp 39–46).

Treasury – outcome 1: Markets Group

- the Energy Security Council and its sources of funding (pp 47–48);
- the Parliamentary Joint Committee on Corporations and Financial Services (PJC) recommendations and the current consultation phase regarding the Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011 (pp 48–50);
- issues relating to the Future of Financial Advice (FoFA) reforms, including the timing of its implementation and conflicted remuneration (pp 50–53);
- the Productivity Commission's review into the selection of default funds on modern awards (p. 53);
- the Howard government's financial services reforms and whether or not a Regulation Impact Statement (RIS) was prepared for them (pp 53–54);
- the St John inquiry into the definitions of wholesale and retail clients (pp 54–55);
- future plans to enable the transferral of superannuation between Australia and New Zealand (pp 55–56);
- Trio Capital's compensation payments and their progress (p. 56);
- the Banking Competition package and its influence in increasing the competitiveness of market accounts (pp 56–59);

- the independent lifting of interest rates by the big four banks (pp 59–61);
- the Australian Financial Centre Task Force's report on the corporate bond market (pp 61–64);
- bank guarantees and role they play in maintaining employment in the sector (pp 64–65);
- covered bonds and their costs to borrowers (pp 65–66); and
- changes under Basel III and the modelling Treasury has completed regarding these changes (pp 66–67).

Treasury – outcome 1: Revenue Group and the Australian Taxation Office (ATO)

- changes to the private health insurance rebate (pp 67–70);
- new tax systems for managed investment funds (pp 77–72);
- MRRT revenue and its tax implications (pp 72–77, 91–93);
- increases to the super guarantee and its implications (pp 77–78);
- lost superannuation and reporting requirements for superfunds (pp 78–81);
- the mining industry and various related taxation issues (pp 81–83);
- tax concessions on superannuation (p. 83);
- not-for-profit sector reform (pp 83–87);
- ATO procurement policies (pp 87–89);
- TPG Capital court case (p. 89);
- double taxation agreement with the United States (pp 89–91); and
- audits and self-assessment in relation to taxpayers in the financial services industry (pp 93–95).

Australian Securities and Investments Commission (ASIC)

- ASIC's new powers acquired as a result of the FoFA reforms and the issuance of guidance notes (pp 95–98);
- the rolling out of cost recovery in relation to market supervision (p. 98);
- the best execution rule and how it will impact, in the context of Chi-X, on the requirements of stockbrokers (pp 98–99);
- Australia Post and the high fees charged for the processing of cheques (p. 99);
- the impact of budget cuts on ASIC and a related article in the *Australian Financial Review* (pp 99–101);
- superfund adverts (p. 101);
- complaints regarding the perception that Bankwest customers are being treated unfairly by the new owners, Commonwealth Bank (p. 102);
- private equity takeovers (pp 102–103);

- secured note products (pp 103–104);
- the repercussions for the firesale of assets (p. 104);
- the liquidation of Ansett by KordaMentha (pp 104–105); and
- an update on issues surrounding the collapse of Storm Financial (p. 105).

Australian Prudential Regulation Authority (APRA)

- opening statement by Dr Laker (p. 106);
- QT Mutual Bank and tracker loans (pp 107–108);
- new prudential standards and the impact on retirement savings (pp 132–133);
- APRA's risk registers of financial institutions (pp 109–110);
- changes to the regulatory capital regime and the overall capital requirements across both life and general insurance industries (pp 110–111);
- changes to rules for superannuation funds concerning disclosure and improved transparency (pp 111–112);
- APRA's statistics on superannuation data (pp 112–113); and
- the effects of covered bonds on other funds (pp 113–114).

Productivity Commission

- Mr Banks' speech *Industry assistance in a patchwork economy* and industry related reform (pp 115–116); and
- levels of assistance to the car industry (p. 116).

Inspector-General of Taxation

- the perception of an increased focus on litigation by the ATO and a review into alternative dispute resolution (pp 117–118); and
- the current review into self assessment (p. 118).

1.22 On 17 February 2012, the committee questioned the Secretary of the Department of Treasury, Dr Martin Parkinson and officers from the:

- Treasury – outcome 1: Macroeconomic Group;
- Treasury – outcome 1: Fiscal Group;
- Treasury – outcome 1: Markets Group; and
- Treasury – outcome 1: Revenue Group.

1.23 Matters examined included the following:

- the shape of Australia's economy and the good indicators of economic health (pp 5–6);
- Australia's connection to Asia, its terms of trade and the exchange rate (pp 7–8);

- the assessment of the level of consumer/business/investor confidence (pp 8–9);
- income tax rates after the commencement of the Carbon Tax and its effect on household budgets (pp 9–11);
- the structural adjustment of the Australian economy and the implications this has for employment (pp 11–12);
- the tightening up of regulation and dealing with asset price bubbles (p. 12);
- questions surrounding the appropriateness of achieving a budget surplus in 2012–13 (p. 12);
- the implications of Chinese investment in African mineral resources for the Australian economy (p. 13);
- the impact of the MRRT on the Australian export market (pp 14, 20);
- assistance provided to the car industry, Treasury's Wellbeing Framework and a related article in the *Australian Financial Review* (pp 15–19);
- planned mining investment projects (pp 19–20);
- the Wellbeing Framework and how it seeks to address wealth/income inequality in Australia (pp 21–22); and
- the estimated structural budget balance (pp 22–23).

Senator Mark Bishop

Chair