



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## **SENATE**

ECONOMICS LEGISLATION COMMITTEE

ESTIMATES

**(Budget Estimates Supplementary Hearings)**

WEDNESDAY, 5 NOVEMBER 2003

CANBERRA

BY AUTHORITY OF THE SENATE



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**SENATE**  
**ECONOMICS LEGISLATION COMMITTEE**  
**Wednesday, 5 November 2003**

**Members:** Senator Brandis (*Chair*), Senator Jacinta Collins (*Deputy Chair*), Senators Chapman, Murray, Watson and Webber

**Senators in attendance:** Senators Brandis, George Campbell, Chapman, Conroy, Harradine, Lundy, Murphy, O'Brien, Stephens and Watson

**Committee met at 9.04 a.m.**

**INDUSTRY, TOURISM AND RESOURCES PORTFOLIO**

**In Attendance**

Senator Ian Macdonald, Minister for Fisheries, Forestry and Conservation

Senator Minchin, Minister for Finance and Administration

**Department of Industry, Tourism and Resources**

Mr Karl Baigent, Assistant Manager, Automotive and Engineering Branch, Manufacturing, Engineering and Construction Division

Mr Erik Beens, General Manager, ICT Infrastructure, e-Business Division

Ms Tricia Berman, General Manager, Innovation Policy Branch, Innovation Division

Ms Vicki Brown, General Manager, International Energy Branch, Energy and Environment Division

Mr Antony Brugger, General Manager, Policy, Office of Small Business

Dr Don Bruncker, General Manager, Industry Analysis, Industry Policy

Ms Chris Butler, General Manager, Business Development, AusIndustry

Ms Trish Cattell, Financial Analysis and Data Modelling, AusIndustry

Mr Drew Clarke, Head of Division, Energy and Environment Division

Mr Peter Clarke, General Manager, Automotive and Engineering Branch, Manufacturing, Engineering and Construction Division

Ms Sophia Close, Environment Industries, Energy and Environment Division

Mr Alan Coleman, Manager, TCF and Construction Branch, Manufacturing, Engineering and Construction Division

Mr Robert Crick, Head of Division, Analytical Division (AGAL)

Mr Peter Cummins, General Manager, AGAL

Mr John Dean, General Manager, TCF and Construction Branch, Manufacturing, Engineering and Construction Division

Mr Chris Dainer, Chief Financial Officer, Corporate Division

Ms Cherie Ellison, Manager, Strategic Coordination and Support, Resources Division

Mr Warren Fletcher, Manager, Budget Coordination Unit, Corporate Division

Ms Ruth Gallagher, Manager, Trade and International, Industry Policy

Dr Michael Green, Director, Space Licensing and Safety Office, Manufacturing, Engineering and Construction Division

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Mr Paul Griffin, General Manager, Business Entry Point, eBusiness Division  
Mr John Griffiths, General Manager, Offshore Resources, Resources Division  
Ms Aneela Hakim, Assistant Manager, Budget Coordination Unit, Corporate Division  
Ms Kerri Hartland, Head of Division, Innovation Division  
Mr John Hartwell, Head of Division, Resources Division  
Dr Joe Hlubucek, General Manager, Ministerial and Coordination Group, Corporate Division  
Mr Graeme Holt, Deputy Chief Financial Officer  
Ms Wendy Honeyman, Team Leader, Corporate Finance, Corporate Division  
Mr Chris Hyman, Manager, Corporate Section, Energy and Environment Division  
Ms Beryl Janz, Manager, Media and Communications, Corporate Division  
Mr Barry Jones, Executive General Manager, Industry Attraction, Invest Australia  
Ms Patricia Kelly, Acting Deputy Secretary  
Mr Daniel Killaly, Managerial Accountant, Corporate Finance, Corporate Division  
Ms Emma Knox, Executive Officer, Corporate Division  
Mr Mike Lawson, General Manager, Aerospace and Defence Industries Branch, Manufacturing, Engineering and Construction Division  
Mr Le Couteur, Business Manager, Rural Services, Centrelink  
Ms Christine Loundes, Business Entry Point, eBusiness Division  
Mr David Luchetti, Manager, R&D Tax Concession, AusIndustry  
Mr Tim Mackey, Deputy Secretary  
Ms Alva Maguire, Manager, Coordination Group, Corporate Division  
Mr Jurek Malzacher, General Manager, ICT Strategic Systems, eBusiness Division  
Mr Rob McKeon, General Manager, Industry Collaboration Branch, Manufacturing, Engineering and Construction Division  
Ms Janet Murphy, Acting Head of Division, Tourism Division  
Mr Kevin Noonan, Acting General Manager, Online Systems Branch, eBusiness Division  
Mr Philip Noonan, Head of Division, Corporate Division  
Mr Kevin O'Brien, General Manager, National Energy Market Branch, Energy and Environment Division  
Mr Bruce O'Meagher, General Manager, Industry Policy  
Mr Brad Page, General Manager, Innovation Programs, AusIndustry  
Ms Chrys Papadopoulos, General Manager, Safety, Taxation and Projects, Resources Division  
Mr Steve Payne, General Manager, Minerals and Fuels, Resources Division  
Mr Bill Peel, Executive General Manager, AusIndustry  
Mr Craig Penniford, General Manager, Pharmaceuticals and Biotechnology Branch, Innovation Division  
Mr Ken Pettifer, Head of Division, Manufacturing, Engineering and Construction Division  
Ms Jane Poxon, Environment Branch, Energy and Environment Division  
Mr Jeff Riethmuller, Acting General Manager, Tourism Market Access, Tourism Division  
Mr Mark Riffel, Manager, Business Analysis, Office of Small Business  
Dr Peter Robins, Director, Bureau of Tourism Research  
Ms Kerry Rooney, General Manager, Tourism Business Development, Tourism Division

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Mr Paul Ross, General Manager, Biotechnology Australia, Innovation Division  
Mr John Ryan, Deputy Secretary  
Mr Robin Salvage, National Manager, Rural and Housing, Centrelink  
Mr Richard Scherer, Manager, Web Publishing, eBusiness Division  
Ms Susan Seiler, Assistant Manager, Coordination Group, Corporate Division  
Mr Paul Sexton, General Manager, Industry Programs, AusIndustry  
Dr Terry Spencer, Group Manager, AGAL, Analytical Division  
Ms Michelle Stone, Acting Manager, Innovation Access/COMET Programs, AusIndustry  
Mr Rolf Taylor, Executive Officer, AGAL  
Ms Lynne Thomson, Manager, Venture Capital Programs, AusIndustry  
Ms Catriona Vigor, Acting General Manager, Online Systems, eBusiness Division  
Mr Roy Volmari, Financial Manager, AGAL  
Ms Sue Weston, Head of Division, Office of Small Business  
Mr Bruce Wilson, General Manager, Environment, Energy and Environment Division  
Mr Randall Wilson, Manager, Energy Technology, Energy and Environment Division  
Ms Judi Zielke, General Manager, Small Business and Industry Programs, AusIndustry

**Portfolio Agencies****IP Australia**

Dr Ian Heath, Director General, IP Australia

**CHAIR**—Good morning, ladies and gentlemen. I call this meeting to order and declare open this public hearing of the Senate Economics Legislation Committee. In accordance with standing order 26(10) a number of senators have given notice of matters which they wish to raise. The committee will consider proposed expenditure for departments and agencies in the order in which they appear on the agenda that has been agreed to by the committee. Today the committee will begin with the Industry, Tourism and Resources portfolio.

The committee has determined that the deadline for answers to questions taken on notice is Friday, 16 January 2004. While the Finance and Public Administration Legislation Committee oversees the format of the portfolio budget statements, I remind you that the Economics Legislation Committee is continuing to monitor the format of the PBS as presented to it. This is in accordance with the recommendation by the Finance and Public Administration Legislation Committee, in its third report on the format of portfolio budget statements, that the legislation committee's report on the adequacy of the PBS is provided for their use.

The committee has authorised the recording and rebroadcasting of its public proceedings in accordance with the rules contained in the order of the Senate of 31 August 1999 concerning the broadcasting of committee hearings. I remind officers that the Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise. However, I also draw to the attention of witnesses resolutions 9 and 10 agreed to by the Senate on 25 February 1988 concerning the conduct of hearings by Senate committees. Resolution 9 provides:

A chairman of the committee shall take care to ensure that all questions put to witnesses are relevant to the committee's inquiry and that the information sought by those questions is necessary for the purpose of that inquiry. Where a member of a committee requests discussion of a ruling of the chairman on this

matter, the committee shall deliberate in private session and determine whether any question which is the subject of the ruling is to be permitted.

Resolution 10 provides:

Where a witness objects to answering any question put to the witness on any ground, including the ground that the question is not relevant or that the answer may incriminate the witness, the witness shall be invited to state the ground upon which objection to answering the question is taken. Unless the committee determines immediately that the question should not be pressed, that committee shall then consider in private session whether it will insist upon an answer to the question, having regard to the relevance of the question to the committee's inquiry and the importance to the inquiry of the information sought by the question. If the committee determines that it requires an answer to the question, the witness shall be informed of that determination and the reasons for the determination, and shall be required to answer the question only in private session unless the committee determines that it is essential to the committee's inquiry that the question be answered in public session. Where a witness declines to answer a question to which a committee has required an answer, the committee shall report the facts to the Senate.

I also remind officers of resolution 16, which provides:

An officer of a department of the Commonwealth or of a State shall not be asked to give opinions on matters of policy, and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a Minister.

Finally, I would draw attention to the notice of motion agreed to by the Senate on 30 October 2003 resolving:

That the Senate and Senate committees shall not entertain any claim to withhold information from the Senate or a committee on the grounds that it is commercial-in-confidence, unless the claim is made by a minister and is accompanied by a statement setting out the basis for the claim, including a statement of any commercial harm that may result from the disclosure of the information.

Witnesses should note that the evidence given to the committee is protected by parliamentary privilege. The giving of false or misleading evidence to the committee may constitute a contempt of the Senate. I welcome to the table Senator Ian Macdonald, the Minister representing the Minister for Industry, Tourism and Resources. Would you like to make an opening statement?

**Senator Ian Macdonald**—Thank you. Senator Minchin normally would be sitting here. He is otherwise engaged for a couple of hours, so I am filling in until he returns. He will be here as soon as he possibly can. Mr Mark Paterson, the secretary, is overseas. In his absence his role is being very capably filled by Mr John Ryan. I appreciate you are going through the formalities of telling us the rules of the committee but I will indicate to the committee, as I always do in a similar formal way, that the officers have their instructions and they are aware when they are not to answer. They take instructions from the minister and the secretary on what they can and cannot answer.

[9.09 a.m.]

#### **Department of Industry, Tourism and Resources**

**CHAIR**—The committee's examination will commence with outcome 1, A stronger, sustainable and internationally competitive Australian industry, comprising the manufacturing, resource and service sectors.



**Senator GEORGE CAMPBELL**—In the last estimates hearing we had a brief discussion, initiated by Senator Watson, about the rising value of the Australian dollar and what monitoring the parliament was doing of this impact upon Australian industry. The dollar, as you would be aware, has increased considerably since that point. Has the department undertaken any monitoring of the impact on Australian industry of the increasing value of the dollar?

**Mr Ryan**—We monitor all of the developments in a macroeconomic sense, and the dollar in that sense is monitored as well. That is just a regular part of our working program.

**Senator GEORGE CAMPBELL**—Are you able to tell the committee what the result of that monitoring is? Have you looked at it on an enterprise basis? Have you looked at it on an industry basis? Have you focused specifically on companies or enterprises that are principally exporting? Are you able to tell us what the impact has been?

**Mr Ryan**—In general, we do not do it on an enterprise basis. As I said, these are macroeconomic analyses that we do, so it is the broad picture of the impact that the dollar might be having on activities.

**Senator GEORGE CAMPBELL**—Can you tell us what that is and whether or not you have any specific data relating to specific industries?

**Mr Ryan**—We do look at it, but usually when you are looking at what is happening in a particular industry there are a number of factors that are working simultaneously when you are looking at an exchange rate change. Simultaneously in the resources area, for instance, we are experiencing very strong commodity prices at the same time as the dollar so we have not taken it beyond that sort of broad analysis.

**Senator GEORGE CAMPBELL**—What about the manufacturing sector, for example?

**Mr Ryan**—No, nothing more than the broad.

**Senator GEORGE CAMPBELL**—What does your analysis show?

**Mr Ryan**—Essentially what you would expect to see. As I say, in any particular industry they are going to respond in a number of different ways with a change in exchange rates, and they have a number of different approaches for how they might hedge and manage that exchange rate exposure.

**Senator GEORGE CAMPBELL**—Can you give us some examples of what they are doing out there?

**Mr Ryan**—For some companies, they will write their foreign business in US dollars so that movements in the Australian dollar do not cause them as much difficulty. You can try other hedging arrangements, which might be to change the mix of your import and export arrangements. So there is a number of different measures that companies have used for a long period of time to manage this.

**Senator GEORGE CAMPBELL**—But, Mr Ryan, you initially said that the department had been monitoring in the broad what was occurring across the economy. Presumably when you say ‘in the broad’ you are talking about mining and manufacturing in the broad sense rather than specific segments of it. What I am really trying to get from you is not what you

expect will happen or not what some of the mechanisms are that we are aware of that you might use, but what specifically companies are doing or not doing in terms of coping with the increased value of the dollar. We know, for example, from other macroeconomic data that exports have been falling and imports have been increasing. What sectors of the economy have been falling off in terms of exports and what corrective strategies is industry taking or is the department considering in terms of dealing with some of these issues?

**Mr Ryan**—As I have indicated, we have tended to analyse this more through a macro approach. When we are dealing with specific industries, our policy approach tends to be a longer term structural approach. Whether it is support for a particular industry sector, let us say the automotive sector, or the TCF sector the strategies are based around longer term structural approaches to that and we do not alter those programs to deal with short-term fluctuations in exchange rates.

**Senator GEORGE CAMPBELL**—But you may or you may not; it will depend on how severe the short-term fluctuation might be. For example, what has been the impact of the rising dollar on the automotive industry and automotive exports? Has it impacted on them at all?

**Mr Ryan**—I would have thought it would be too early to tell at this stage. What we have learnt from the past is that when we have looked at things like exchange rates it gets very complicated to do some of the analysis. It is complicated because sometimes where you have an exchange rate rise, or an exchange rate fall for that matter, *prima facie* you alter the price of imports, for instance. When we have looked at that in the past, it complicates it because you get into issues about how much of the price change is passed through the system and how much people actually absorb it—whether the importer or other people absorb the change. So there are a lot of complicating factors in there. But in terms of the specific industries, at this point we have not done any specific analysis on the exchange rates.

**Senator GEORGE CAMPBELL**—So when we read in the newspapers about a decline in exports and an increase in imports, you are not able to tell us, or the department does not try to establish, where that decline is occurring and why it is occurring?

**Mr Ryan**—We can give the breakdown of where it happens.

**Senator GEORGE CAMPBELL**—I thought that was what I asked for initially.

**Mr Ryan**—Sorry, I misunderstood. I would treat that as a sort of broad macroanalysis. I thought where you were trying to take the question was: did we drill down specifically into every industry sector to do that, and we have not done that.

**Senator GEORGE CAMPBELL**—I was essentially trying to establish which industry sectors are bearing the brunt of the decline in exports and what that might mean for the longer term interests of that particular sector. Is there a reason, Mr Pettifer, you have come to the table? Have you got some more information for us?

**Mr Pettifer**—You asked about automotive, for example. We have not done any analysis as such but we have certainly spoken to the industry and we are aware of their broad export plans. We are not seeing anything there that suggests that currently the appreciation of the Australian dollar is having a major impact. Toyota is forecasting record exports this year.

Holden has just sent its first shipment of Monaros to the US and there are other shipments to follow. In the automotive industry, they have a natural hedge against the appreciation of the Australian dollar because they import a lot of the inputs, so they get a benefit on that side at the same time as they get an impact on the other side. That is why I came to the table.

**Senator GEORGE CAMPBELL**—Are those comments equally valid for the components sector?

**Mr P. Clarke**—We have not had as extensive a discussion with them as with the vehicle producers, but a lot of the same considerations that Mr Pettifer mentioned would be in operation. The capital equipment for instance, if it is imported, would become cheaper as the dollar went up. So you would have variations. You would also have longer term contracts with them that might take account of that in the business case, so there may be some natural slack in the figures.

**Senator GEORGE CAMPBELL**—Mr Clarke, we all understand the theories behind it, and it is particularly good if you are just about to purchase capital equipment from overseas, but you might not be in a position to do that. I am trying to actually get the specifics. What is the impact on the industry? You say there is no discernible impact on the auto component sector?

**Mr P. Clarke**—The problem with the motor vehicle industry is that in the last year exports were slightly down. In large part, or as far as we can ascertain, that is due primarily to the fact that Toyota stopped producing cars for two weeks, so their exports in the second half of the last calendar year were down.

**Senator GEORGE CAMPBELL**—There is a differentiation between the auto sector as such—the plant producers like Ford, Toyota and Mitsubishi—in terms of full car kits and wherever they export them these days and auto component suppliers who are supplying components in the United States, for example, and other markets. What is happening in that sector of the industry? Have exports fallen off in that sector?

**Mr P. Clarke**—I cannot say that we have had any specific information on that, Senator.

**Mr Pettifer**—We are not seeing a big fall-off in automotive components exports at this time.

**Senator GEORGE CAMPBELL**—Mr Ryan has already said he will give us a breakdown of the data that you have across the various industry sectors where a decline in exports is occurring as a result of the increased dollar.

**Mr Ryan**—If I could just clarify, what we will be able to show you is what has happened with the exports. I am not quite sure we can actually do the link to the dollar. It will tell you what has happened with exports via the various industry sectors in recent times.

**Senator GEORGE CAMPBELL**—I think if you just go and pick up a *Financial Review* it will tell you what value the dollar was on the day you started and what value the dollar is now when you complete your analysis. It will not be hard to make the connection.

**Senator Ian Macdonald**—It will not show it by the day, though, I am pretty sure, Senator.

**Senator Watson**—I think it was Mr Clarke in response to Senator Campbell who indicated that there were planned very large export sales in the motor vehicle area. Mr Clarke, what you did not tell us was that, given the production schedules, a lot of these sales are virtually locked in. So the impact on the motor vehicle industry may be quite severe, depending on where the dollar finishes up next year, because it might be cheaper to sell the cars rather than to stop production. Hasn't any analysis been done on that sort of basis? Manufacturing is now a key component of our balance of trade. When I raised this matter last time, I was rather anxious that there would be certain sector analysis done to help us politicians, to give some idea of the impact on our balance of trade and the health of the manufacturing sector. Would you agree that some of these sales are effectively locked in and that, while it is true that large sales of motor vehicles for export have been planned, perhaps export may be the cheapest way out but they may be incurring some very significant losses or significant drops in profit? Can you tell us anything about likely scenarios or is it commercial-in-confidence?

**Mr P. Clarke**—No, I cannot go into detail on that but the vast bulk of Australian vehicles are supplied to the Middle East.

**Senator WATSON**—That is right.

**Mr P. Clarke**—And I am not sure—

**Senator WATSON**—Sold in US dollars, are they not?

**Mr P. Clarke**—Yes, but there should not be that much of a variation. It is not that that would necessarily cause a problem. These companies are very sophisticated and will have made assessments and may well have hedged against any appreciation.

**Senator WATSON**—That is what we really want to know. Are they fully hedged? If they are fully hedged, there is probably not a problem.

**Mr Pettifer**—Senator, we have not done a detailed company-by-company analysis of the situation.

**Senator WATSON**—I am not sure that—

**Mr Pettifer**—I am sure the companies themselves are looking at this issue and managing their own business strategies to take this into account.

**Senator WATSON**—Do you give advice to the Reserve Bank on the impact of exports?

**Mr Pettifer**—No, Senator.

**Senator WATSON**—Probably because you are not in a position to.

**Mr Pettifer**—Some of these questions perhaps should be better directed to the Treasury if you are interested in the advice given to the Reserve Bank on these issues.

**Senator WATSON**—The Treasury are academics. They do not have the day-to-day feel like you do of what is happening in industry.

**Mr Ryan**—I think the point we would make, Senator, is that the investments in the industries that we deal with are usually taken on a long-term basis, and our policies are really set for those long-term investment decisions. Within the period of those investment cycles, the exchange rate will go up and down. For example, two years ago the exchange rate went from

75 down to 50 and now it has gone back up to 70. So within a two-year cycle it does move around. So when they are making their investment decisions, they are taking a position on where they think they will be and also they manage it within the short time frames in between.

**Senator GEORGE CAMPBELL**—Just coming back to that issue, Mr Ryan, all you say is very true. I presume in most sets of circumstances it is and there would be a reasonable latitude within which companies would make decisions, but that should never prevent you from making decisions in circumstances where you get outside of the railway tracks or have the capacity to act in circumstances where there may be some urgency. I mean, we were able to act very quickly yesterday to excise another couple of islands because it suited our political framework in circumstances of asylum seekers. I assume the same Reserve situation would occur in respect of industry.

I suppose what I am trying to establish is the extent to which the department is monitoring these activities; to what extent you have been able to identify industries that are perhaps bearing a greater part of the burden in terms of the increased dollar than others, what industry sectors, for example, and whether or not at this stage you feel there is a necessity for some shift in policy. Now, there may not be such a need. You might think that the position is still within a comfortable range to allow you to continue with the programs that are currently in place. But it would surprise me if you are not aware of what is happening in the various industry sectors in terms of exports in particular.

We should all say we have got to export more as that is the way to create jobs. I would have thought that we would have been particularly concerned when we see reports in the *Financial Review* and other newspapers that exports are falling off in respect of our manufacturing sector. A couple of weeks ago, one paper said, 'Manufacturing takes the biggest hit as a result of the increase in the dollar'. Now, the extent of the impact of that is another issue. That is really what I am trying to establish. I do not know what Senator Watson is trying to establish; I cannot speak for him.

**Mr Ryan**—We will provide the analysis that we have done to you, Senator, and that is what we are going to do.

**Senator GEORGE CAMPBELL**—Mr Ryan, I think on the last occasion we were here Mr Paterson said that you conduct an external stakeholder survey in order to establish satisfaction with the department in terms of the way the department is functioning. Can you advise us when the last external stakeholder survey was conducted?

**Mr Ryan**—We have had recent results. I can actually give you the exact time when we conducted that survey. It was in June of this year. This is now part of an ongoing rolling program that we have where we survey a broad spectrum of our stakeholders but a different group, so that we do not overburden them with reporting on our performance.

**Senator GEORGE CAMPBELL**—Can you provide us with a copy of the results of that survey?

**Mr Ryan**—Yes.

**Senator GEORGE CAMPBELL**—Thank you. Mr Dainer, I think I asked you on the last occasion what the department's total underspend or overspend for the last financial year was

and I think you told me that you would be able to tell me at these estimates what the final outcome was for 2002-03.

**Mr Dainer**—I was just thinking how best to answer that question.

**Senator GEORGE CAMPBELL**—Why, are there several answers?

**Mr Dainer**—Total underspend.

**Senator GEORGE CAMPBELL**—Under or over?

**Mr Dainer**—It would never be overspend. On the departmental front, after application of the capital user charge, we had a surplus of about \$1.8 million.

**Senator GEORGE CAMPBELL**—\$1.8 million.

**Mr Dainer**—On administered, the underspend—can I just work out a couple of numbers and answer the question shortly?

**Senator GEORGE CAMPBELL**—Sure.

**Mr Dainer**—Go on to the next question or something.

**Senator GEORGE CAMPBELL**—You want a bit of time to do that, do you?

**Mr Dainer**—It will only take a few minutes.

**Senator GEORGE CAMPBELL**—Yes, that is okay. Just while you are doing that, can you also tell us which specific programs were underspent, because that was the next question I was going to ask you?

**Mr Dainer**—Yes, against budget?

**Senator GEORGE CAMPBELL**—Yes. My next question is in relation to a statement made by the minister in question time yesterday. It may well go to Mr Pettifer, I do not know. But the minister stated in answer to a question that the department had awarded over \$150 million to 800 companies in Australia, but he did not break that down as to what that was. Can anyone in the department enlighten us to what this \$150 million was to 800 companies and tell us what that relates to?

**Mr Peel**—AusIndustry makes available to around 9,000 companies per annum about \$1.7 billion. I did not hear or see the question time discussion yesterday, so I am not aware of the 800 companies that the minister may have been referring to.

**Senator Ian Macdonald**—This was yesterday, was it?

**Senator GEORGE CAMPBELL**—Yesterday afternoon

**Senator Ian Macdonald**—Perhaps if nobody has a copy it would probably be useful to have one; do you have it there?

**Senator GEORGE CAMPBELL**—I have it here, yes.

**Senator Ian Macdonald**—Can you make that available to us so that we can have a quick look at it? We do not have it.

**Mr Peel**—A quick look at the documentation would seem to indicate that the minister was talking about funding made available to companies in Australia for innovation under various

grant programs such as R&D Start, COMET et cetera. I can only assume it is potentially an aggregation of the amount paid out to around 800 companies for the last year.

**Senator GEORGE CAMPBELL**—But is this specific data that is available in the department or is this just off the top of the minister's head? I have had a look at all the programs.

**Mr Peel**—I am just not aware of—

**Senator Ian Macdonald**—Perhaps if I can intervene and say that, as you suggest, I am sure it is not off the top of Mr Macfarlane's head. We will take it on notice, Senator, and get back to you with the details of what Mr Macfarlane was specifically talking about. It certainly does seem from reading this that there is some element of R&D in it. That information would all be readily available but obviously the officers just do not have it so we will try and get it for you as soon as possible today.

**Senator GEORGE CAMPBELL**—I am happy for you to do that. Please identify what the break-up is across the various programs, because I have not been able to identify any relationship with that from what we know of the programs.

**Senator Ian Macdonald**—We will get that for you.

**Mr Dainer**—I did not prepare a brief along those lines. Outcome 1.1, which is our industry assistance appropriation, had a budget of \$190 million and approximately \$155 million was spent. I will summarise the appropriations, if you like. In outcome 1.2, payments to the states, the appropriation was \$5.9 million and \$5.5 million was spent. This is on a cash basis. On outcome 2.1, which is our industry innovation appropriation, the budget was \$173 million and \$160 million was spent. For special appropriations, which is a mixture of a whole lot of things, it was \$598 million as budget and \$559 million was spent. On outcome 1.1 there is a difference of \$36 million underspend but \$22 million was actually going for a section 8 approval from the minister for finance. That is essentially for accruals which were on hand at 30 June, so that reduces the number significantly.

We had an underspend in the ships bounty but that is affected by part of the section 8, so that was slightly under. The same with the Stuart shale oil program, which was underspent by \$25.7 million. That was the full amount. Ethanol was underspent by just over \$4 million. The Small Business Interest Rate Relief program was underspent by just over \$6 million. They would be the major elements going to that underspend after you factor in the section 8. That is on outcome 1.1.

Outcome 1.2 was pretty much lineball, as I mentioned. On outcome 2.1, the innovation appropriation, there was an underspend against the industry innovation program of about \$12 million on a cash basis and that was the major underspend there. On the special appropriations the main thing there is the offshore petroleum royalties fund, which goes up and down according to production. There was an underspend in the TCF SIP program of about \$20 million. I can give you a list later on which goes through all the variations.

**Senator GEORGE CAMPBELL**—Can you take that on notice and provide us with that?

**Mr Dainer**—Yes.

**Senator GEORGE CAMPBELL**—Thank you. I have a couple of general questions for AusIndustry. Mr Peel, in answer to a question you took on notice on the last occasion you said that you do not possess the capability to determine which companies are accessing multiple programs that are operated by AusIndustry but that you are in the process of putting a new program in place. When will that new program be in place that will allow you to give us that information?

**Mr Peel**—Senator, this year we are intending to undertake a pilot on a couple of programs to assess the effectiveness of the program that we wish to put in place. If that meets our expectations we would be able to progressively report from, hopefully, about March next year.

**Senator GEORGE CAMPBELL**—Just so I understand what it is you are doing, that will mean that you will be able to identify every company that is accessing more than one program.

**Mr Peel**—It will allow us to do a number of things. At the present time AusIndustry manages a whole range of programs, as you know. By and large, each of them has their own separate management information system and they do not all necessarily talk to one another very effectively. So we are trying to develop what we are calling a data warehouse so that we can gather all that information together and make links—for example, is the Acme company accessing Start, tax et cetera? So that is what we are trying to achieve with that data warehouse so we have better reporting. We can do it at the present time but it is a manual process. Our staff have to spend lots of time aggregating the information and physically putting together the reports. We want to be able to do that at the press of a button with the computer system.

**Senator GEORGE CAMPBELL**—I thought, Mr Peel, all this information was actually available under the old NARS program.

**Mr Peel**—It is available. We can get it but it takes a while to get it out of our individual systems.

**Senator GEORGE CAMPBELL**—It is laborious. On the last occasion you were here I also asked you for a consolidated list of all the programs that the department was running for industry, including the status of each of those programs, what funding had been spent on them, when the completion dates of the programs were going to be and what the estimate of expenditure was in the out years that were still left in the programs. You, in response to that, referred me to an Internet link which would provide me with all that data. I thought it was a bit more than would have been available on an Internet link. We have tried the Internet link and we cannot get it to work. I put my hand up and say that it might have been my fault but three of my staff have come to the conclusion that there is something wrong with the link.

**Mr Peel**—First of all, it was not I who provided—

**Senator GEORGE CAMPBELL**—You were not on the other end of the computer!

**Mr Peel**—I was not on the other end of the computer, nor did I provide the answer; that is an answer from the department. The link should work. If it is not working we will check it out and make sure it does work and get in touch with your office and make sure you get the information.



**Senator GEORGE CAMPBELL**—I think on the last occasion or the time before last the secretary of the department provided us with a list of all the programs and the total package of funding and we said that we wanted that broken down, which they said they would be able to do. We still have not received it and the link does not work.

**Mr Peel**—We do have a hard copy of fact sheets about all sorts of activities, including programs in the department.

**Senator GEORGE CAMPBELL**—Does that give you the funding, where the funding is up to, how much has been spent on the programs, what is left in the programs and what the forward estimates are?

**Mr Peel**—It may not go into that level of detail.

**Senator GEORGE CAMPBELL**—And the completion date of each of the programs.

**Mr Peel**—We would certainly be able to get you that information and, as I say, if that link is not working properly we will check it out and try and get the information to your office as soon as we can.

**Senator Ian Macdonald**—If there is a problem with the link in the future, if you give a quick phone call to either the department or the minister's office I am sure they would fix it up on the spot—if it is capable of being fixed.

**Senator GEORGE CAMPBELL**—I think my staff have done that.

**Senator Ian Macdonald**—Okay.

**Senator GEORGE CAMPBELL**—At the last estimates, you told us you were putting together a list of the industry programs that are run by state governments. Has that been completed?

**Mr Peel**—We are putting together a list of programs provided by Commonwealth and state governments. We have finalised the list of Australian government programs that are available and we have distributed that to a range of our people around the country. We would be happy to provide you with a copy of that.

**Senator GEORGE CAMPBELL**—Thank you.

**Mr Peel**—In terms of the state government programs, we have not had an avalanche of responses from the state governments. We have been out and asked 25 separate organisations across the states for information about their programs. To date, we have only had seven responses, so it is taking longer than we anticipated to get the information from the state governments, but we will continue to try on that. We just do not have enough information at the moment from them to make it worth while even releasing it in bits and pieces, so we are still working on that.

**Senator GEORGE CAMPBELL**—I note that there was a drop in the number of customers serviced by AusIndustry in 2001-02, down from 11,368 to 10,573. In what areas has that decline occurred? Is it partly because of R&D Start?

**Mr Peel**—No, I think if you look at the table that we provided to you, there were a couple of programs that were one-off programs—for example, I think there was a Holiday Incentive Program and an Ansett Holiday Package Relief Scheme that resulted in quite a large number

of customers. But those programs only ran for one year. The main effect is those two short-term programs coming on and going off, so we got back from, I think, 11,300 to about 10,500. There were various changes in other programs but that would have been the major impact—just short-term programs finishing.

**Senator GEORGE CAMPBELL**—I am just looking for that table.

**Mr Peel**—It is on page 5.

**Senator GEORGE CAMPBELL**—I have it now. Is the table you gave me the Ansett Holiday Package Relief Scheme?

**Mr Peel**—Yes.

**Senator GEORGE CAMPBELL**—What is the other one?

**Mr Peel**—You will see there were 300, and it went down to zero. The Holiday Incentive Program was 1,832 and went down to zero. There are a couple of thousand just in those two short-term programs.

**Senator GEORGE CAMPBELL**—Right.

**Mr Peel**—It was fairly stable really.

**Senator GEORGE CAMPBELL**—Yes.

[9.47 a.m.]

**CHAIR**—If there are no further questions, we will now move to output 1.1, Program management services

**Senator O'BRIEN**—I am not familiar with program management services, but I have some questions concerning issues to do with the excise exemption applying to condensate produced in association with natural gas from offshore fields. Is that a policy program management service rather than a policy area?

**Mr Ryan**—Could you repeat the question.

**Senator O'BRIEN**—I want to find out whether there is excise exemption applying to condensate produced in association with natural gas from offshore fields covered under the Petroleum Submerged Lands Act?

**Mr Ryan**—I think the answer is no.

**Mr Hartwell**—I am not sure that I fully understand the question. I believe it might be related to the petroleum resource rent tax but, unless I can understand it with greater clarity, I think we would prefer to take that one on notice.

**Senator O'BRIEN**—I am happy for you to do that. If there is such an exemption, I would like to know how long it has been in place, when it is due next for review and which offshore fields benefit from the excise exemption currently. Could you also provide the estimated revenue forgone as a result of any such exemption for the next four out years.

**Mr Hartwell**—Yes, we can do that. But I want to say that in respect of offshore fields in relation to secondary taxation in Commonwealth waters, with the exception of the North West Shelf leases, they are all subject to petroleum resource rent tax and not excised at all. Within

the North West Shelf there are some special arrangements but, in terms of exemptions on excise, I think we would need to take that on notice as you indicated.

**Senator O'BRIEN**—I would appreciate that. I want to ask some questions about clean coal. I want to find out what funding programs are currently in place and planned for clean coal technology development and commercialisation.

**Mr Hartwell**—On that that particular one, there is certainly a whole range of issues surrounding clean coal. It is certainly the wish of this government to maintain the viability of the coal industry and, as you would be aware, a number of research organisations are spread throughout Australia who are working on things related to clean coal. There are one or two CRCs devoted to that particular issue and, as well, there are various programs which are conducted by research institutions such as universities and such forth. In terms of the specific totality of funding, we would need to check right across all those various institutions to give you a precise figure of how much is actually being spent on clean coal.

**Senator O'BRIEN**—Are there particular programs that should be focused on in that regard?

**Mr Hartwell**—No, I think it is more related to Commonwealth support for cooperative research centres, and that is really what you would be looking for there.

**Senator O'BRIEN**—Okay. Obviously on notice, can you get me the estimated costs of these programs in the next four out years and let me know which organisations—assuming that this is easy to do—are the beneficiaries of clean coal technology funding programs.

**Mr Hartwell**—We can do that.

**Senator O'BRIEN**—Finally, is this the right area to ask about investment levels expected in the biofuels industry or is that policy advice?

**Mr Hartwell**—This is the right area. The issue of biofuels has, as you would be aware, been debated considerably recently. All I can indicate to you is that the government has a broad target of 350 million litres of biofuels by the year 2010. At the moment that issue is being looked at against the background of issues that have surrounded the debate on ethanol and such forth. That review is to be completed by the end of November. It is being conducted by the Australian Bureau of Agricultural Resource, Economics, CSIRO and the Bureau of Transport and Regional Economics. I think they will provide a more precise answer to the question you are asking.

**Senator O'BRIEN**—Okay. Can you obtain the estimated cost of biofuel subsidies in the next four out years for me?

**Mr Hartwell**—Are you referring to the subsidy for ethanol?

**Senator O'BRIEN**—Yes.

**Mr Hartwell**—At the moment, the estimates that have been put forward in terms of the years 2002-03 to 2006-07 total some \$228 million—that is for ethanol.

**Senator O'BRIEN**—Could you give me a breakdown of those years? On notice is sufficient if you cannot do it now.

**Mr Hartwell**—Okay. In terms of breakdown for specific years, we would have to take that on notice.

**Senator O'BRIEN**—Okay.

**Mr Hartwell**—I should also mention—I assume you are referring to production grants for biodiesel as well—that an amount of \$234 million has been allocated there over the period 2003-04 to 2006-07.

**Senator O'BRIEN**—Has the department done work to determine where investment in the sector will occur? I am looking to have an understanding of the regional profile of this industry's development.

**Mr Hartwell**—You would have noticed in the press over the last two weeks or so that there has been a capital grants program announced; it was announced a bit earlier—

**Senator O'BRIEN**—It was.

**Mr Hartwell**—but the details of it were put forward in newspaper advertisements over the last two weeks or so. Basically, that is a program designed specifically for encouraging biofuels production. It is a program, and I will ask Mr Payne to go through the details of that program.

**Mr Payne**—The government has announced that it will provide up to \$37.6 million for the biofuels capital grants program, and that is to be administered by Invest Australia.

**Senator O'BRIEN**—The feedback I have received from proponents of particularly ethanol production plants is that the excise regime has stopped those planned production developments in their tracks and that the capital grants program will be irrelevant to their development. What view does the department have about that?

**Mr Hartwell**—We have had some discussions with some possible proponents under that program. Not all have expressed that view.

**Senator O'BRIEN**—But some have.

**Mr Hartwell**—Some have expressed disappointment that the subsidy for ethanol—the excise exemption as referred to—will cease from 2008, and on competitive neutrality grounds all fuels will be bought into the excise net. But, in recognition of that fact, the government does have a program, as has just been mentioned by Mr Payne, to try and alleviate some of those concerns. But, in a sense, that is the government position at this point in time.

**Mr Ryan**—I think we would have a much clearer idea once the application period closes for these capital bids. As you would expect with any investment profile, there will be a wide range of proponents coming forward with proposals, but some would not come forward because when they do their numbers it does not stack up.

**Senator O'BRIEN**—When do the applications close?

**Mr Hartwell**—12 December.

**Senator O'BRIEN**—Thanks very much.

**CHAIR**—May we take it, Minister, that questions directed to corporate services should be asked under output 1.3? Mr Ryan, perhaps you can help.

**Mr Ryan**—It just depends on what the questions are. Some of them will relate to—

**CHAIR**—Senator Lundy has some questions in that regard. Perhaps I will invite her to foreshadow the area she will be exploring.

**Mr Ryan**—That would be helpful.

**Senator LUNDY**—IT outsourcing and services.

**Mr Ryan**—Outsourcing; okay.

**Senator LUNDY**—The IT contract.

**CHAIR**—It is under outcome 1.1, isn't it? We are not going to deal with that now, by the way; I just wanted to get some guidance.

**Mr Ryan**—The issue does not relate to a particular outcome, so it crosses the board. We can take the question at any point.

**CHAIR**—Thank you very much for that, Mr Ryan. Senator Campbell?

**Senator GEORGE CAMPBELL**—I have some questions on the Biotechnology Innovation Fund. Mr Peel, can you outline to us what changes have been implemented to the NBS as a result of the mid-term review?

**Mr Peel**—Could you repeat that please, Senator?

**Senator GEORGE CAMPBELL**—Can you tell us what changes have been implemented to the National Biotechnology Strategy as a result of the mid-term review.

**Mr Peel**—Sorry; I thought you were asking about the Biotechnology Innovation Fund. Ms Hartland can deal with it.

**Ms Hartland**—The mid-term review was really designed to be a sort of stocktake, and there has now been a final evaluation carried out of the Biotechnology Strategy. That final evaluation is currently being considered by ministers, so there are no changes in place currently. But, as a result of that final evaluation, any changes would be made subsequent to that.

**Senator GEORGE CAMPBELL**—In terms of the issues that are being considered, do they go to the concerns about the costs imposed on business, the need for greater co-operation and coordination between all jurisdictions and the continuing problems with commercialising biotech outcomes?

**Ms Hartland**—All of those issues have been raised in the mid-term review and in the final evaluation and will be considered, yes.

**Senator GEORGE CAMPBELL**—When will the ministerial council consider this final review of the strategy? It was to be in September, wasn't it?

**Ms Hartland**—Sorry?

**Senator GEORGE CAMPBELL**—It was to be in September, wasn't it?

**Ms Hartland**—The biotechnology ministerial council actually met on 15 October. There was preliminary consideration then, but this would form part of budget considerations so there would be ongoing consideration.

**Senator GEORGE CAMPBELL**—When are we likely to know what has been decided or what changes have been made? Is this just going to dribble out on the way through to the budget or will there be a statement by the ministerial council?

**Ms Hartland**—I think that will be up to ministers to decide, but the funding for the National Biotechnology Strategy concludes at the end of this coming financial year so I expect that it will be done as part of the budgetary process.

**Senator GEORGE CAMPBELL**—The stated aim of the review is to determine how well Biotechnology Australia met their objectives. Can you enlighten us as to what the review found in respect of that?

**Ms Hartland**—I would really have to take advice, I think, from the ministerial council on that, given that it is before them and under their consideration—the evaluation is with them currently.

**Senator GEORGE CAMPBELL**—I understand that the evaluation is before the ministers for their determination, but can't you tell us what the evaluation found in terms of Biotechnology Australia meeting its stated objectives?

**Ms Hartland**—There were a series of discussions with stakeholders. Part of that was undertaken by Ernst & Young as independent consultants. Largely, I think the evaluation findings were that the biotech strategy and the themes under that biotech strategy continued to be relevant and that objectives were being met. Largely, they are the findings that have come out.

**Senator GEORGE CAMPBELL**—Did they recommend any changes?

**Ms Hartland**—The evaluation has come up with a number of findings rather than specific recommendations, and they do go to the heart of some of those issues that you dealt with before that came out of the mid-term review. I think the final evaluation does fairly much go along the lines of that mid-term review about commercialisation issues, about whole-of-government approaches, as you have already highlighted.

**Senator GEORGE CAMPBELL**—So the mid-term review has been completed?

**Ms Hartland**—That is correct

**Senator GEORGE CAMPBELL**—That plus the findings has now gone to the ministerial council. When did you say they are due to meet to consider that?

**Ms Hartland**—The ministerial council met on 15 October. They have had a preliminary discussion about that evaluation, but I expect that any final considerations would be made in the budget context.

**Senator GEORGE CAMPBELL**—But what you are saying is that they have not yet signed off on any changes to the strategy?

**Ms Hartland**—That is true.

**Senator GEORGE CAMPBELL**—So it is still under consideration.

**Ms Hartland**—That is true.

**CHAIR**—Senator Harradine, are you ready now? I indicate that I propose to take a 15-minute break at about 10.45.

[10.05 a.m.]

**Senator HARRADINE**—I want to ask some questions of Biotechnology Australia and IP Australia—first of all about the budget for both organisations.

**CHAIR**—Is this in outcome 1 or outcome 2?

**Mr Ryan**—It will be in 1.2.

**CHAIR**—Are your officers in a position to respond to questions right now?

**Mr Ryan**—Yes.

**Senator HARRADINE**—Who manages the budget for Biotechnology Australia, and what is it?

**Ms Hartland**—Senator Harradine, I have a responsibility for the overall budget for Biotechnology Australia. The budget is about \$1.5 million a year.

**Senator HARRADINE**—How much was the amount of money that you recommended to the National Stem Cell Centre?

**Ms Hartland**—Sorry, are you asking about the funding to go to the Stem Cell Centre?

**Senator HARRADINE**—Yes.

**Ms Hartland**—The total funding for the Stem Cell Centre is \$43.55 million. I have not included that in that Biotechnology Australia budget. It is actually looked after through the department itself, and our share of that is roughly half of that, with half of it from the ARC.

**Senator HARRADINE**—How much has been expended?

**Ms Hartland**—To date?

**Senator HARRADINE**—Yes.

**Ms Hartland**—To date, \$12.15 million in total has gone to the Stem Cell Centre.

**Senator HARRADINE**—Do you have a report from the Stem Cell Centre?

**Ms Hartland**—We have regular reporting mechanisms with them, and they also have regular milestones to fulfil. In fact, the funding goes out according to them meeting those milestones.

**Senator HARRADINE**—Thank you. Can we have a copy of those reports?

**Ms Hartland**—Of the milestones that are met?

**Senator HARRADINE**—Yes, and the reports.

**Ms Hartland**—I am sure that we can provide whatever we have to date, yes.

**Senator Ian Macdonald**—Do they provide an annual report to be tabled in the parliament?

**Ms Hartland**—There is not an annual report that is tabled in the parliament but there are half-yearly audited reports that are required and there are annual reports on the substance of what they are providing as well.

**Senator Ian Macdonald**—Are they all publicly available?

**Ms Hartland**—I will have to take that on notice. I cannot see any reason why they cannot be publicly available. I think that is fine because it is all about milestones being met, so that should not be a problem.

**Senator HARRADINE**—Thank you. I have been looking at Gene Technology Information Service fact sheet No. 26, ‘Stem cells’, put out by Biotechnology Australia. Do you agree that a government authority has a grave responsibility when issuing something called a fact sheet to ensure it is accurate?

**Ms Hartland**—I think it says at the end of them that most of them, when it comes to issues like this that a number of agencies have responsibility for, agencies such as the NHMRC, for example, are heavily involved in preparing these sorts of facts sheets and so we liaise with those about the factual details in them.

**Senator HARRADINE**—Isn’t the sheet that I am looking at from Biotechnology Australia, as it says left-hand top? Wasn’t it issued by you? In other words, it has Biotechnology Australia on the left-hand side and NHMRC on the right-hand side.

**Ms Hartland**—That is correct.

**Senator HARRADINE**—Did you issue it? Is it on your web site?

**Ms Hartland**—Yes, that is correct.

**Senator HARRADINE**—It is on your web site? I ask again: doesn’t a government authority have a grave responsibility when issuing something called a fact sheet to ensure that it is accurate?

**Ms Hartland**—Yes, I believe it does.

**Senator HARRADINE**—Okay. This fact sheet, does it not, talks up the possibilities of research using human embryonic stem cells at every opportunity yet downplays the importance of adult stem cells?

**Ms Hartland**—I know that you had relayed to us some concerns about this fact sheet. As a result of that I know that there were some changes made to ensure that there were what we considered balanced views presented on both adult and embryonic stem cells. Certainly, people have different views on the balance of those fact sheets. If you do have concerns with them, as I think we have demonstrated in the past, we are quite happy to take those on board and look at them.

**Senator HARRADINE**—I have not seen that reissued.

**Ms Hartland**—Sorry, Senator?

**Senator HARRADINE**—Does it detail the evidence that is available on what adult stem cells can achieve for cures now, not their potential? You are dealing with potential without any proof of concept whatsoever about the use of human embryonic stem cells, if we stick to the



technical matter, but you downgrade some doubts that adult stem cells have any potential at all. This document says that there is some doubt that adult stem cells have any potential at all. Have you not—

**Ms Hartland**—That is one of the views that is put forward and then there are other views in here. It talks about adult stem cell use and where they have been used. I know that there are vastly different views and I think the fact sheet—

**Senator HARRADINE**—Should we not talk about facts rather than views?

**Ms Hartland**—There are different views in the scientific community that are coming from a factual basis.

**CHAIR**—I suppose you could say, Ms Hartland, that it is a fact that different views are held?

**Ms Hartland**—I think that is right.

**Senator HARRADINE**—Did you, Ms Hartland, not hear about Rhys Jones being cured of his bubble boy immunity problem?

**Ms Hartland**—Yes.

**Senator HARRADINE**—Do you realise that?

**Ms Hartland**—Yes.

**Senator HARRADINE**—He was cured, but this is not mentioned in relation to adult stem cells. I will not waste the time of the committee, but here we are: ‘Treatment using a patient’s own stem cells’. All from peer reviewed journals, here are 13 pages and here are eight pages of actual cures using the patient’s own stem cells. Yet your document, your so-called fact sheet, is downplaying the use of adult stem cells and promoting very much the use of human embryonic stem cells which have no track record at all.

**Ms Hartland**—I do not think it is downplaying the use of adult stem cells. I think it points out what adult stem cells are able to do. It is certainly pointing out the potential of research that is going on with embryonic stem cells and adult stem cells.

**Senator HARRADINE**—There is no mention here about actual successes, and I have just read you 13 pages of peer reviewed journal articles talking of the success of the stem cell of the patient.

**Senator Ian Macdonald**—What document is that, Senator?

**Senator HARRADINE**—This is a document that says, ‘I’m pleased to inform Biotechnology Australia.’ It is a document that was presented to, I think, the Senate Community Affairs Committee.

**Senator Ian Macdonald**—I am just thinking that the officer might have a look at whether their fact sheet can have a link reference to that, if it is a web site production, which would refer people to that.

**Ms Hartland**—We would be happy to do that.

**Senator Ian Macdonald**—I would suspect you could not put the whole 30 pages in a two-page fact sheet, but perhaps the officers could have a look at some reference to that particular paper if it is authoritative or—

**CHAIR**—Are you familiar with the document to which Senator Harradine is referring, Ms Hartland?

**Ms Hartland**—I am not familiar with that specific document, but I am familiar with the sorts of case studies that the senator is outlining, so—

**CHAIR**—Perhaps, Senator Harradine, if we could get a copy of that document that you are referring to—

**Senator HARRADINE**—Yes, sure. By all means.

**CHAIR**—and put it before the witness. In fairness to her, she should have it in front of her when responding to your questions about it.

**Senator Ian Macdonald**—I think, Mr Chairman, the officer could have a look at whether or not it can be included or referred to. If it cannot be, then perhaps as a question on notice she should explain to Senator Harradine what reason it is that she cannot do that. I would seem to me—

**Ms Hartland**—I am more than happy to do that.

**Senator HARRADINE**—Why wasn't the reference made to actual cures by the use of stem cells derived from a patient?

**Ms Hartland**—The fact sheet was designed to give some underlying information to the community, because there are issues out there and confusion about what adult stem cells are and what embryonic stem cells are. It was designed really to get to the underlying information rather than to document the sorts of results that you have got. But I am more than happy to look at supplementing the fact sheet or, as Senator Macdonald said, providing some sort of link outlining that, outlining the actual cases that you have put there, once I can have a look at the document.

**CHAIR**—If I could come in, Senator Harradine. Ms Hartland, the problem is that this is a scientifically controversial area. I imagine that there is a vast body of journal articles and research papers and other studies which could be pointed to in support of one of a wide variety of views, and in preparing what is called a fact sheet, presumably an exercise of discrimination or judgment is made as to which of that variety of views supported by that variety of research data are going to be identified and which are not going to be. That seems to be what is on Senator Harradine's mind. You understand that, of course, don't you?

**Ms Hartland**—Yes.

**CHAIR**—Sorry, Senator Harradine.

**Senator HARRADINE**—You did not hear about the boy in Sydney Children's Hospital—the child who had completely new bone marrow because of a genetic defect: 'completely replaced the bone marrow and a new immune system by the use of her father's stem cells'? This was late last year. You did not hear about that?

**Ms Hartland**—I am aware of a number of those.

**Senator HARRADINE**—This is a fact and you have not got it in here. Why? I want to know why. Why are you drumming up, and acting almost as a lobbyist for, those science technologists who want to do research on and manipulate human embryos for their stem cells? Are you acting as a lobbyist for them?

**Ms Hartland**—No, Senator. The fact sheets try in a very small number of pages, so that the community can have a look at all sides of this debate—and it is a contentious issue—to put all of the issues on the table. Obviously we cannot put every single case study within those couple of pages. To put one side of the argument and not the other would, I think, open us to criticism from other groups, so we try to get the balance right. I know that it is difficult.

**Senator HARRADINE**—Give me one example of a successful use of an embryonic stem cell—one example.

**Ms Hartland**—I think what we are doing in here is just saying—

**Senator HARRADINE**—I am asking you to give me one example.

**CHAIR**—Hang on a second, Senator Harradine.

**Senator HARRADINE**—This is an important—

**CHAIR**—Order, order! Ms Hartland does not come here, as I understand it, as a scientist, and I do not think it is fair to her to ask her scientific questions. It is perfectly fair to ask about the process whereby a document was prepared and what was taken into account and what was disregarded and to criticise the manner in which that was done, but I do not think in fairness you can ask her questions which are basically questions about science.

**Senator HARRADINE**—I understand, but I am not a scientist either; I have been advised. I am asking the question—I think quite legitimately—if she has ever heard.

**Mr Ryan**—Senator, I think what we have tried to explain here is that this fact sheet has been put together to try to explain the different elements of some of the issues that are in the debate, and we have tried to do that in a balanced way. We have taken on board some changes that you have suggested. We are looking to ensure that we are even-handed in this in terms of making sure that it links to the information that you are providing there. If you want some specific information on the science responses then I think we can provide that to you, but we would need to take that on board. But in terms of the fact sheet, we are not trying to lobby for any side; we are simply trying to articulate the sorts of issues that people who are interested in this debate want to know.

**Senator HARRADINE**—I am interested in the debate. One of the reasons is that I am interested—as a participating member of the committee—in the money that was recommended by Biotech Australia for the Stem Cell Centre: \$46 million dollars is not chicken feed.

**Mr Ryan**—Correct.

**Senator HARRADINE**—And from your own department I think it was \$22 million or thereabouts?

**Mr Ryan**—Correct.

**Ms Hartland**—That is correct.

**Senator HARRADINE**—So we are dealing with that. Could Biotech Australia provide the committee with the proof of concept that was used to recommend that that money be to establish the Stem Cell Centre?

**Ms Hartland**—Senator Harradine, it was not Biotechnology Australia's decision to fund the National Stem Cell Centre. There was advice from an expert committee. Biotechnology Australia only provided the secretariat services to that expert committee; it did not take part in the decision making. That expert committee advised ministers. Biotechnology Australia did not have a role in recommending that that \$43.55 million go to the National Stem Cell Centre.

**Senator HARRADINE**—Did you receive a report from this so-called technical committee?

**Ms Hartland**—The expert advisory committee? The report from the expert advisory committee went to ministers.

**Senator HARRADINE**—Did it go to Biotech Australia?

**Ms Hartland**—We received a copy of it through the normal ministerial processes.

**Senator HARRADINE**—But you provided a copy with that report—

**Ms Hartland**—Sorry, Senator?

**Senator HARRADINE**—upon which the recommendation was made?

**Mr Ryan**—We will need to take advice from the ministers. The report is to them and we will need to get that advice.

**Senator HARRADINE**—Will you advise the committee as to whether or not you will provide us with a copy of that report?

**Mr Ryan**—We will take that on notice and respond to you.

**Senator HARRADINE**—I am sorry—

**Mr Ryan**—We will take that on notice and—

**Senator Ian Macdonald**—The answer is yes.

**Senator HARRADINE**—Thank you. In response to my question on notice on June 2003, Biotech Australia provided me with a copy of poll data that deals with human embryos and/or human embryonic stem cells for the past five years, but you did not provide me with any analysis of that poll data. Have you done an analysis of that poll data and, if not, why not?

**Ms Hartland**—We do not tend to do lots of analysis on the data. We take the figures and compile them together but we do not do a lot of analysis beyond that on those figures.

**Senator HARRADINE**—So there has not been an analysis?

**Ms Hartland**—No. An independent research agency undertakes the surveys, we get the results of those surveys and I guess compile the survey information, but then there is not any other analysis done on it, no.

**Senator HARRADINE**—You have had a poll on your web site—I am not sure whether it is still there—which, amongst other things, states:

The American Medical Association has endorsed human cloning for ... research purposes (not to generate new life). Should we do the same in Australia?

What does that mean? If I were trying to answer that question I would be wondering what is meant by 'human cloning'.

**Ms Hartland**—The question was taken from, as you pointed out, an American Medical Association release, and the expression 'not to generate new life' was actually used to try and clarify that the question was referring not to human cloning, in the sense of creating a new human life, a full human being, but to the need to clarify a distinction about medical uses as distinct from human cloning. We undertake lots of different focus groups, and there was confusion in the community about whether, in some questions that we put, we have been talking about the cloning of a human being or the use of stem cells for medical purposes that would not then end up with, as a result, a human clone.

**Senator HARRADINE**—But why would you ask that? That is routine clinical procedure in Australia already. Why would you say, 'Should we do the same in Australia?'? That is routine clinical practice now.

**Ms Hartland**—One of the reasons to undertake a variety of different surveying techniques is to input into policy advice to see what the ethical concerns are of the community in order to provide advice to ministers to make good policy.

**Senator HARRADINE**—I really think you had better have a look at who is putting this stuff on your web site and who is doing your fact sheets. Don't you understand that the human cloning that you are asking the people about is the cloning of tissue and so forth? Are you asking the Australian people, 'Should we do the same in Australia?'? Didn't you know it has already done just that? As I say, it is a routine clinical procedure. Chair, I know these are technical questions, but I really do feel that somebody has to get a—

**CHAIR**—Senator Harradine, I am listening carefully to every question and any question I do not overrule is allowed.

**Senator HARRADINE**—Thank you.

**Mr Ryan**—Without knowing the details of this survey, there are a couple of points that are worth making. One is that, as you point out, the question is taken from a survey that was done in the US, and one of the things that might be being taken into consideration is that when you are trying to compare the survey results in Australia with those of the US you would be looking at some reference points between the two, so similar questions would make sense, it seems to me. But the other issue is that it would also, I would imagine, be important to know, while we do undertake certain practices now, whether the community reaction is whether that should be the case into the future. That would be some of the thinking, I would have thought, that may have gone into such a question.

**Senator HARRADINE**—Biotechnology Australia has a commercial focus.

**Ms Hartland**—No, Biotechnology Australia is actually an agency that is made up of five agencies, including the Department of Health and Ageing, so it has a whole range of responsibilities. There are commercialisation aspects under the themes of the biotechnology

strategy and industry development, but there are also health and safety issues involved as well, so I do not think it is true to say that it has a commercialisation focus.

**Senator HARRADINE**—I am sorry to expose my ignorance but could you just explain to me what is Biotechnology Australia?

**Ms Hartland**—Certainly. Biotechnology Australia answers to a ministerial council of five ministers and acts as a coordination and facilitation point for those five departments, for non-regulatory biotechnology issues—that is, the Department of Health and Ageing, the department of agriculture, the department of the environment, the department of industry and the Department of Education, Science and Training. So when we provide information to the ministerial council it is on the basis of advice from all of those agencies. Hence, when you see ‘Biotechnology Australia’ on the top of the fact sheets, that is then a collaborative exercise with all of those agencies, including the department of health.

**Senator HARRADINE**—Thank you. What about IP? Is IP part of—

**Ms Hartland**—It is not specifically part of Biotechnology Australia, no. It depends on which aspects but, within the innovation division, which I also look after, we have some role with IP Australia.

**Mr Ryan**—I think it is going to depend on what your question is, Senator.

**Senator HARRADINE**—I will ask IP. Thank you, Ms Hartland. What importance do ethical and social considerations have in the issue of patents relating to human genes?

**Mr Heath**—The patenting process essentially requires applications to be examined against three criteria: novelty, non-obviousness or inventiveness, and usefulness. The social and ethical issues relating to the role of that particular invention are, generally speaking, not taken into account at the point of examination. There are some exceptions to that. There is the broad view that an invention which is illegal from all points of view would not go through the system. Generally speaking, the patenting system leaves the question of the social and ethical uses of a possible invention to the rest of the legal process, to the parliament, to the law and to society generally.

**Senator HARRADINE**—Do you know what Europe does? Does it not take into consideration the ethical and social aspects?

**Mr Heath**—The European Patent Convention and the European Patent Office have in their broad criteria the notion of the ‘ordre public’, a French expression which is broadly taken to include ethical matters. There are, however, very few instances where that clause is actually applied in the patenting application process, but it is used to try to draw a line again about what matters may be able to be considered for patenting per se.

**Senator HARRADINE**—What about in the field of stem cell research? I noticed that the Biotechnology Centre of Excellence’s Backing Australia’s Ability statement by three of the ministers says, under ‘Commercialisation and Intellectual Property Management’:

The field of stem cell research has excited significant investment globally because of its capacity for potential returns from all phases of research. The research and development plans for the Centre—

that is, the National Stem Cell Centre—

have the strong prospect of early, mid and long term returns. There is the clear prospect of licensing of new intellectual property ...

From what you are saying, the Patents Office does not take any notice of ethical or social considerations when issuing a patent.

**Mr Heath**—Yes, in the sense that when we are examining an application for a patent, that is not a criterion which my office applies to that part of it. In relation to stem cells, for example, both embryonic and adult stem cells potentially could, subject to meeting the tests of novelty, non-obviousness and usefulness, be applied for as patentable inventions and could acquire a patent.

A good example is that, if I understand your position, if it were the case that the parliament decided that there would be no possible use of embryonic stem cells, the patenting system would still issue a patent in an appropriate circumstance in relation to such a stem cell, but the owner of the patent, if that other legislation existed, would not be able to exercise that patent because the law prevented them. In the same way, we would issue patents in relation to, say, weapons, but there are plenty of laws around which can be applied to prevent the owner of that patent actually building and using that weapon because the rest of the legal framework deals with those sorts of issues. So if it is an invention then we will issue a patent. If the invention cannot be used in this society then there are other legal frameworks which make that the case.

**Senator HARRADINE**—The Biotechnology Centre of Excellence proposes to safeguard its inventions through intellectual property rights, as I have said, and to recover and invest the costs through the issuing of licensing through the establishment of patent law. How might the centre of excellence do this in a way which is consistent with the Patents Act, particularly with regard to section 18(2), which states:

Human beings, and the biological processes for their generation, are not patentable inventions.

**Mr Heath**—Australia has a patent system which broadly allows all technologies to be capable of being patented. One of the major exceptions under the legislation is the one you refer to—namely, we do not issue patents in relation to human beings or the processes for the generation thereof. That has been interpreted by my office. There has been very little legal interpretation of that outside of my office as allowing patents relating to, for example, human cells. It would not allow a patent, for example, in relation to a human embryo, but it would allow a patent in relation to a human embryonic cell. There is a difference between—

**Senator HARRADINE**—Yes, I understand the difference.

**Mr Heath**—those two things. That is where the line is being drawn as we speak.

**Senator HARRADINE**—No matter where it comes from. Haven't there been some concerns expressed about this? Are you aware of any concerns about this matter?

**Mr Heath**—I am aware that there is general, social and political debate about what I would describe as the patenting of life forms in many guises. I think you would be aware that the government some time back asked the Australian Law Reform Commission to have a look at the issue of patenting in relation to genes, specifically, as I understand it, because of the

awareness that we have this ethical debate, this social debate, going on in the community. Further advice on the subject seemed to be a sensible way to deal with it.

**Senator HARRADINE**—Have the Australian Law Reform Commission issued a paper?

**Mr Heath**—They have issued an issues paper. My understanding is that the next stage in their process was that they sought responses to that. That has closed. They will issue what they call a discussion paper, which usually indicates the sorts of areas where they see there are problems with the current law and the sorts of things which they think it might be useful to change. Then they will issue a final report which recommends to government where changes may be desirable.

**Senator HARRADINE**—This is the last question, I hope. We have to go to a break, don't we?

**CHAIR**—Senator Harradine, I do not want to confine you. If you are about to finish your questions, we will just bear with you.

**Senator HARRADINE**—Thank you. There was an article in the *Journal of Law and Medicine*. This is a question for Mr Ryan. The article is headed 'The Attack of the Clones: patent law and stem cell research'. It is by Matthew Rimmer. A summary of the article says:

The article maintains that there is a fundamental ambiguity in the Patents Act 1990 (Cth) as to whether stem cell research is patentable subject matter. There is a need to revise the legislation in light of the establishment of the National Stem Cell Centre and the passing of the Research Involving Embryos Act 2002 ...

Has the department considered this issue and come to a position as to whether this is in fact the case? If not, could you take that on notice, please.

**Mr Ryan**—I think we may be able to give you an answer but—

**Mr Heath**—I am not familiar with that particular article by Matthew Rimmer but I am familiar with Matthew and a number of his publications and presentations. I think there is, as I indicated before, a line which needs to be drawn to interpret that clause in the Patents Act that you described before, and I tried to outline before how my office currently draws that line. As I mentioned, there has been no judicial interpretation of the drawing of that line by my office since it was introduced into the legislation in 1990. So at this stage, from my office's point of view, we do not and are not proposing to government that there be any further clarification, as Matthew is apparently indicating, in that article, he believes is necessary. We accept that we are drawing a line in a continuum but, as I have outlined, we believe we are drawing the line appropriately and lawfully. There has been some academic commentary on the drawing of the line, such as the quotes you made, but no serious discussion that I am aware of that the line is not being drawn in the proper place.

**Mr Ryan**—I would also have thought that the appropriate time to look at the issue would be before the Law Reform Commission process goes through.

**Senator HARRADINE**—Is that from the department's point of view or from our point of view?

**Mr Ryan**—From a government point of view.



**Senator HARRADINE**—And when is that expected, do you know?

**Ms Hartland**—I think the report is due to come out in December. December, I think.

**Mr Heath**—My understanding is that the aim is to complete the process by the middle of next year.

**Ms Hartland**—Yes.

**Mr Heath**—So the recommendation should be in the government's hands at that point.

**Senator HARRADINE**—And a quick one, Matthew Rimmer says the patent office reported:

To date IP Australia has granted 4 patents for cloning processes applicable to non-human mammals and routinely grants patents for both human and animal cell lines, DNA ...

But on the cloning processes you have issued four patents?

**Mr Heath**—In relation to non-human animals.

**Senator HARRADINE**—Yes. What was that process?

**Mr Heath**—I could not answer that, sorry.

**Senator HARRADINE**—I wonder whether you could take that on notice.

**Mr Heath**—I could find the patents.

**Senator HARRADINE**—Thank you.

**CHAIR**—Thank you, Senator Harradine. We will have a short suspension.

**Proceedings suspended from 10.46 a.m. to 11.04 a.m.**

**CHAIR**—Welcome to the table, Senator Minchin. The hearing is resumed.

**Senator Minchin**—Thank you, Chair.

**Senator GEORGE CAMPBELL**—Mr Noonan, at the last estimates hearing you informed the committee that it is within your discretion whether exit survey reports are made available to the executive committee. Is that correct?

**Mr Noonan**—That is correct.

**Senator GEORGE CAMPBELL**—I think you went on to say that you only bring a report to the committee's attention if there was a trend of dissatisfaction within the department.

**Mr Noonan**—As with a range of management reports, I report on an exceptions basis. I gave a general dissatisfaction as an example of an exception that would warrant drawing it to the attention of more senior officers.

**Senator GEORGE CAMPBELL**—Right. I have in front of me the April 2002-03 exit questionnaire report compiled by Davidson Trahaire. Are you familiar with that report?

**Mr Noonan**—Yes.

**Senator GEORGE CAMPBELL**—The report makes a number of observations, including that the number of employees departing the department within the first two to three years is high and may indicate a need to review recruitment and selection practices and retention strategies. It goes on to say that there is a significant level of information indicating that

employees are leaving ITR to seek increased job satisfaction and challenge. The third point it makes is that responses indicate some concern over the communication within ITR, with 59 per cent of participants rating it either fair or poor. Do these trends concern you?

**Mr Noonan**—Certainly these are trends that have been discussed by the executive of the department in the context of a review of human resources practices and strategies generally that was conducted at about the same time. A number of strategies have been identified that I think address all of the points that were made in the Davidson Trahaire survey.

**Senator GEORGE CAMPBELL**—Can you outline to us what actions the executive committee has taken in response to these outcomes?

**Mr Noonan**—Yes. Principally, we have adopted what we call a people investment framework within the department. The executive has seen a draft of that document. It has not yet been issued to the staff but that should happen within the next short period. Some of the areas that are being tackled there relate to recruitment, for instance, where there is a question about whether the recruitment practices are actually telling people what the job involves and whether those who are making selections are doing the job as well as they could. Those both might be reasons for the trend which you mentioned about an unusually high number of people leaving within two to three years. That suggests a mismatch—people come in with a misunderstanding on one side or the other.

We have already moved to improve recruitment advertising by not only revamping the format of our ads but also trying to draw out the components of the job more effectively into the ads rather than getting bogged down with the formalities around the selection process, as I think we tended to do in the past. We have launched that in the last month or so. Hopefully, that will lead to better quality applications coming forward. We are also looking at evolving some work force planning so that we can have a better departmental-wide understanding about the types of skills that we are trying to get into the organisation. That should hopefully provide some guidance to selection committees as they go about their task. Once people are within the agency, providing better feedback is an element that was highlighted as a need and was also included in the report from Davidson Trahaire. We have just started a series of workshops on giving and receiving feedback, which will be available to all staff and managers so that there is feedback in both directions and it flows earlier and more satisfactorily, before it becomes a problem that encourages someone to leave.

**Senator GEORGE CAMPBELL**—You say that these issues that are raised in the exit surveys have been discussed in the executive committee. To what extent has there been consultation with the staff about the issues that have been raised and what input have the staff had into the process of developing the response to the Davidson Trahaire report?

**Mr Noonan**—I mentioned that there was a process already under way which was conducted by a firm called Yellow Edge, and they have done quite a deal of work. There was a survey of staff broadly, some focus groups of staff, and detailed discussions with the HR professionals and senior officers within the department.

**Senator GEORGE CAMPBELL**—What have those consultations thrown up so far?

**Mr Noonan**—Broadly, they have thrown up that we had weaknesses which correlate quite closely with the weaknesses in the Davidson Trahaire survey—it was not all bad news by any

means. We had asked them to look across the whole of the HR framework and, in a number of areas, the feedback was that we were doing well. But there were certainly some areas, and recruitment was perhaps the most fundamental one, where we were not doing as well as we should be doing.

**Senator GEORGE CAMPBELL**—When will the outcomes of this process be at the point of implementation, or is that ongoing?

**Mr Noonan**—It is really an ongoing process. We have started to address some of these areas such as in the recruitment advertising which I mentioned. What we have not done is release the overall plan for the next two to three years, which is what we are working on at the moment.

**Senator GEORGE CAMPBELL**—Will the staff be heavily involved in developing that overall plan?

**Mr Noonan**—The staff have been well involved in the manner in which I described in identifying the issues, and it is then a question for the department to respond to those issues. Certainly, once the plan is published, it will be available to all staff and people will be able to comment on whether they think some aspects have been overlooked. A number of things are being done that are straightforward, I think, and consultation is not immensely required for our ads to be improved, for instance.

**Senator GEORGE CAMPBELL**—Will you actually consult with staff before you implement the plan when it is in the draft stages or will you simply say, 'Here is the plan, this is what we intend to do'?

**Mr Noonan**—I think the proposal would be to put the plan out. It is a two- to three-year plan and consultation, through the formal mechanism of the workplace relations committee and more generally with staff, would be a natural flow-on from that. Although we have not looked at plans for evaluating progress yet, I imagine we will have a strategy for that once the plan is sufficiently under way.

**Senator GEORGE CAMPBELL**—When do you expect this process to be completed?

**Mr Noonan**—We are looking, at the moment, at the end of 2005. In one sense, human resources issues are never completed, but we hope to address the issues that we found this time around by a program that extends out to 2005.

**Senator GEORGE CAMPBELL**—I thought you just looked unhappy because you were at estimates! I have some questions in regard to the Invest Australia Supported Skills program. Mr Jones, I asked you a number of questions on the last occasion about this program. I got a detailed set of answers to a number of questions which were taken on notice, and I want to go to those answers. You said that your first target for 2003 was to establish the IASSP. Has this been achieved successfully and is the program now fully operational?

**Mr Jones**—Yes. The new supported skills program is operational. Details of the new program including guidelines are on Invest Australia's web site. So the old regional headquarters program has now been completely replaced by the new supported skills program.

**Senator GEORGE CAMPBELL**—You said that your second target was to establish the supported skills agreements with five companies. Has this occurred?

**Mr Jones**—Not yet. We are in the process of finalising the first agreement with a company at the moment.

**Senator GEORGE CAMPBELL**—Right. Are you in a position to name the companies that you are looking at?

**Mr Jones**—I am not at the moment, no.

**Senator GEORGE CAMPBELL**—In terms of the criteria that you provided after the last estimates, the second paragraph states:

Agreements will be granted for three years, although individual visas, once granted extend beyond the period of the agreement.

Does this mean that under the terms of their visas, once workers have completed their role in the project, they are free to stay in Australia and seek employment in areas where Australian workers could be utilised?

**Mr Jones**—Not quite. The agreement is with the company if you like. So the agreement covers a number of individuals who may be brought in to work on a particular project. But then the individual visas will be granted depending on the circumstances applying to that individual. It is not anticipated certainly that they would stay on to look for alternative employment and compete with Australians for jobs in that sense that you mentioned. But the details of the individual visas will vary depending on the individual.

**Senator GEORGE CAMPBELL**—What does that mean? If you are saying that they will not be here to compete with Australians for jobs, if they have an open visa and they are able to stay beyond the life of the program, what is to stop them?

**Mr Jones**—Again, it will depend on the type of visa that is granted to these employees. Some of them may be granted permanent visas. If they have got a permanent visa, it is difficult to stop if they change employment for whatever reason. But again, the agreement itself is with the company for a particular purpose and the visas are granted with that purpose in mind.

**Senator GEORGE CAMPBELL**—If this is a program that is signed off with companies for a particular purpose, why would the visas not fit the purpose of the program? Why would the visas be different?

**Mr Jones**—The visas do fit the purpose of the program when they are granted, but the types of visas that can be granted will vary depending on the circumstances of the individual employee.

**Senator GEORGE CAMPBELL**—But that is the point I am asking: why would not the visas be limited to the specifics of that program? Why would someone be able to come into the country through this process and then have a wider access? And if they have the capacity to get here on a wider access, why would they need to go through the company program?

**Mr Jones**—I think essentially because we are trying to provide some degree of flexibility, both for the companies and for the individual, it is difficult to anticipate when the agreement

is first struck precisely which employees will be brought in and under what circumstances they will need to be brought in. That is why the agreements themselves are for a limited duration but also flexible in that sense. That is a key attribute of the program—its attractiveness to companies that try to use it. Then decisions are made on visas for individuals depending on the circumstances of that individual. So they still need to go through normal visa checks, and the company's purpose for bringing the employee in will be taken into account when the individual visas are granted under the program. I guess we try not to be too prescriptive in that individual visa issuing process because that does reduce the flexibility and therefore the attractiveness of the program in the first place.

**Senator GEORGE CAMPBELL**—But, Mr Jones, you can understand the issue I am raising. I think it is one thing to have an agreement with companies that may be involved in major projects in this country and maybe there is validity in the argument that says there are people out there with specialist skills that we do not have in this country, so you would bring them in to perform work related to that particular project. But I am struggling to understand why you would have a visa process that would extend beyond the specifics of the project. In the document, in the benefits section of the guide, it refers to streamlined and fast track visa processes. It also talks about exemption from some immigration checks, and you have to read into that that these people are going to bypass the rigidities of the system that currently applies to everyone else who may apply for a visa to enter the country.

**Mr Jones**—I think it is easier to see this program as a sort of prequalification process. The reason that some of the checks can be avoided is because the company has already provided a lot of the background information in terms of getting the agreement in the first place. Then some of that background information can be used when assessing the individual's visa applications. It is not intended to use this program to completely circumvent the normal visa requirements, and in fact we make it clear in the guidelines that are issued, that while supported skills programs status provides priority assessment for applicants, the period that an individual has to go through to get a visa under this program still varies depending on the type of application, the country of application and the nationality of the passport holder. So it is still the case, as we say, that a temporary entrant from a low-risk country would find it easier to get a visa than somebody looking for a permanent entry from a higher risk country, but that would be regardless of whether they applied under this program or not. So the normal sort of checks and balances still apply and the risk factors applying to individuals are still taken into account in deciding on that individual's visa application. What this program does is to, as I said, almost provide some prequalification by making sure we understand the reasons for those individuals seeking visas and it provides a lot of background information up-front about what the company and what the individuals have in mind.

**Senator GEORGE CAMPBELL**—But presumably the reason for seeking the visa is related to whatever the particular project might be that the company is undertaking?

**Mr Jones**—That is true, but—

**Senator GEORGE CAMPBELL**—If it is wider than that then why do they not have to go through the normal processes anyone else has to go through?

**Mr Jones**—They still have to go through an individual visa application process.

**Senator GEORGE CAMPBELL**—If they have to go through exactly the same processes that anyone else has to go through, what is the purpose of the agreement?

**Mr Jones**—It is not exactly the same process in the sense again as I said that this program provides a priority assessment for applicants and therefore makes it easier for—

**Senator GEORGE CAMPBELL**—Mr Jones, it has to be one or the other; either it is the same or it is not the same, it cannot be both.

**Mr Jones**—I guess what I am trying to say is the fact that a company has applied successfully for this status does not mean that the individuals then forgo all of the normal visa application checks. They still have to go through that process. But in the same way that we do not precisely limit the applicability of a visa for any other individual coming into the country, we do not seek to precisely limit the applicability of the visa under this process either. I mean, it would be counterproductive to do so.

**Senator GEORGE CAMPBELL**—But we do. We have limitations on a whole range of visas for people coming into the country.

**Mr Jones**—I am not sure we have limitations of the type you are alluding to here

**Senator GEORGE CAMPBELL**—But there are limitations applied on a whole range of visas for people who come into the country.

**Mr Jones**—There would still be limitations and conditions attached to the visas applied under this program, but, again, if—

**Senator GEORGE CAMPBELL**—But if that is the case, why would you have a visa that extends beyond the program of the project?

**Mr Jones**—It is not a visa that extends beyond the life of the project, it is a visa that extends beyond the agreement that is entered into with the company. Again I make the distinction: the agreement is with the company. The agreement typically lasts for three years. The project itself may last for five or six years, say, and there may be a need for that managerial or specialist expertise for five or six years. We would not limit the term of the individual visa to the term of the agreement where the project extended beyond the life of the agreement.

**Senator GEORGE CAMPBELL**—Why would you have a three-year agreement on a project that is going to last for five years?

**Mr Jones**—Because once the project is up and running, once the project is established in Australia, some of the rationale for the program disappears. The program is to make it easier for companies to establish here to bring in, say, managerial and specialist staff that might be needed to set up an operation in Australia. Once they are established, once the project is up and running, some of that rationale disappears. The company is established here, understands the local market a little more, has the chance to train local staff to understand the local labour market, so the rationale for the program helping to establish the company has disappeared.

**Senator GEORGE CAMPBELL**—Is not the reverse also the case? Is that not an impediment to a company becoming established? If it is a five year project, why would they sign off on a three-year agreement? Why would they not say: ‘Hang on a minute; you want us

halfway through the project to renew an agreement without knowing what the outcome might be. We need these people for a five year period'?

**Mr Jones**—And as you have pointed out they have the opportunity to bring in people for a five-year period. Under a three-year agreement, they could not bring in people for a five-year period in year four.

**Senator GEORGE CAMPBELL**—But I am trying to understand in your terms, Mr Jones, what the rationale is for having a different time frame for the three-year time frame for example as opposed to the time frame that may cover the project. Why is there a disconnection between the project and the visas?

**Mr Jones**—The term of the agreement is struck at three years because, in our experience I guess, that is a reasonable time frame to enable companies to establish in Australia, to bring in their initial key personnel, to become well established and to start to understand more about doing business in Australia. So the program is put in place to attract foreign investment into Australia by making it easier for companies to establish here. It is not aimed at companies who are already established here. That is the reason for the limited duration of the program.

They can reapply after that three years if there is still an argument that, for example, they are expanding operations into new areas or doing something new that essentially means they need the advantages of the program to apply again. But once they are established here, the rationale for this program as an investment attraction device has disappeared and we would expect that they would then be able to go through normal immigration processes if they want to bring in further personnel, but—

**Senator GEORGE CAMPBELL**—Is it true that under this agreement, where persons come across on the terms of the visas that you have outlined, the potential is there for them to stay beyond the period of the project and to seek alternative employment in Australia?

**Mr Jones**—If that is the type of visa that they obtained on entry, yes, but if a key employee has been required to be brought into Australia to establish a company, and has obtained a permanent visa for whatever reason, then I do not see why we should constrain that individual in a way that other permanent visa holders are not constrained.

**Senator GEORGE CAMPBELL**—But you say that the purpose of the agreement is to make it easier for companies to set up here.

**Mr Jones**—Yes.

**Senator GEORGE CAMPBELL**—So I am presuming that the visa application is about making it easier for them to bring their personnel into the country, other than through the normal process. If that is not the case, why do they not have to go through the normal process? If it is about making it easier for them to get through the normal process, why would they have the same access that other people who have gone through the process would have?

**Mr Ryan**—I think part of the answer is that obviously for a pool of employees, some of them could have applied for a visa depending on their nationality or whatever arrangements applied to their entry.

**Senator GEORGE CAMPBELL**—Sure.

**Mr Ryan**—And I think what Barry is saying is that those rights still remain. So not every employee benefits from this program in any sort of priority way in that sense, but there would be some who would fit within the time frame who would be more limited.

**Senator GEORGE CAMPBELL**—Yes, but I understand that the objective behind this is to be able to say to companies: ‘You can come and set up here. We recognise you have got special skills that you require to do that. Those skills may not be available in Australia. If you require to bring skilled personnel in, we will facilitate that process.’ What I am saying is, the way in which this is written, this has shifted the focus away from bringing people in specifically with the skills for that process who may or may not meet the broader requirements of our immigration laws. But by having done that, we are then potentially saying they could have a wider visa. So they can actually seek admission here because they have particular skills for this process, then have a wider visa to go and seek employment generally within the Australian community. We have had examples, and I will come to this later on. We have had examples of people coming in here as fertilizer plant construction engineers who were steel erectors. I think Mr Jones is aware of the incident in Western Australia over that particular example and there is a whole range of others that I could recite chapter and verse about. So it just seemed to me that if we are talking about bringing people in specifically for a project, why is a visa not limited to that project?

**Mr Jones**—The visas they obtained are not a special class of visa. They are still granted visas that are available outside of this program, so they are granted visas under a couple of classes of visa that are applicable anyway to people being brought in.

**Senator GEORGE CAMPBELL**—How does this program then assist them?

**Mr Jones**—Because again as you have pointed out, this provides priority access to those classes of visas if you like. It makes it easier for the employees of the firm to apply for visas under those classes because this agreement is already in place. Essentially that is all it does. It provides easier access to classes of visas that are available to them anyway, but the fact that they have gone to the trouble up-front to tell us about their plans, gone to the trouble up-front to provide a lot of the background information that is required, makes it easier essentially for those employees to obtain access to those classes of visas.

**Senator GEORGE CAMPBELL**—What sort of benefits would this bring them in terms of the immigration department—priority access?

**Mr Jones**—Priority access and easier access I guess. As you have said, it does dispense with some elements of the visa checking process again because a lot of that information has been provided up-front.

**Senator GEORGE CAMPBELL**—What elements?

**Mr Jones**—I would have to take that on notice. I do not have specific examples of what kind of visa access could be provided, but I would be happy to provide some examples to you on notice.

**Senator GEORGE CAMPBELL**—The fact that they would get priority access, what problems does that create for others who may be in the immigration queue?

**Mr Jones**—I am not sure that it creates any particular problems because of the type of—



**Senator GEORGE CAMPBELL**—They are going to be queue jumping, aren't they?

**Mr Jones**—They are not queue jumping in the sense that we are talking about particular classes of migrants.

**Senator GEORGE CAMPBELL**—But you are talking about giving them priority access; you must be giving them priority over somebody.

**Mr Jones**—We may be giving them priority over people who have no particular job in mind when they come here, for example. I do not believe that creates any problems. These are people being brought in because the company has been able to demonstrate to our satisfaction that there are economic and other benefits arising from that project locating in Australia. Therefore, there are strong arguments why the particular individuals needed for that project should be given access to Australia in order to establish it providing they meet the normal checks applicable to those individuals.

**Senator GEORGE CAMPBELL**—Yes, and what I am saying to you is that in those circumstances there can be some logic to that argument, if their entry is limited to that project and the purpose of that project. But, if it is wider than that, why should they have any rights over any other individual who has put their name on the queue to come here and who may or may not have the same skills or operate in the same field?

**Mr Jones**—Because at the time of entry into Australia they are being brought in to work in a particular project and, I presume, will have some contractual obligations to the person bringing them in to ensure that they stay working in that project.

**Senator GEORGE CAMPBELL**—Will it be a consideration that they have to have a contractual obligation?

**Mr Jones**—That is not a specific requirement, but we do monitor these agreements, we do conduct evaluations—

**Senator GEORGE CAMPBELL**—Mr Jones, if it is not a specific requirement and they get a visa and they come into this country, they are here legally, I presume, and they can walk away from that project tomorrow and go and get employment elsewhere in the community. What is to stop them doing that?

**Mr Jones**—To my knowledge, not much apart from their obligations to their employer.

**Senator GEORGE CAMPBELL**—But, if there is no contractual agreement, they do not have any obligations.

**Mr Jones**—But I am not sure that confers a particular advantage, in the sense that the individuals concerned are only granted access to Australia because, in a sense, the employer has nominated them as being essential under the terms of the agreement that was struck with us in the first place. I guess we are transferring a certain amount of the risk to the employer to ensure that the employees they nominate for this class of visa are going to be reliable and are going to stay with the firm, but it is difficult to envisage an individual being able to use this system to queue jump, if you like, because it is not up to the individual to apply; it is the employer. The onus is on the employer to nominate the individuals and to tell us which individuals need to come into Australia. So again it is difficult to envisage this being used to queue jump.

**Senator GEORGE CAMPBELL**—You are assuming that every employer in all these circumstances will be straight up and down, up-front, honest and beyond reproach and will not engage in bringing in someone who wanted to get into the country.

**Mr Jones**—It is always possible for employees to be less than perfect, as with all of us, but the kinds of checks that we engage in up-front are designed to determine whether or not the purpose is genuine, whether the project is genuine and whether there are likely to be risks in entering into an agreement in the first place, so some of those considerations would be taken into account in our screening process, if you like, up front. The other point I would make is that this is not a large-scale program. This applies, as you have indicated, to five or six companies a year. This is not a huge program. It is designed as an attraction tool for particular projects and it is not a large-scale program, by any means.

**Senator GEORGE CAMPBELL**—I understand that, Mr Jones. Presumably in the scheme of things the impact may be marginal, but if I was someone in the queue that missed out because somebody got a jump ahead of me then I would feel the impact is pretty substantial on the individual. But I still fail to understand why, in the absence of any contractual arrangement between the individual and the company, this program would allow them to access Australia in a priority position in a set of circumstances where they could walk away from that company the day after they arrive on the shores and become part of the Australian work force, which may or may not deny people who are job hunting and unemployed here access to a job that may be available for them. I do not see anything in these criteria that builds in any protections in this area.

**Mr Jones**—One of the protections is that the applicability under this program involves the company demonstrating that the skills are not available in Australia in the first place, so this is not designed to deny Australian jobs; this is not designed to make it easier for companies to bring in skills that are already here. This is designed to bring in particular skills that ordinarily are not available in the Australian work force because of the nature of the individuals concerned for the particular purpose of establishing the company.

**Senator GEORGE CAMPBELL**—I understand that and I am not arguing against that point. That is not the point of my argument. The point of my argument is that would have some validity if you said, ‘Yes, we understand those skills are not available here and we understand you have a project’—I would have thought you would have signed up for the life of the project but you sign for three years—‘and we are prepared to admit Einstein’s brother for whatever it might be on a visa provided that he has a contractual arrangement with you and will work on that project and that that visa will expire on the conclusion of the project.’ I would assume that those individuals would then have to go back to wherever they came from and, if they loved this country, apply to come back in the normal way that others have to do. But I do not see any of those safeguards in the document here. I think the second paragraph says:

Companies wishing to obtain visas for very small numbers of personnel, or which are seeking staff for existing investments, should access other business immigration programs.

It does not say that the only way they can get them in is through other business immigration programs; it says they are ‘are advised to consider them’. Does a reverse cap apply? Is there a minimum number that they need to bring over to be eligible for access to this program? And,

if there is not, why is there the reference to small numbers of personnel? I would have thought, whether it is one or 20 for a particular project, if they meet the criteria you are talking about then they would get the access.

**Mr Jones**—In effect, there is no minimum number that they need to bring in to apply for this scheme.

**Senator GEORGE CAMPBELL**—Why is there the reference that for ‘very small numbers of personnel’ they should seek to access other business immigration programs?

**Mr Jones**—Generally it is because it is not worth the trouble of the company to make the application through this program if there are very small numbers involved. The advantage for the company—

**Senator GEORGE CAMPBELL**—How many—

**Mr Jones**—I cannot give you a specific answer because it depends on the circumstances of the company; it depends on the complexity of the deal.

**Senator GEORGE CAMPBELL**—But it may well be—

**Mr Jones**—Would it be worthwhile for one? I doubt it. Is it worthwhile for three or four? Maybe. Again it depends on the individual circumstances. It depends, for example, on how firm the company’s plans are and whether they know in advance precisely how many people they need brought in and when. There are all sorts of individual circumstances that will inform a company decision as to whether it is worth going through this program or not, but again the basic answer is that, if there is a very small number involved, the time and effort involved in putting in an application under this program probably is not warranted.

**Senator GEORGE CAMPBELL**—What is the time and effort required to put an application in?

**Mr Jones**—The effort required can be indicated from the application form. The companies must outline the nature of the project, business or service, so they need to give us enough information for us to understand what the project is and what they are going to do.

**Senator GEORGE CAMPBELL**—Presumably, if they sign up to your project, they will have done that.

**Mr Jones**—But the amount of information they need varies, depending on the nature of the project. They have to provide statements against the criteria. Again, for some companies it will be easy to demonstrate, for example, that the project provides significant net economic benefits to regional Australia. A large resource processing plant in remote Western Australia almost automatically meets that criterion, whereas other companies will find it harder to meet that kind of criterion depending on their project and will need to put in more information against other criteria.

They need to put in a detailed business plan, essentially, giving us a lot of information about what they are intending to do. They need to give us annual reports. They need to give us indications of their existing performance. As I have indicated to you on a previous occasion, we then do checks on that information and can require further information if our checks start to determine that we are not quite sure what the business of this firm is going to be or if we

are not convinced that real benefits are going to flow from the nature of their operations here. Again, typically it is not a trivial task for companies to apply for this program.

**Senator GEORGE CAMPBELL**—I can understand that, but that does not alter the fact that, in the initial stages of some projects, only a couple of engineers may well be required to come in. I just do not understand why the reference to ‘very small numbers’ is even necessary. If it is necessary, what is the attempt at differentiation? And if there is no attempt at differentiation, why have it in there?

**Mr Jones**—It is intended to be a signal to companies that this is not always going to be appropriate for them, that they do have to consider using alternative programs, because under some circumstances it may not be worth their while to apply for this. We do try to be up front with companies in the first place to say that they need to think about this before they do it. We could be more explicit, I guess, and outline the reasons for that, but we did not think it appropriate in a very short overview of the program to go into that sort of detail. We would expect companies to talk to us as they start to go through the application process anyway, and at that early stage we can start to indicate whether or not this is appropriate for their needs.

To go back to an earlier point you were making, Senator, if we tried to restrict the visas under this program to essentially say that if you get access under this program you can only work on a particular project, I think it would just remove the attractiveness of the program altogether, because it would basically say that there would be no point applying for permanent entry under this program.

**Senator GEORGE CAMPBELL**—Sorry—

**Mr Jones**—I do not think it is reasonable to insist to somebody who is applying for permanent entry—

**Senator GEORGE CAMPBELL**—I do not understand the logic in that.

**Mr Jones**—I do not think it is reasonable to insist to somebody applying for permanent entry to Australia that they can only work for one employer, for example.

**Senator GEORGE CAMPBELL**—I would have thought, if they are coming in for a specific purpose, why not? We do it all the time. We grant visas for people coming in for specific purposes.

**Mr Jones**—But the purpose does not last indefinitely. Once they have met that purpose, once they have helped the firm to establish, I do not think we could insist that they must stay with that firm.

**Senator GEORGE CAMPBELL**—Why not?

**Mr Jones**—Because when they have done their job I would have thought that they should be free to exercise the normal rights of somebody who has gained permanent entry to Australia.

**Senator GEORGE CAMPBELL**—But the current circumstance of a whole lot of visa holders who are let in for specific purposes is that when they complete their job they then go back to wherever they came from. If they want to come back here again they have to reapply, in the same way that anyone else has to reapply. That is not an uncommon occurrence; it is

happening all the time. Why should these individuals have a different status from any other individual?

**Mr Jones**—I do not think they do have a different status from any other individual. That is what I am trying to say—that the only difference here is the fact that the companies have taken the trouble to provide us with a lot of information about their intended business operations in Australia up front and that that amount of information provided in advance of any individual visa application makes it easier for the individuals to apply for visas.

**Senator GEORGE CAMPBELL**—Accepted; no-one is arguing against that. It is just saying that a company, if they are particular skills that are not available here, ought to be able to bring them in. You are bringing them in on a specific visa arrangement. It is going to be fast-tracked and they are going to get access because of skills that are not here. All I am saying is: why isn't that tied to the project? I would have thought, if I was a company wanting to bring someone in, as a minimum I would want the contractual arrangement with them. It strikes me as odd that there is not that requirement in this program. But, setting that aside, the other issue is: why should they get a priority position over others who have had to come through the normal circumstances?

**Mr Ryan**—One way to think of it, Senator, is: let us say that we did put that criterion into the program. Then what you would have is two groups of employees who you would want to work on this project—one group who are coming in under the program and another group who might be applying for permanent entry and who are not going to come in under the program but who will still work on the project. But the difficulty we have now got is that the timing for the project will now be affected by when these people are available or when they get through the processes.

**Senator GEORGE CAMPBELL**—But how, Mr Ryan? If they are all people who have particular skills that are not available in this country, they would all be able to fast-track the process. If they are people who have skills that are available then they should not be able to get in.

**Mr Ryan**—But if we are saying one of the criteria of the program is that we will not accept people who want permanent entry to come in then those who want permanent entry, who could apply for permanent entry under their normal circumstances and who still want to work for the company will come outside the program. So what we do to the project then is to have some people who are not available in the time frames that we want. That would be the implication, I think.

**Senator GEORGE CAMPBELL**—Yes, it would be, and that is what I am suggesting—that people who want permanent entry into the country should go through the same process as anyone else who is seeking permanent entry into the country.

**Mr Ryan**—And all we are saying is that we are trying to give an incentive to the project, because they can align the timing of those people.

**Senator GEORGE CAMPBELL**—Yes, but I understood that the whole objective of this was about facilitating people who had particular skills that were not available in this country to get the project up and running—

**Mr Jones**—Yes.

**Senator GEORGE CAMPBELL**—and to create an environment within which you can do it. It seems to me that, the way in which this is now written, the potential is wider than that, and that is what my concern is. The potential is there for it to be used as a fast-track immigration program. I am not suggesting that in every set of circumstances companies would do that, but that does not mean to say that there will not be the odd company that would or could.

**Mr Jones**—No, but I guess if there were evidence that that is occurring then we could revoke the agreement.

**Senator GEORGE CAMPBELL**—You could revoke the agreement, but if you have already issued permanent entry visas, you could not revoke a permanent entry visa.

**Mr Jones**—If you are asking me whether there is the potential to abuse this system, I guess I would have to agree with you. My assessment would be that the probability of doing that is very low, both because this is not a large-scale program—this is a very small-scale program because we do undertake extensive checks when the company first applies—and because the agreements are limited in scope and can be terminated if there is evidence through the life of the agreement that it is being abused. I am not sure that I agree with your fundamental premise that this is a problem, that this is giving undue favour, if you like, to certain classes of employees. Again, the idea of this program is to provide an incentive, an attraction device, for individual projects.

**Senator GEORGE CAMPBELL**—Yes. It is for the company to get the project up and running; it is not for the individual.

**Mr Jones**—That is right. Again, I think it would be difficult for individuals to abuse this process, because it is up to the company to make the application.

**Senator GEORGE CAMPBELL**—Can you define again, Mr Jones, what the exemptions from some immigration checks that are mentioned are?

**Mr Jones**—As indicated, I will have to take that one on notice to give you some specific examples. I cannot give them to you at the moment.

**Senator GEORGE CAMPBELL**—Has this been discussed with Immigration? Are there security issues here?

**Mr Jones**—This has been extensively discussed with Immigration, yes.

**Senator GEORGE CAMPBELL**—And there are no security issues that arise as a result of this?

**Mr Jones**—No, because again the individuals have to apply for visas and are still assessed against the normal immigration department criteria. Precisely which checks are streamlined, I will have to take on notice.

**Senator GEORGE CAMPBELL**—Please do that, because a few people got into this country in recent times who we could have otherwise done without. Again, in the document under eligibility, it says:

The program is open to companies ... with an existing presence in Australia that are seeking to invest in a new area of operation.

Can you define what you mean by an existing presence and what is meant by a new area of operation?

**Mr Jones**—Can you take me to the point in the document where that appears so I can get the context.

**Senator GEORGE CAMPBELL**—It is under the eligibility and the company.

**Mr Jones**—Okay, I have got it. Many companies for example may have established a sales office in Australia as their first foray into this country. Say they have an existing manufacturing operation overseas, they set up a sales office in Australia to sell their product which they import and they then decide to set up a manufacturing operation here. A completely different type of skill is required and they may need to bring in specialist personnel from their existing manufacturing operations to help them establish the manufacturing operation here. So that would be an example of a company with an existing presence that wants to expand into a new area of business in Australia and does not already have the skills in their operations here to undertake that new area of business.

**Senator GEORGE CAMPBELL**—Is there a benchmark in terms of the level of investment?

**Mr Jones**—No; again, from experience it is difficult to establish particular dollar limits on what size an existing operation is. Qualitative factors are important. It is the type of operation they are proposing which would be taken into account.

**Senator GEORGE CAMPBELL**—How do you make a judgment about whether or not you give them access to this program? If I was importing, say, shoes from Thailand and I decided to set up a manufacturing shop with two employees to make shoes in Australia, would that meet the criteria?

**Mr Jones**—Of itself, no.

**Senator GEORGE CAMPBELL**—How would it nominate the criteria? I have got an importing business, and I have got a presence in Australia.

**Mr Jones**—They would need to provide more information about how the new operation was going to benefit Australia. They need to satisfy the existing criteria.

**Senator GEORGE CAMPBELL**—The point I am getting at is what is the test of benefit?

**Mr Jones**—As we say in the application form, the test of benefit is that the project will boost Australian industry innovation through a number of things, which basically means it will increase R&D capability in Australia. It could involve the application of new skills or knowledge that have not existed before: technology transfer into the country—bringing in something new that has not existed before; contributing to cluster development that adds to existing operations in Australia in a way that benefits a number of firms; or providing significant economic benefit to regional Australia. So, again, establishing a new operation in an area where there is little existing employment would be enough to qualify or where the estimated investment exceeds \$50 million. That is a threshold that we figure is a significant

threshold in terms of overall economic impact. They are the types of net benefit criteria that we would take into account.

**Senator GEORGE CAMPBELL**—Given my example, if I met all that criteria—setting aside the \$50 million—I could potentially qualify?

**Mr Jones**—You could potentially qualify; you would then need to fulfil the other criteria. You would need to submit a business plan. You would need to illustrate in some detail what the benefits were expected to be over time. You would need to say something about the types of employees that you wanted to bring in here and whether or not you had had trouble in sourcing those people from the Australian labour market.

**Senator GEORGE CAMPBELL**—I understand. I could meet all that and get access. It seems to me that all involves subjective judgment, does it not?

**Mr Jones**—I would not deny there is a large element of subjectivity in it, yes.

**Senator GEORGE CAMPBELL**—Who will make those judgments?

**Mr Jones**—Those judgments are made within Invest Australia.

**Senator GEORGE CAMPBELL**—Essentially, it is within your part of the department?

**Mr Jones**—Yes. As I have indicated on previous occasions, we do take advice on those aspects. We do not just rely on our own opinions. We do seek advice from whoever we need to, including the immigration department, the employment department. We test company claims overseas et cetera.

**Senator GEORGE CAMPBELL**—Sure, I understand. In the discussion that we had about the three-year agreement, under the final investment criteria it says:

Agreements are only permitted to be entered into once for a particular investment, although variations are possible should the investment exceed its initial forecasts.

That seems to be at odds with what you said earlier. It just seems that the wording of that tends towards the view that the agreements are for the life of the project. However, if it happens to exceed the forecast then you can vary the agreement, whereas you initially were saying it was for three years irrespective of the length of the project, and then it will be assessed and renewed if necessary. There seems to be a contradiction between what you said and what is written in that final investment criteria.

**Mr Jones**—I certainly did not mean to contradict what was written there. The decision I was trying to make is that we are trying to attract projects to Australia that are sustainable and have a very long-term life. Projects can last for 10, 20, 30 or more years, and we hope they do. We do not think it is suitable to have this kind of agreement for that kind of length of time, because the intention of the agreement is to establish operations in Australia. It is possible to extend the agreement beyond three years—extensions are possible, as you have just pointed out—under some circumstances. But, in general, we do try to limit the life of these agreements and, at the same time, hope that the projects have a much longer life than the agreement does. I do not think we want to tie the agreements to the life of the project because projects can have very long lives.



**Senator GEORGE CAMPBELL**—I understand that. If you go to the personnel criteria, it says:

Access to the program is for key long term expatriate managerial and specialist employees essential to the establishment and/or management of the investment proposed in the application.

**Mr Jones**—Yes.

**Senator GEORGE CAMPBELL**—How is long-term defined in that context?

**Mr Jones**—Can you point me to where that is in the document.

**Senator GEORGE CAMPBELL**—It is under the personnel criteria at the first dot point.

**Mr Jones**—It is somewhat subject.

**Mr Jones**—I do not think we have a precise definition of long-term in that context.

**Senator GEORGE CAMPBELL**—That seems to be at odds with our initial discussion where the whole focus was the initial stages of the set-up of these projects and bringing people in with particular skills that may not be available in Australia. If this is a 25-year manning project and it has long-term expat managerial, I assume the skills would be available in those fields.

**Mr Jones**—That is true, but I could perhaps give you a counter example. If a company was trying to set up an operation to manufacture something in Australia which involves a completely novel process and their chief scientist was the only person with a detailed knowledge of that process, this program would enable that chief scientist to permanently relocate to Australia because he was essential to the operation of the company here in the first place.

**Senator GEORGE CAMPBELL**—True, and I assume with these chief scientists that, if he has those skills, he would get in through the door the same as everybody else does on a normal permanent application.

**Mr Jones**—Indeed. What we are trying to do is to demonstrate to companies that we welcome them setting up their business in Australia and here is one of the set of investment attraction tools that we have to send a signal to those companies that we would like them to establish here by, in some circumstances, making it slightly easier to bring in the kinds of employees they need to get it established. Again, we can perhaps trade an example and counter example, but long term can be used in that context where we are envisaging this program being used to facilitate permanent entry to Australia by people who will presumably bring in long-term benefits to this country.

**Senator GEORGE CAMPBELL**—Who foots the bill for the background check that you undertake—the company or investors?

**Mr Jones**—We do; Invest Australia does.

**Senator GEORGE CAMPBELL**—Will you use the gazetted list of eligible occupations to determine eligibility?

**Mr Jones**—We consult the employment department as part of this process, so I presume that that is one of the devices that is used in that checking process.

**Senator MURPHY**—I have a few questions in regard to the department's role in the development of preferential trade agreements. I would like to understand what role you actually play in terms of the development of preferential trade agreements.

**Mr Ryan**—With the agreements that have recently been developed or are in the development phase, we are actively involved.

**Senator MURPHY**—Is that in terms of determining the level of tariff reduction in particular areas?

**Mr Ryan**—It can be that. Usually it involves a whole range of things, including identifying what might be the sensitive industries, what it is that we might be seeking to negotiate, what the access is that we are trying to negotiate into other countries—it covers a whole range.

**Senator MURPHY**—Minister, with regard to the most recent one, the Australia-Thailand agreement, in terms of services trade, it says:

Australia will make a wide range of legally-binding commitments that lock in the generally very liberal policy and regulatory situation as regards to the access to the Australian services market.

It then lists the main services sectors which includes banking, insurance, telecommunications, environmental services, education, restaurant, mining and related services. It then says:

On entry into force, Thailand will make a number of legally-binding commitments to liberalise the regulatory climate that applies in a number of service sectors, including—

And it has the list of services. Can you explain the difference between the legally-binding commitments. It says 'legally-binding commitments to lock in' and 'legally-binding commitments to liberalise'.

**Mr Ryan**—For the services issues, we were not as closely involved as you would have had for other departments. We could take that question on notice to give you a response as to the difference in the terminology.

**Senator MURPHY**—I know that I have to address some of these questions to DFAT. You may be able to respond to the issue of the tariff and tariff lines. I was reading an article in the *Australian* on 21 October 2003 which inferred that Thailand was going to immediately reduce 50 per cent of its tariffs. My impression was that immediate meant the day after the signing, but it is really not until 2010. It says in the explanation from DFAT that, at the time of entry into force, which is 1 January 2010, Thailand will eliminate 49.4 per cent of its tariffs which account for 77.9 per cent of current imports from Australia and so on. Has there been any immediate reduction in tariffs or will the reductions occur when the agreement comes into force?

**Mr Ryan**—On the advice we have, Thailand is committed to eliminate half of its tariffs immediately on entry into force and that would be immediately the agreement takes place.

**Senator MURPHY**—2010?

**Mr Ryan**—Yes.

**Senator MURPHY**—It also says that for 6.9 per cent of its tariff lines, Thailand will phase its ratio to zero in the period 2015 to 2020, but 3.9 per cent of Australia's tariff lines will be phased to zero in 2015. Does that mean it will just come to an end in that year?

**Mr Ryan**—What is happening with our tariffs is that for a lot of industries we are already on a tariff reduction program, so it would phase in towards that date and that is where we are going to get to. They would likewise do the same arrangement. You would only do it at the final point for very low levels.

**Senator MURPHY**—It also refers in this article to a Productivity Commission paper back in May which examined 18 more recent global preferential trade agreements. I have not yet read the paper, but it refers to some part of it and says that 12 have diverted more trade from non-members than they have created among members. It goes on to say that some of the apparently quite liberal PTAs have failed to create significant additional trade between members. Is that something that the department looks at when considering whether or not we ought to develop a preferential trade agreement and to what extent it ought be developed?

**Mr Ryan**—The fundamental issue with developing trade agreements is essentially the strength of the trading relationship that you have and to what extent you are either complementing or actually in competition with each other. That is one factor. The second factor that comes into play is whether you are the large or the small player, so what you find is that, for instance, in the free trade agreement between Australia and New Zealand, because we are such a large market relative to New Zealand, it is the New Zealand industry that tends to do most of the adjustment because of the complementarities that take place. But certain other of their industries do very well because they move from a two million person market to a 20 million person market.

**Senator MURPHY**—I think they do very well.

**Mr Ryan**—So one of the questions that you look at when you establish free trade agreements is to what extent you are going to create trade between the two countries and to what extent you are going to divert trade from other areas. So it is of interest to know how much you are diverting from other areas, and so we would expect to see some diversion taking place from those who are not members to the agreement. In a case of something like a Thailand-Australia free trade agreement it may be other suppliers from the region or from other regions who will miss out and Thailand who grows out of it.

**Senator MURPHY**—Obviously, with Thailand, one industry in this country, the TCF industry, is probably vulnerable. In the agreement I think it says that if there is a problem with a particular industry in one country or the other they may reintroduce tariffs or protection measures. How does that work?

**Ms Kelly**—There is a rigorous safeguard included in the agreement that will allow us to take action to deal with surges in Thai imports. We will only need to demonstrate a surge in Thai imports by reference to market share to be able to bring that safeguard measure into place.

**Senator MURPHY**—What does a surge mean? What does that represent in percentage terms of market share? If there were a surge in market share—if the market share were, say, 10 per cent—what would the surge represent for the purposes of triggering this course of action?

**Mr Pettifer**—The precise triggers are yet to be determined, and that will be done in consultation with the industry over the next few months.

**Senator MURPHY**—Has the industry been advised of that?

**Mr Pettifer**—Yes, they know about that. In fact I think the first meeting with them is on 14 November. Obviously you would need to take into account the growth in imports and you would also probably need to take into account a certain threshold in terms of the level of imports, because some of the imports from Thailand at the moment are very low and so it will be very easy to get quite a significant growth in the import without a lot of imports coming in. So those issues will need to be worked through over the next few months. Obviously having an adequate safeguards measure in place is an important thing for the industry.

**Senator MURPHY**—What does it mean in terms of the Strategic Investment Program, SIP? There has been criticism of SIP. What happens if there is an impact—a significant impact, probably—on the TCF industry? Does the government have any plans for how it might deal with that?

**Mr Ryan**—This is the free trade agreement?

**Senator Murphy**—I mean if there is an impact from, say, the Thai free trade—it is really a preferential trade—agreement.

**Mr Pettifer**—Senator, can I make a couple of points. I suppose the first thing to note is that the agreement actually has tariff phasing arrangements in place. They were arrangements which the industry put forward and was comfortable with at the end of the day, so that provides a period for adjustment. In other words, the tariffs do not come off on day one for most products. The second thing is that we were just talking about the safeguards arrangement, which is a mechanism to avoid any undue disruption. So those things are there to look to safeguard any undue disruption to the industry.

As far the TCF SIP goes, that current scheme, of course, runs through to 2005. We would not see any need to adjust that scheme in the light of the free trade agreement. It is a longer term structural adjustment scheme and provides an environment within which the other free trade agreement comes into play.

**Senator MURPHY**—The department does not see any need to potentially extend that agreement?

**Mr Pettifer**—The SIP?

**Senator MURPHY**—Yes.

**Mr Pettifer**—That is something that is currently being looked at. The Productivity Commission provided its report to government on future assistance arrangements for the industry at the end of July, and the government is currently considering that report. That will include questions of what is done for tariffs generally for the industry post 2005 and whether or not there is another budgetary support measure put in place.

**Senator MURPHY**—One of the recommendations, as I understand it, was that the government consider assistance to companies through SIP to assist them to move their manufacturing offshore. Minister, is that something that the government is—

**Mr Pettifer**—There is a program called the Expanded Overseas Assembly Provisions Scheme, which enables manufacture of some products overseas using Australian fabric and

that sort of thing. That is a program that has been in place for some time. But beyond that, I am not aware of any other change which would be designed to do what you say.

**Senator MURPHY**—Given that the Productivity Commission has not, has the department looked at the economic cost of displaced workers from the industry, given that, as I understand it, research at least in Victoria shows that up to one-third of them never get another job?

**Mr Pettifer**—There are all sorts of figures on that. In fact, some of the figures from the Department of Employment and Workplace Relations are different to that particular figure you raised. We have not done any analysis beyond that which is in the Productivity Commission's report on the likely impact of further tariff reductions on the industry. That report showed that the likely job losses were of an order that was quite manageable and significantly less than the reductions that have occurred in the past.

**Senator MURPHY**—It has been suggested by at least some people, including the Victorian government, that they would expect the job loss—putting aside the political aspect of that; certainly other people from local government bodies have also put a similar view—and the potential impact of the job loss to be quite significant. If it is the case—you say that from Workplace Relations there are different figures to one-third not achieving re-employment—even if there are different figures, it is still a significant number.

**Mr Pettifer**—When you put the sorts of job losses that might occur under any reasonable scenario in the context of the sort of jobs growth that happens generally, I think the numbers are very manageable. The number that I have got in my head in terms of those TCF workers who are able to find new jobs is about 80 per cent—that is the figure that comes to mind—within a reasonable period of time, within three years. The sorts of government programs—

**Senator MURPHY**—I do not think that is a view shared by the TCF—

**Mr Pettifer**—and policies that are in place do provide time for adjustment.

**Senator MURPHY**—When you say 80 per cent achieve re-employment, I do not think that is a view that is shared by too many people that are either in the industry or have been in the industry.

**Mr Pettifer**—They are not necessarily re-employed back into the TCF industry; they just find another job.

**Senator MURPHY**—No, I understand that; absolutely. I am not saying re-employed in the TCF industry. Re-employed generally is the reference that I was really drawing on. With regard to the position paper that was done on the 18 recent PTAs, has the department done any analysis of that?

**Mr Pettifer**—Sorry, I did not get—

**Senator MURPHY**—The Productivity Commission paper indicates that the great bulk of preferential trade agreements have not been all that crash-hot.

**Mr Ryan**—It sounds like that report was targeted more towards DFAT.

**Senator MURPHY**—I thought it would have been relevant to the department, given that you are involved in the process of developing criteria for a preferential or free trade

agreement. I would have thought it was relevant to understand whether or not the report by the Productivity Commission is accurate or not accurate or—

**Mr Ryan**—Without actually seeing the detail of what was in the report, our answer is that we have not looked at it, but my suspicion is that it is—

**Senator MURPHY**—It probably was targeted.

**Mr Ryan**—targeted for DFAT.

**Senator MURPHY**—I am not going to argue with you about where it was targeted, but it just seems interesting to me that it may be something that the department needs to consider for the longer term.

**Mr Ryan**—Until we look at the detail of it, I cannot comment.

**Senator MURPHY**—With regard to movement of businesspersons, I was interested to read that Thailand would provide work permits for intracorporate transferees for up to five years but Australia will provide them for up to 10 years, and that it says that Australia will also guarantee entry, stay and work automatically for spouses of long-term business residents. Can you tell me how you are going to provide work automatically for spouses of long-term business residents?

**Mr Ryan**—I think that question is for Immigration, not for us.

**Senator MURPHY**—Yes, I agree that it probably is. I am just interested where these automatic jobs are going to come from.

**CHAIR**—I indicate that the officers of the Office of Small Business will not be required before 4.00.

**Mr Ryan**—Senator, is there any indication of anyone who would not be required following this morning's session?

**CHAIR**—I do not think so, Mr Ryan, because I think Senator Campbell has quite a range of questions still to go, so I cannot be sure that any other officers can be released. But the Office of Small Business personnel can come back at 4.00.

**Mr Ryan**—Thank you.

**Proceedings suspended from 12.29 p.m. to 1.35 p.m.**

**CHAIR**—Sorry, ladies and gentlemen, to be late. The hearing is resumed.

**Senator GEORGE CAMPBELL**—Mr Jones, I think at the last estimates we had a discussion about the major project facilitation issue. You indicated that the criteria had been widened. You subsequently sent us a copy of the new criteria. Has the change in criteria produced results in terms of the applications you are now getting for this program? Is it now attracting a wider range of projects?

**Mr Jones**—I think it is too early to tell; that is my answer to that. We have only received a couple of applications for major project facilitation status since the criteria were changed. I think it is always going to be the case that the majority of applications will be in the resources area. We are hoping that broadening the criteria will attract more projects from other areas of the economy. But, as I said, I think it is too early to tell whether that is going to be the result.

**Senator GEORGE CAMPBELL**—Can you tell me what the rationale is behind the change in the criteria, other than the obvious one from reading the criteria themselves?

**Mr Jones**—I guess the rationale was that following on from the national investment framework that the government released at the end of last year, the government is keen to ensure that our investment attraction efforts do focus on potential high-growth areas into the future—areas like biotechnology, information and communications technology and the like. It is just keen to ensure that the raft of programs and policies it has in place do not dissuade or impede people in those industries from investing here. So the idea of broadening MPF was to make sure that it was applicable to companies and projects in those industries.

**Senator GEORGE CAMPBELL**—But the benchmark on the old one was \$50 million, wasn't it?

**Mr Jones**—Yes.

**Senator GEORGE CAMPBELL**—This would appear now to have set that aside, effectively. It seems that the new criteria or the whole focus now seems to be on innovation. Is this about technology transfer, about attracting technology inwards rather than outwards?

**Mr Jones**—I am not sure that it is true to say that the whole intent now is on innovation. Innovation is one of the criteria, but, for example, the \$50 million threshold is still there as an 'or'. So what we are trying to do is make sure that, in a sense, the old criteria are still applicable but that we are extending the criteria to make sure that smaller projects in newer industries are not eliminated.

**Senator GEORGE CAMPBELL**—But it is not the threshold test any longer? It is 'or'?

**Mr Jones**—Or.

**Senator GEORGE CAMPBELL**—It seems to me that if you take the combination of (a), (b), (c) and (d) at point 1, the whole emphasis there is on innovation.

**Mr Jones**—That is true.

**Senator GEORGE CAMPBELL**—So on attracting technology?

**Mr Jones**—That is true. So the intent with that first point is to make sure that we have criteria that can be applied to highly innovative projects, but they do not necessarily have to be large projects. So, if there is something highly innovative, something that does bring in genuinely new technology to Australia, it can be granted major project facilitation status almost regardless of the size of the project. We therefore regard it as major because of the strategic significance of the project rather than the capital investment involved.

**Senator GEORGE CAMPBELL**—Right.

**Mr Jones**—But, on the other hand, because it is or, you could still have, say, very large resource based projects which do not necessarily have any significant element of industry innovation involvement.

**Senator GEORGE CAMPBELL**—I understand that. But the point I am making is that the new point 1, the new additional criterion that has been put in—and it is additional—seems to me to be focused very much on technology attraction and innovation.

**Mr Jones**—That is true.

**Senator GEORGE CAMPBELL**—Looking for companies that have high tech that they can transfer here.

**Mr Jones**—That is certainly true.

**Senator GEORGE CAMPBELL**—Would that mean, for example, that the Protech proposal in Newcastle would now fit comfortably under those guidelines? It is an obvious example that we have discussed here previously.

**Mr Jones**—It is hard to speculate whether it would fit more easily under the guidelines. I cannot see anything in the old criteria that would have eliminated a proposal like Protech because of the size of the capital investment involved.

**Senator GEORGE CAMPBELL**—But they were eliminated, weren't they? Weren't they refused under the old criteria?

**Mr Jones**—I do not think it is true to say they were refused under major project facilitation, no. In fact, my records indicate that they were granted major project facilitation status. You may be confusing it with applications for financial assistance.

**Senator GEORGE CAMPBELL**—Yes.

**Mr Jones**—As we discussed before, major project facilitation does not involve any financial assistance whatsoever. So anything we have done here does not alter a firm's applicability for financial assistance. That is quite a separate process.

**Senator GEORGE CAMPBELL**—Okay. But it does facilitate opening doors?

**Mr Jones**—Yes. It can be used to more easily overcome any impediments that the investor is facing, certainly.

**Senator GEORGE CAMPBELL**—Have you had any responses from industry in respect to the changes you have made?

**Mr Jones**—Not since the change has been made, no. In the process of leading up to making the changes, we tested the proposed changes with a number of people in industry associations and the like and got good responses to change. But since the changes were made I do not think we have had any specific feedback yet. Again, it is a bit early to tell whether the changes are going to mean an increased number of applications or not.

**Senator GEORGE CAMPBELL**—What was the motivation for the change?

**Mr Jones**—Again, it is just to bring the criteria for this scheme more in line with the government's national strategic priorities for investment attraction.

**Senator GEORGE CAMPBELL**—But was this in response to criticism from industry, was this off your own initiative as a department or was this in response to government needs?

**Mr Jones**—I guess it is largely an internal initiative rather than any response to criticism. We were just mindful that the criteria as written were potentially excluding investments in priority areas such as, again, biotechnology and ICT. In the course of developing the national investment framework, the government agreed that the criteria for this scheme should be broadened to make sure that investments in those priority areas were eligible.



**Senator GEORGE CAMPBELL**—Can you give some examples of recent applications that you have had since the last estimates hearing?

**Mr Jones**—As I said, there have only been a couple. The one that has been announced was the Otway gas project in Victoria. There has been another MPF application granted which is also in the resources industry but has not actually been announced yet.

**Senator GEORGE CAMPBELL**—But there have been none that meet the criteria under point 1?

**Mr Jones**—Well, those two instances would probably have met the previous criteria, so there have been no examples yet of proposals which may not have been successful under the old criteria but will be managed under these new criteria. Again, this is not a scheme which has large numbers of applications. So far this financial year we have not had any applications that are in that category that would not have qualified before but may qualify now.

**Senator GEORGE CAMPBELL**—On the department's web site, it states that all projects that met MPF status in 2002 will generate capital expenditure of \$17.5 billion and create 1,200 full-time jobs if they proceed as planned. Is this still the case?

**Mr Jones**—I guess the obvious thing to say about that, if I can just refer to my list of projects which appears in the annual report, is that one of the projects granted MPF status last year will now not proceed. That is the proposed Gladstone chlor-alkali/ethylene dichloride plant. So the project proponents there have announced that that project is not proceeding. So to that extent it is certainly true that that project was granted MPF status, but the expected outcomes are now less by virtue of the fact that that project is not proceeding.

**Senator GEORGE CAMPBELL**—What was that project worth?

**Mr Jones**—I do not have those numbers in front of me. I would have to take that on notice.

**Senator GEORGE CAMPBELL**—Can you do that, and the number of jobs?

**Mr Jones**—Yes. I will take that on notice as well.

**Senator GEORGE CAMPBELL**—How long does it take for a company from application for major project facilitation status to the granting of that application?

**Mr Jones**—It is generally quite quick. As we say in the guidelines—I will try to refer to the exact point—we try to make sure that after sufficient documentation has been lodged with us we make a recommendation to the minister within 28 days. So we try to be quick in our assessment process and putting a recommendation to the minister. Generally speaking, the minister is also quick in making a decision on the status.

**Senator GEORGE CAMPBELL**—So, on average, what would the time frame be: two months?

**Mr Jones**—Two months or less, yes. But there are a couple of qualifications to that. One is that the documentation is adequate in the first place. If we find deficiencies in documentation or have to go back to the project proponent to ask for further information, that period can be extended. At the other end of the process, I would have to say that after a decision has been made to grant MPF status, it is not always the case that that decision is announced

straightaway. There can be reasons why the company do not want an announcement made immediately but would like to defer any announcement until a time of their choosing.

**Senator GEORGE CAMPBELL**—As you have said before, there are no funding issues related to this. What do you see are the benefits for a company in applying for major project facilitation?

**Mr Jones**—There are a number of potential benefits. For some companies, the mere fact of having formal recognition from the Australian government can be a benefit. That is particularly the case, for example, in some Asian countries, where having government recognition of a project can be worth while back in their home market, even though it confers no real benefit in Australia as such. Of more practical benefit, I guess, is the fact that granting the status means that Invest Australia works perhaps more closely with the company than we would otherwise, in order to coordinate Australian government approvals and coordinate with the state governments on the approval process required. We would ordinarily work with project proponents to facilitate where requested, but this status means that under some circumstances we can give the project priority. Finally, at the end of the day, the fact of granting the status and announcing the status means that where there are impediments that arise during an approvals process, for example, the minister can intervene and, for example, write to his ministerial colleagues to point out any impediments that are coming up in the process and try to get some action to overcome them.

**Senator GEORGE CAMPBELL**—Presumably he could do that with or without the major project facilitation status anyway?

**Mr Jones**—That is correct.

**Senator GEORGE CAMPBELL**—The first point you make about facilitating companies in their home market in terms of granting government recognition is also an issue in reverse that a lot of companies raise. I am talking about Australian companies that export into other markets. It is having government recognition or imprimatur on their product or performance. Has the department given any consideration to developing a project that would operate virtually in reverse but similar to this project which would facilitate Australian companies getting access to export markets where we give them government imprimatur?

**Mr Ryan**—I am trying to think of examples where that may happen. In some ways, it happens where if a company is to get, for instance, EFIC support, I think that is something they can use as an example of government support. But as some form of branding, I cannot think in recent times where we have given any consideration to that.

**Senator GEORGE CAMPBELL**—It is not something that you have given much thought to?

**Mr Ryan**—Not in recent times. I think we have previously. I am just going back in my memory a bit.

**Senator GEORGE CAMPBELL**—I think you did previously.

**Mr Ryan**—Yes.

**Senator GEORGE CAMPBELL**—Mr Dainer, can you give us the costs to administer this program? Was it just simply the wages—

**Mr Dainer**—Mr Jones; he is the cost.

**Senator GEORGE CAMPBELL**—Could you do a cost-benefit analysis on it?

**Mr Jones**—It is a little difficult to separate out the precise costs of administering this program because it is just part of Invest Australia's functions. Given that the assessment process takes, as I have said, say, a month—and the eight applications last year is broadly representative—the overall costs would be relatively small. It would be a couple of people, with both assessing and administering projects. You are looking at just a couple of people.

**Senator GEORGE CAMPBELL**—So it is not substantial?

**Mr Jones**—It is not substantial, no.

**Senator GEORGE CAMPBELL**—I will not ask you what your salary is. Thanks for that, Mr Jones. Mr Peel, there have been a number of issues raised in respect of the ACIS scheme by the Auditor-General in his report this year. I think the report noted that a number of important elements of the ACIS governance framework remain underdeveloped almost two years after the scheme's commencement. It goes on:

The less primary amongst these was a lack of an agreed memorandum of understanding between Customs and DITR. The ACIS policy and procedures manual remains in draft form and is incomplete two years after the scheme commenced.

In your response to the Auditor-General's report, you indicated that you undertook to have the MOU and the manual completed this year. Has that occurred?

**Mr Peel**—Yes. The MOU has been signed a couple of months ago and I think the manual was completed in the last week or two. But we did have, as we indicated to the Auditor-General, an advance draft of the manual which was in fact being used by our staff. We just had not formalised the issuance of the manual.

**Senator GEORGE CAMPBELL**—Are they public documents?

**Mr Peel**—I cannot see any reason why not, but I will take it on notice and check.

**Senator GEORGE CAMPBELL**—Thank you. The report was also highly critical of the fact that the ACIS program had no specific objectives. There are also no identified immediate outcomes for ACIS that would indicate how the program contributes to the government's overall objectives. In response to that, you said that the department has a working group looking at the issue. Can you tell us who the working group is and whether they have reported on this issue or not?

**Mr Peel**—Perhaps I will give some context.

**Senator GEORGE CAMPBELL**—Sure.

**Mr Peel**—What the Auditor-General was talking about was intermediate outcome indicators for the program. Normally, you would evaluate a program every couple of years or so to make sure it is achieving its objectives. The Auditor-General suggested that we develop some intermediate outcomes so we could see how the program was going between those more formal evaluations. In fact, before the Auditor-General looked at the ACIS program, the department had in place arrangements to develop intermediate outcome indicators for all of the department's programs. We have a team of two AusIndustry staff who are consulting with

all the policy divisions in the department to develop those indicators for all of the programs. I think we have nearly completed the indicators for the innovation programs in the department. The others are likely to be completed early next calendar year.

**Senator GEORGE CAMPBELL**—And that includes the ACIS one as well?

**Mr Peel**—That is correct.

**Senator GEORGE CAMPBELL**—Who is in the working group? Is that the working group you are talking about, the two individuals?

**Mr Peel**—Yes. There are two staff from AusIndustry—one of our general managers, Mr Sam Skrzypek, and one of his managers, Mr Chris Birch. They are consulting widely across the department with all the other divisions and preparing a report for the departmental executive.

**Senator GEORGE CAMPBELL**—And you expect that to be available when?

**Mr Peel**—Early in the new year.

**Senator GEORGE CAMPBELL**—So we could put it on the list for February?

**Mr Peel**—You can if you wish, Senator. I am sure you will have plenty of other things too.

**Senator GEORGE CAMPBELL**—Mr Peel, can you tell us how the ACIS scheme is related to the auto industry action agenda?

**Mr Peel**—I think Mr Pettifer would answer that question.

**Mr Pettifer**—I will have to give a fairly broad answer to this one in that the auto industry action agenda was concluded some time ago now. One of the key elements of the action agenda was the export market development. That was a separate program we had that was not actually related to ACIS as such. It has now concluded. I am not sure if my colleague Peter Clarke can add to that.

**Mr P. Clarke**—That is correct. There was the automotive market access and development strategy, which provided about \$20 million over four years to assist the industry to locate new markets. That concluded I think on 30 June last year.

**Senator GEORGE CAMPBELL**—Was it successful?

**Mr P. Clarke**—There was an evaluation done. I think the answer with a lot of these things is that there would be successes. Clearly, the industry is a very successful exporter. I think it would claim its share of it. The figures I have certainly seen in the past claim substantial parts of that, but it really gets down to, with a successful industry, how much a \$20 million scheme can claim as a success when there are so many other factors involved. Yes, I suppose one could say it was successful.

**Senator GEORGE CAMPBELL**—Did you say there has been an evaluation done, Mr Clarke?

**Mr P. Clarke**—Yes.

**Senator GEORGE CAMPBELL**—Can we have a copy of that evaluation?

**Mr P. Clarke**—I do not see why not. I will take that on notice.

**Mr Pettifer**—Probably. We will take that on notice. It was an internal evaluation. I do not think there was anything about it that was particularly confidential, but we need to go back and check. It was done some time ago now. I am just struggling to remember the details.

**Senator GEORGE CAMPBELL**—But was that just on that one project?

**Mr P. Clarke**—Yes. It was the AMADS.

**Senator GEORGE CAMPBELL**—What about the other elements of the action agenda? Have they all been concluded also?

**Mr P. Clarke**—I think it would be fair to say they have. The action agenda was 1997 or so. You have to bear in mind that, at the time of that action agenda, the response to the productivity inquiry was wrapped into an action agenda. So in some ways the action agenda is a label for a range of responses, one of which is ACIS and one of which is AMADS. So it is hard to sort of describe it as an action agenda as they have become more recently.

**Senator GEORGE CAMPBELL**—I understand what you are saying. Mr Peel, ACIS is classified as a high-risk program. The Auditor was critical of the fact that a structured risk management plan is still not in place. Has this now occurred?

**Mr Peel**—There are a couple of things in relation to that. We have undertaken significant audit activities in the ACIS program. We have developed a risk management plan for that program, which we are currently finalising. I think the audit office was basically saying that the documentation is not quite completed but acknowledged that we are undertaking significant audit activity in the program. But that documentation is now just about there.

**Senator GEORGE CAMPBELL**—Does that include checking the process of registration?

**Mr Peel**—Yes.

**Senator GEORGE CAMPBELL**—And checking the level of production claims by applicants?

**Mr Peel**—Yes.

**Senator GEORGE CAMPBELL**—Can a copy of this risk management plan be made available?

**Mr Peel**—When we have finalised it. I do not think that is a problem.

**Senator GEORGE CAMPBELL**—Another issue is modulation. The report noted that the level of modulation was well in excess of levels anticipated in planning the scheme. It said that, given that DITR models likely demand for credits way back in 1997-98 and the scheme did not commence until 2001, why did the department not reforecast overall demand or a likely distribution of credit entitlements between industry sectors in this interim period?

**Mr Peel**—I think that is a question for Mr Clarke to answer.

**Mr P. Clarke**—It is a very difficult question to answer. Cabinet made a decision. In June 1997, it announced that there would be an automotive scheme. In 1998, there was an announcement that it would have a number of elements. The remit we had, therefore, was to develop those elements. It developed during 1998. There was an election. In 1999, it went on.

But, effectively, nothing had changed in principle. Clearly, the industry had moved on, obviously, since the last three years. We have had the best three years, really, of automotive sales that we have ever had. So, yes, we did not know what the conditions that prevailed in 1997 would become in 2003. But the decision in principle by cabinet was to allocate \$2 billion over five years. Those facts did not change. Effectively, it was then just program design.

**Senator GEORGE CAMPBELL**—But the issue that is being raised by the Auditor is why you did not periodically upgrade your assessment of the level of modulation over the period of the program.

**Mr P. Clarke**—I will separate them into two pieces. The audit office made an observation that we should have in some way gone back to the government and said, ‘The figures are different’ or something like, ‘We may have to change elements of it.’ That is the nature of a lot of these things, but you cannot keep going back to cabinet all the time. The design parameters were set by the government in April 1998. They said, for instance, that the credit for research and development would be 45 per cent. Well, they have made the decision that it will be 45 per cent. If we had gone back and done further predictions, one would have presumably gone through a series of calculations on those sorts of things without really knowing. You have to bear in mind that it is not a certain thing. These are projections based on talking to industry, and saying, ‘Based on historical performance, what would you do?’ They are neither right nor wrong at the time they are made. They just may not turn out to be the case.

I need to be clear on the terminology you are using. Modulation is what happens once the scheme gets going. It is not a projections thing the industry puts in its business plans. It has a level of demand that is in excess of the \$2 billion. Therefore, we need to modulate. I am just trying to understand which part you mean.

**Senator GEORGE CAMPBELL**—You may make a judgment that modulation will be about 80 per cent in year one.

**Mr P. Clarke**—Well, it is more of a mathematical equation.

**Senator GEORGE CAMPBELL**—I presume what they are saying is that those judgments were well outside of what in fact happened.

**Mr P. Clarke**—We do have issue with that. For instance, in the second quarter modulation of 2001, they said we did not modulate and we could have. But we talked to the industry and the industry said, ‘Look, there is a great deal of uncertainty. We don’t think you should modulate,’ and the secretary made a decision not to do so. The next quarter was 11 days after 11 September 2001 when there was a great deal of uncertainty about what would happen and what would be the effect of that. The decision was again made not to modulate. It is fine for the audit office to make the observation, but 11 days after September 11, it would be heroic to say, ‘No, I’ll have to knock it back a long way.’ What he did was to leave it to the next quarter, when he did modulate.

**Senator GEORGE CAMPBELL**—And that has all been explained to the audit office?

**Mr P. Clarke**—The audit office understand all of that and we repeatedly put it to them. They have chosen not to place any emphasis on it.

**Senator GEORGE CAMPBELL**—Thank you for that. I have some questions on ISONET, Mr Pettifer. Has the reshaping of the ISONET board now been completed?

**Mr Pettifer**—It has. There was an extraordinary general meeting in July. At that meeting, the board was replaced with a new essentially private sector board. So that process has been completed.

**Senator GEORGE CAMPBELL**—Can you provide us with a list of the new board members?

**Mr Pettifer**—I could. The chairman is Major-General David McLachlan and other members are Bruce Griffiths, Peter Blackney, Lyndon Rowe, Bob Herbert, John Kenery and John Halfpenny.

**Senator GEORGE CAMPBELL**—A blast from the past.

**Mr Pettifer**—You like the last one.

**Senator Minchin**—You remember him?

**Senator GEORGE CAMPBELL**—Just. Are those board members state government nominated?

**Mr Pettifer**—The nominations came through the existing members of ISONET, which are really the state ISOs. A voting process went on. They are not government appointments as such. They are directors of the board.

**Senator GEORGE CAMPBELL**—So technically they are not representing state governments or the ISOs as such?

**Mr Pettifer**—No. That was the old system.

**Senator GEORGE CAMPBELL**—Have there been any job losses since ICN Ltd was established?

**Mr Pettifer**—Yes. There has been one further staff member, I think, whose contract has been discontinued.

**Senator GEORGE CAMPBELL**—Why was it discontinued? Was there a surplus to requirements?

**Mr Pettifer**—No. We have talked before about the ongoing budget for ISONET. The new board is developing a new business plan and looking at its spending priorities and making some judgments about what are the highest priorities and what it needs to do to move forward. I think it was part of that process, basically, that led to that decision.

**Senator GEORGE CAMPBELL**—Have there been any projects funded under SAMP, Mr Pettifer, since the evolution of ISONET into ICN?

**Mr Pettifer**—I will have to ask Mr McKeon.

**Mr McKeon**—We have a deed which we are waiting to finalise with ICNL for a new round of SAMP. They have not got back to us yet so we can ratify that deed. But we are expecting that to happen within a week. We think there will be a new round announced before Christmas this year.

**Senator GEORGE CAMPBELL**—But there is nothing being done?

**Mr McKeon**—There is currently nothing.

**Senator GEORGE CAMPBELL**—Have there been any processes put in place to assist the ICN, state industrial supplies officers and industry to adapt to the upcoming shift to full cost recovery?

**Mr Pettifer**—I am not sure what you mean by that question. Any processes put in place—

**Senator GEORGE CAMPBELL**—Well, is there any interim process to assist them over the hurdle, or is it just a straight cut-off with a 30 June finish and a 1 July start to the new program?

**Mr Pettifer**—The funding is there now and will be there through the end of 2004.

**Senator GEORGE CAMPBELL**—It goes through to 2004 or 2005?

**Mr McKeon**—The funding is to 2005.

**Mr Pettifer**—Yes.

**Senator GEORGE CAMPBELL**—But essentially it will cut off at that point? There is no consideration of any progress of—

**Mr Pettifer**—No. Commonwealth government funding finishes at that point; but, as we have discussed before, part of the mission of the new board is to ramp up its non-government funding efforts. It is going about that process.

**Senator GEORGE CAMPBELL**—What has been the response, Mr Pettifer, from the industry to the new arrangements?

**Mr Pettifer**—From industry? I am not aware of any particular response from industry to the new arrangements. We have not received any representations or anything like that.

**Senator GEORGE CAMPBELL**—The department has not; the minister has not?

**Mr Pettifer**—Not from industry.

**Mr McKeon**—Not from industry.

**Mr Pettifer**—No, not from industry.

**Senator GEORGE CAMPBELL**—You say not from industry. Who have you received them from?

**Mr Pettifer**—Earlier in the process, at least one, perhaps more, state industry ministers did express a view on the issue of cost recovery.

**Senator GEORGE CAMPBELL**—Some of the state industry associations did not?

**Mr Pettifer**—Well, you are right. The Australian Industry Group has put a view forward that total cost recovery would be hard to achieve. That is true. My apologies. That is an industry view.

**Senator GEORGE CAMPBELL**—Were they the only employer association that did?

**Mr Pettifer**—Any other—

**Senator GEORGE CAMPBELL**—Were they the only employer association?



**Mr Pettifer**—To my recollection, that is the case. If you want me to check that, I will have to take that on notice. It is the only one I am aware of.

**Senator GEORGE CAMPBELL**—Could you take that on notice and advise us of any others who did.

**Mr Pettifer**—Yes.

**Senator GEORGE CAMPBELL**—Can you tell us how many Australian suppliers or buyers are registered with the industry capability short list?

**Mr McKeon**—I think there are about 15,000 companies.

**Senator GEORGE CAMPBELL**—Fifteen thousand?

**Mr McKeon**—No. I would have to take that on notice. I am sorry, but I do not have that number here.

**Senator GEORGE CAMPBELL**—Is that the existing database that ISONET had?

**Mr McKeon**—Yes. It is the database that they have had for a long time. It is the IRIC database.

**Senator GEORGE CAMPBELL**—So that is just really a transfer over from the old program?

**Mr McKeon**—Yes.

**Mr Pettifer**—What we are talking about is just a better way to manage that existing database, so yes.

**Senator GEORGE CAMPBELL**—Have there been any additions to that?

**Mr McKeon**—There have not been any additions to that database. Where other capability databases are around, we are providing them to ISONET to sort of enhance that database. But it is not in a totally compatible way because they do not all collect the data in the same way.

**Mr Pettifer**—But if you are asking whether or not ISONET has some new subscribers or something like that—

**Senator GEORGE CAMPBELL**—Yes. I am really asking whether in the new shift over to the new organisation this has—

**Mr Pettifer**—We could ask them a question, I suppose, about how many new subscribers they have got in the last six months or something like that, if you like. I just do not have that information to hand, but I would be happy to take it on notice if you want.

**Senator GEORGE CAMPBELL**—I am just wondering really whether they have sought it. Have they gone out and sought to increase their database, or are they just simply using the existing database?

**Mr Pettifer**—No. They are actively marketing their services to industry.

**Mr McKeon**—They are still going through a process of getting the states to agree to providing all the old information onto the new database. That has taken a while to achieve because of issues surrounding intellectual property and copyright. But largely they have been

resolved and the states are starting to fill in the new database with the data that they collect at the state level.

**Senator GEORGE CAMPBELL**—Okay. I want to move on to SIP. Is this you, Mr Pettifer?

**Mr Pettifer**—It depends. It depends whether it is an AusIndustry or a policy question.

**Senator GEORGE CAMPBELL**—I want to go through a number of issues relating to SIPs. I want to start by saying that in 1999 Senator Minchin announced the package would contain \$772 million and that grants of \$700 million would be available over five years. However, having looked at the web site earlier this week, I note that it is saying funding of up to \$677.7 million over five years has been made available. Can you explain to me what the difference is in the figures.

**Mr Peel**—I do not have the detail here, but my recollection is that part of that \$700 million is actually for the administration of the scheme rather than necessarily for delivery in grants to companies. So the \$677 million would effectively represent the difference, I think, but I would have to check the details.

**Senator GEORGE CAMPBELL**—Could you take that on notice, Mr Peel, and respond to it?

**Mr Peel**—Yes.

**Mr Ryan**—Mr Dean might have a further elaboration.

**Mr Dean**—The government made a decision in the introduction of the GST to reduce all programs by an average of three per cent to take into account sales tax clawback, so I think the bulk of that reduction relates to that. From memory, it was something like \$18 million to \$20 million. There has been a small reduction to allow for the SPARTECA TCF scheme, which was done in consultation and agreement with the industry. About \$2 million was for the administration of the SIP scheme.

**Senator GEORGE CAMPBELL**—I accept that. Can you take it on notice and give us the precise figures?

**Mr Dean**—No problems.

**Senator GEORGE CAMPBELL**—How much of the \$677.7 million has been spent to date; do you know?

**Mr Peel**—An amount of \$121,175,159 was spent in 2001-02 and \$109,660,170 was spent in 2002-03. This year to date, \$12,320,344 has been spent. This gives a total, which I probably should have given you in the first place, of about \$242,776,585.

**Senator GEORGE CAMPBELL**—So there is still \$400 million?

**Mr Peel**—There is just over \$400 million left.

**Senator GEORGE CAMPBELL**—And the program runs out when?

**Mr Peel**—In 2005-06.

**Senator GEORGE CAMPBELL**—So it has, what, a year and a half or 2 ½ years to go?

**Mr Peel**—Two and a half.

**Senator GEORGE CAMPBELL**—Two and a half years to go. Is that on budget, over budget or under budget?

**Mr Peel**—For last year, the budget was \$130 million and the expenditure was \$109 million, so it is actually tracking under budget. But I think at the last estimates we explained that any underspend is carried over to the final year of the program. So the money is not actually lost to the program. But the claims are behind the budgeted projection at this point in time.

**Senator GEORGE CAMPBELL**—When we spoke about this program in 2001, I think, Mr Dean, you told us that originally the department expected between 300 and 400 firms would apply for funding under SIP. How many applicants have you had in total now to date?

**Mr Peel**—For the first year of the scheme we had 437 companies register. For the second year it was 407. For 2002-03, which is the current year because we pay in arrears, it is 368. So it is sort of close to 400 that are registering each year.

**Senator GEORGE CAMPBELL**—Was the decline in the numbers from the first year, which was 2001, impacted by the regulation that was put in place that changed the definition?

**Mr Sexton**—The general decline, I think, has been largely due to, in the first year of the program, a lot of companies defensively registering. They have to register prior to incurring expenditures. What we found was that many firms that actually had indicated they would be incurring expenditures did not do so.

**Senator GEORGE CAMPBELL**—And do we know how many firms the regulation that was put in place in 2001 or 2002, which changed the definitions, effectively knocked out of the lists?

**Mr Sexton**—I am only aware of one firm that was affected.

**Senator GEORGE CAMPBELL**—Only one. Previously you have told us that you had applications totalling \$1.4 billion. What is the current figure that you have before you?

**Mr Sexton**—When the scheme was first opened, we asked companies to advise us of their business plans going out for the full period of the scheme. They indicated at that time that they were likely to have a demand on the scheme of about \$1.4 billion, as you say, which is almost twice the amount of money available. After consultation with the industry, we found that those were not all that reliable. Since then, we have not asked for updates on those expenditures. We have simply changed the scheme with an amendment a year ago which fixed the amount of money that is available each year and provided for modulation of the scheme, if necessary, in the following year should there be an overdemand in the current year. As it happens, that has not occurred at this stage.

**Senator GEORGE CAMPBELL**—So you no longer keep an assessment of the estimate?

**Mr Sexton**—We no longer seek estimates from them on their planned expenditures going out into forward years.

**Senator GEORGE CAMPBELL**—So you do not know what the likely claims are going to be on the fund in the out years?

**Mr Sexton**—No, we do not.

**Senator GEORGE CAMPBELL**—How does that operate in terms of modulation?

**Mr Sexton**—As I said, there is a fixed sum of money now in legislation for each of the budget years. For this year, it is \$135 million. If the claims which come in this year exceed the \$135 million, we will pay them at a modulation rate of one. We will carry over any of those which we were unable to pay and we will pay them next year at a modulation rate of one. But subsequently to that, the following year will be modulated.

**Senator GEORGE CAMPBELL**—Mr Sexton, how are companies expected to operate in that environment? Doesn't that put a great deal of uncertainty into what they may be able to plan for or not plan for?

**Mr Peel**—It is probably worth saying that these arrangements were developed in close consultation with the industry and are supported by the TCF industry.

**Senator GEORGE CAMPBELL**—So you are saying that they support this?

**Mr Peel**—They have signed off on the arrangement.

**Senator GEORGE CAMPBELL**—When you say they have signed off, who has signed off?

**Mr Sexton**—The peak bodies signed off with us on this. There was lots of discussion with them. An alternative was to simply move to a self-assessment scheme, which they rejected. The outcome we have was something that we agreed with them on.

**Senator GEORGE CAMPBELL**—And you are comfortable that the process gives some certainty to companies in terms of planning?

**Mr Peel**—Well, there is certainty in the amount of money available under the scheme. As I said, any underclaiming each year carries over to the final year of the program.

**Senator GEORGE CAMPBELL**—But I assume, Mr Peel, that if I have a company and I put a claim in for \$200 million, if in the end year there is only 50 per cent of that available, that is going to be very difficult for me in terms of any expenditure I may have committed to as a company.

**Mr Peel**—That is true. Indications to date, though, are that that is not what is happening. There has been underclaiming under the scheme. As we said, the arrangements were agreed with the industry.

**Senator GEORGE CAMPBELL**—Has the Auditor-General looked at this?

**Mr Peel**—It is next on his list.

**Senator GEORGE CAMPBELL**—Next on his list.

**Mr Peel**—We are waiting for him to turn up.

**Senator GEORGE CAMPBELL**—When is the report due?

**Mr Peel**—The audit has not commenced yet. We are advised that it is likely to commence this calendar year. I imagine they would take four or five months to do the audit. So I would guess it would be the first half of next year.

**Senator GEORGE CAMPBELL**—That is when we will keep an eye.

**Mr Peel**—I am sure you will, Senator.

**Senator GEORGE CAMPBELL**—I have probably asked you this question before. Does the department assess each application on its individual merits, or do you assess it against guidelines or specific requirements which each of the applications have to meet? I thought originally there was very little room to move in this in terms of the assessment of this. Is that correct?

**Mr Sexton**—We are reimbursing expenditures which have already been incurred. So long as those expenditures satisfy the various guidelines, we pay out on them.

**Senator GEORGE CAMPBELL**—So it is measured against the guidelines. I thought that was the case all along.

**Mr Peel**—That is true.

**Senator GEORGE CAMPBELL**—Is it true to say at this stage, Mr Sexton, that firms have received essentially what they have applied for to this point in time? Can I take it from Mr Peel's comment that it is all underclaimed at present?

**Mr Peel**—Perhaps I could answer that. Of course, as in any scheme, companies apply for things that are found to be ineligible. As you know, we have been challenged from time to time on our decisions under the scheme and have reconsidered a number of cases. In some cases, we have agreed to pay the company the amount that we have denied. In other cases, we have not. I guess it would be true to say that what we believe they are eligible for they have been paid for, but not necessarily everything they have claimed.

**Senator GEORGE CAMPBELL**—That is what I meant, actually. Where you have assessed the eligibility is for \$100 million or \$50 million, that is what they have been paid? They have been paid in full?

**Mr Peel**—Yes.

**Senator GEORGE CAMPBELL**—In fact, there have been no modulations occur in respect of any other claims at this stage?

**Mr Peel**—Not to date.

**Senator GEORGE CAMPBELL**—Is it proper to assume that most of the applicants for SIP payments are claiming grants over a number of years for a single investment?

**Mr Peel**—Most of the registrants for the scheme have been there since the commencement of the scheme, so it is probably reasonable to assume that most of them are claiming each year.

**Senator GEORGE CAMPBELL**—Would they be for a single investment or for multiple investments?

**Mr Sexton**—They would be more than likely for multiple investments. They can also claim, of course, for their activities related to innovation and product development. For many firms, that is an ongoing process.

**Senator GEORGE CAMPBELL**—I think, Mr Peel, in February 2001 we discussed an article in the *Financial Review* which is entitled ‘Textile plan starts to unravel’. I think it was on 16 February 2001. The article alleges that a number of companies were also contemplating legal challenges against the Commonwealth if the payouts were sliced. I think you said in February 2001 you were unaware of any legal action. Can you confirm that there has been no legal action against the Commonwealth by SIP applicants regarding the program?

**Mr Peel**—It depends what you mean by legal action. There have certainly been appeals to the Administrative Appeals Tribunal against our decisions under the scheme. Recently, there has been a case taken to the Federal Court contesting the decision of the Administrative Appeals Tribunal, which upheld our position.

**Senator GEORGE CAMPBELL**—What happened with that case? Has it been determined yet?

**Mr Peel**—No. It is being heard in the Federal Court in March next year.

**Senator GEORGE CAMPBELL**—And of the cases that have been taken to the Administrative Appeals Tribunal, presumably you have won some and lost some?

**Mr Peel**—We have won some and lost some and we have negotiated some before they have been heard by the tribunal.

**Senator GEORGE CAMPBELL**—Was the case before the Federal Court legal action where you were being sued?

**Mr Peel**—No. It is just contesting our decision not to make a grant under the scheme.

**Senator GEORGE CAMPBELL**—It is contesting your decision or the Administrative Appeals Tribunal decision?

**Mr Peel**—I am sorry; it is the Administrative Appeals Tribunal decision, which upheld our original decision.

**Senator GEORGE CAMPBELL**—So it is not that they are suing?

**Mr Peel**—I am not aware of anyone that is suing us.

**Senator GEORGE CAMPBELL**—I want to ask you specifically about Rocklea Spinning Mills, which I think you would be aware is now under the control of an administrator. I understand that they applied for funding for the 2003-04 financial year in the order of \$850,000. Is this correct?

**Mr Peel**—I have a bit of a difficulty in answering the question. I am aware of the chairman’s comments at the start of the hearing about commercial-in-confidence and Senate resolutions related to that. Under the rules applying to the scheme, I am not able to provide you with the amount of money that particular applicants have received under the program.

**Senator GEORGE CAMPBELL**—But why is it an issue? The company is in the hands of an administrator.

**Mr Peel**—I am aware of that.

**Mr Sexton**—I understand that it is in the hands of a receiver-manager and is continuing trade.

**Senator GEORGE CAMPBELL**—It is continuing to trade? But is this going back, Mr Peel, to that confidentiality clause that was signed initially?

**Mr Peel**—Yes.

**Senator GEORGE CAMPBELL**—You are not going to put me through the torture of having to go to the Senate to get this information which we are entitled to?

**Mr Peel**—Unfortunately, that situation continues to apply, unless we can get agreement from the company to make you aware of the amount of money that is being paid to it. We would be happy to make those inquiries.

**Senator GEORGE CAMPBELL**—At this stage, I will accept that offer. But, if that does not come up, I will reserve my right to take other initiatives.

**Mr Peel**—I am sure you will.

**Senator GEORGE CAMPBELL**—How much would Rocklea Spinning Mills, or any other spinning mill for that matter, have had to invest to achieve a grant of that size?

**Mr Peel**—It would depend on what they are claiming the benefit for. There are various grants available under the scheme. For example, if they are investing in new plant and equipment, they would be entitled to 20 per cent of their expenditure. So, for the amount you mentioned of \$800,000, that would be 20 per cent of \$4 million. For R&D they are entitled to 45 per cent of expenditure. So if they had received the amount that you suggested, we would be looking at \$1.7 million or something like that.

**Senator GEORGE CAMPBELL**—I presume, Mr Peel, that, setting aside the size of the grant at this stage, a grant was actually paid to Rocklea Spinning Mills.

**Mr Peel**—I think I have taken that on notice.

**Senator GEORGE CAMPBELL**—Sorry. I am not asking you about the amount at this stage. I am asking you whether or not a grant was paid to Rocklea Spinning Mills.

**Mr Peel**—As I said, I am not able to say under the rules applying to the program. But I can take that on notice and ask the company.

**Senator GEORGE CAMPBELL**—So you are saying that the department is not able to tell us who were successful applicants and who were not?

**Mr Peel**—We are not able to provide information about individual companies under the program. You will recall you wanted to have a list of all the companies registered under the program back in 2001 and 2002.

**Senator GEORGE CAMPBELL**—Let me ask you another question, Mr Peel. Has the Commonwealth been represented at creditors meetings?

**Mr Sexton**—I understand there have been no creditors meetings at this stage because it is not under administration.

**Senator GEORGE CAMPBELL**—If this company goes into administration and if the Commonwealth had made a grant to the company, would the Commonwealth be entitled to seek to recoup that grant?

**Mr Peel**—The grants under the program are made in arrears, so they are made after the company has actually undertaken the activity rather than in advance, as some other programs are factored. So there would not be a debt owing to the Commonwealth if we had paid them for something they had already done.

**Senator GEORGE CAMPBELL**—So you are saying that—

**Mr Peel**—Unless they received an advance under the program. That would be the only situation

**Senator GEORGE CAMPBELL**—Is it possible for that to occur?

**Mr Peel**—Yes. There is a provision under the program for regular advances of up to 50 per cent of estimated claims for a particular year. So if they were in that particular situation, the Commonwealth may need to line up as a creditor and get the money back.

**Senator GEORGE CAMPBELL**—But that has not occurred as yet?

**Mr Peel**—I think, as Mr Sexton said, they are not under administration at the present time.

**Senator GEORGE CAMPBELL**—How long does it normally take to process these applications for grants?

**Mr Peel**—Bear with me; it is in here somewhere.

**Mr Sexton**—Our desired time line is that the time to make a decision on a claim is 60 days. Generally, we meet that.

**Senator GEORGE CAMPBELL**—Sixty days?

**Mr Sexton**—Sixty days.

**Senator GEORGE CAMPBELL**—I understand, Mr Sexton, that Rocklea lodged their application before the 1 July deadline, which would mean you would have had to make a decision about it, what, at the end of August?

**Mr Sexton**—If a claim had been lodged at that time, we would have made a decision before the end of August, yes.

**Senator GEORGE CAMPBELL**—We are aware that a claim was lodged. The question is whether it was approved or not approved.

**Mr Peel**—We will check with the company and see if we can provide that information to you.

**Senator GEORGE CAMPBELL**—Did the company make any representations to the department in respect of this application on the basis that their capacity to continue operating could be affected by the refusal to pay the grant?

**Mr Peel**—I am not aware of that. I would have to check.

**Mr Sexton**—You are asking me to confirm or otherwise whether they are a participant in the scheme. I think, as Mr Peel has identified, we are not able to do so at the present time without their permission.

**Senator GEORGE CAMPBELL**—I was very careful, Mr Sexton, in how I worded that. What I am asking you is whether the company made representations to you that their capacity



to continue operating would be materially affected by a refusal to pay the grant. It is not whether you paid it or did not pay it. Did they make representations to you on the basis that it was critical to their continued operations?

**Senator Minchin**—Senator Campbell, you are, may I say with respect, unfairly pressing officers in relation to this matter given that they are duty bound, whether we like it or not, to respect the confidentiality of this matter. They have undertaken to talk to the company about what the company is prepared to provide by way of information. I think finding other ways of asking the same question is a bit rough on the officers. That question does have as a supposition that an application was made. Any answer that the officers give that went to the confirmation or otherwise of an application is unfair on them and beyond their duty so far as the confidentiality of this matter. With respect, I ask you to resist putting them in a quite difficult position. They have undertaken to get whatever information they can from the company, but I think you are putting them in a difficult position.

**Senator GEORGE CAMPBELL**—I understand what you are saying, Minister. I thought I was being extremely kind to the officers.

**Senator Minchin**—I appreciate you are being careful, but I still, nevertheless—

**Senator GEORGE CAMPBELL**—I thought I was being kind to them given the rulings that the Senate has made recently about commercial-in-confidence claims and about the claims of officers not to answer questions at these estimates hearings. There is an option for me to ask for a private meeting of the committee and get a ruling of the committee in respect of this issue, but I have not pressed that. I am trying to work my questions around a particular set of circumstances. I can go the other route. I have not asked whether or not the company was paid a grant. I have asked whether or not the company made representations to the department on the basis that their operations could be affected if the department refused a grant.

**Senator Minchin**—In other words, that presupposes that an application was made. So any answer they give to that—

**Senator GEORGE CAMPBELL**—It does not presuppose. It does not presuppose at all.

**Senator Minchin**—We know that a request was made. Of course it does.

**Senator GEORGE CAMPBELL**—We know the company is in the hands of an administrator.

**Senator Minchin**—A receiver manager.

**Senator GEORGE CAMPBELL**—A receiver manager. That is a fine distinction.

**Senator Minchin**—But that question itself presupposes that a request was made.

**Senator GEORGE CAMPBELL**—Well, I could assume from that that they did not give the grant if I know the company made representations.

**Senator Minchin**—It is unfair on these officers. They are not going to. I do not expect them to. I would ask them to not in fact say anything that would confirm or deny whether an application was made or moneys were paid over.

**Senator GEORGE CAMPBELL**—At the end of the day, it may have nothing to do with you whether they confirm or deny or otherwise. I understand what you are saying to them at this point in time.

**Senator Minchin**—The government enters into agreement with companies that make applications on the understanding that details relating to the scheme are confidential. The Senate can try to breach commercial arrangements of that kind, and we will have to play that out, but applications under this scheme and payments under it are commercial-in-confidence. There are agreements entered into by the department with these companies, without naming names, on that basis. It is not open to officers just to wilfully breach those sorts of commercial agreements without the agreement of a company.

**Senator GEORGE CAMPBELL**—Okay.

**Senator Minchin**—But they will use their best endeavours to get whatever information they can.

**Senator GEORGE CAMPBELL**—As I said, I have accepted that assurance from Mr Peel. If I need to go another route, I can go another route at that point in time.

**Senator Minchin**—Sure. That is your prerogative.

**Senator GEORGE CAMPBELL**—Is it true, Mr Peel or Mr Sexton, that not all firms that register and apply for a grant under the SIP get one?

**Mr Peel**—Yes, that is true.

**Senator GEORGE CAMPBELL**—Would it be fair to say that this program encourages a form of gambling in that it encourages companies to invest based on a gamble that they may receive a grant of an unknown quantity?

**Mr Peel**—I do not think so.

**Senator GEORGE CAMPBELL**—Isn't that what the modulation at the end of the program will do? That is the point I was making before.

**Mr Peel**—Well, we have consulted with the industry about the current design of the scheme. They have agreed to the current arrangements. There is a possibility that in the final year of the scheme there would not be sufficient funds to pay all applications. But all current indications are that there are more than sufficient funds available to meet claims. That may change over the next couple of years.

**Senator GEORGE CAMPBELL**—In your statement five minutes ago, you said that mainly all the payments were made in arrears but there is provision for some payments to be made in advance. Essentially, there are payments made for presumably investment that has already occurred or activities that have already occurred. In the circumstances of any company that may have trading difficulties, the state of the trading environment of the company would be irrelevant to you paying or not paying the claim, wouldn't it, if they have already made the investment, or is there a capacity for you not to pay it, even in circumstances where you are paying in arrears?

**Mr Sexton**—The legislation is such that so long as they have incurred the expenditure we are obliged, providing they have satisfied all the requirements, to pay out on that expenditure.

**Senator GEORGE CAMPBELL**—I think we had a similar set of circumstances with Coogi.

**Mr Sexton**—Yes.

**Senator GEORGE CAMPBELL**—They got a payment of a substantial amount of money when they were in administration. Essentially, if they have incurred the expenditure, their trading environment has no impact upon whether you pay it or not?

**Mr Sexton**—Correct.

**Senator GEORGE CAMPBELL**—I think we may have gone through this process over the Coogi matter as well. Presumably, those moneys belong to the company. So they could use those entitlements to pay out employees' entitlements, for example?

**Mr Peel**—We pay in arrears for eligible activities undertaken under the scheme.

**Senator GEORGE CAMPBELL**—So there is no restriction on how they might use that final cheque that they receive?

**Mr Sexton**—In the year in which those grant funds are received, they become income to the company and therefore can be disbursed in any way they so choose.

**Senator GEORGE CAMPBELL**—What if a company like Coogi wanted to re-establish somewhere else? Could the money be used for that purpose?

**Mr Sexton**—As I said, we are paying out in arrears. It becomes income for the company in the subsequent year. We have no control over how they might disburse those funds once they are received.

**Senator GEORGE CAMPBELL**—So as far as you are concerned, if they have made the investment, they have incurred the expenditure. When you write the cheque, what they use it for after that is not your concern?

**Mr Sexton**—Because it is a part reimbursement for investments already incurred.

**ACTING CHAIR**—Do you audit the books to ensure that they are business related expenses prior to making the disbursement?

**Senator GEORGE CAMPBELL**—I should hope so.

**Mr Peel**—Yes. We have compliance arrangements in place and we check all claims thoroughly before they are paid. We have postpayment audit arrangements as well.

**Mr Sexton**—All companies are also required when they lodge their claim for a year to accompany it with an independent audit report.

**ACTING CHAIR**—But in addition, do you do your own—

**Mr Sexton**—We also have our own post-transaction compliance processes.

**ACTING CHAIR**—No. Pre-transaction—

**Mr Sexton**—We have both pre and post.

**Senator GEORGE CAMPBELL**—Mr Sexton, in the submission to the Productivity Commission of Australia for the TCF industry review, Rocklea suggested a subsidy could be provided to help Australian grown cotton. They said:

For instance, a 10 per cent subsidy on the cost of the raw cotton purchased from Australian growers would significantly improve Rocklea's cost competitiveness.

What consideration has the department given to that suggestion, or has it considered it?

**Mr Sexton**—I think you will have to direct that question to my policy colleagues.

**Mr Pettifer**—I cannot comment in detail, of course, on the government's deliberations until the package is announced, but I think it would be fair to say that we have looked at a range of sensible reforms. We have not looked at that particular proposal.

**Senator GEORGE CAMPBELL**—So you have not given it consideration?

**Mr Pettifer**—I think it would be outside the scope of what we have traditionally supported under the TCF SIP scheme. If I understand what you are saying there, these are subsidies on cotton production, essentially.

**Senator GEORGE CAMPBELL**—They are suggesting a 10 per cent subsidy. I would have thought that any recommendations put forward to the Productivity Commission would have had some active consideration by the department. My follow-up question is going to be whether or not this would comply with our WTO obligations or whether it would run foul of the WTO obligations.

**Mr Ryan**—I suspect that it is an interesting idea, but it is looking more and more like an agricultural subsidy to me in terms of subsidising raw cotton production within Australia, if that is what the proposal is, rather than all raw cotton so that you could import raw cotton with subsidy as well.

**Senator GEORGE CAMPBELL**—No. I think they are talking about Australian grown cotton.

**Mr Ryan**—If it is local production within Australia, I think we are starting to run into some heavy weather in terms of WTO. But that would be—

**Senator GEORGE CAMPBELL**—How would that differ, Mr Ryan, from the subsidy on ethanol production?

**Mr Ryan**—It would depend on the size of it, I would estimate. Without knowing exactly this field of agriculture, there are certain refinements in the rules for agriculture which allow you to do certain things. Depending on the size of the subsidy that we are looking at and its application and if it is only applied to local production, it is starting to look odd.

**Senator GEORGE CAMPBELL**—I presume that that is what they are talking about.

**Mr Ryan**—I would have thought from this portfolio's perspective, when we are looking at the TCF sector, we tend to look at what measures are actually going to work with the adjustment processes within the manufacturing side of it rather than worrying about what we might develop down at the agricultural end.

**Senator GEORGE CAMPBELL**—I think you have answered my question anyway. It has not received any active consideration. I want to move on to PIIP. Mr Pennifold, under the P3 program, it confirms access funding directly from the program and access to the R&D tax concession.

**Mr Pennifold**—A participant in the new P3 program is able to access all other Commonwealth programs.

**Senator GEORGE CAMPBELL**—All other Commonwealth programs?

**Mr Pennifold**—Yes.

**Senator GEORGE CAMPBELL**—Is there not a specific provision in the P3 program that prevents them from accessing both pools of money?

**Mr Pennifold**—It does not prevent them accessing both pools of money, but it does apply a clawback.

**Senator GEORGE CAMPBELL**—Sorry?

**Mr Pennifold**—It does apply a clawback, so the tax office applies clawback to P3 in the same way it would apply it to a company that accessed the tax concession in terms of, say, R&D Start.

**Senator GEORGE CAMPBELL**—So there is a specific provision in the P3 program that says you cannot double dip, so to speak?

**Mr Pennifold**—Yes.

**Senator GEORGE CAMPBELL**—So you can have one or the other, but not both?

**Mr Pennifold**—No. You can access both, but it does mean that companies that do access both cannot get the full benefit of the tax concession and the full benefit of P3.

**Mr Peel**—Perhaps I could add that the tax concession itself includes a provision that does not allow companies to claim the same thing under the tax concession as they claim under other programs.

**Senator GEORGE CAMPBELL**—Have you got that provision in front of you?

**Mr Page**—I do not have the provision immediately in front of me, but what I can explain is that companies are entitled to apply for Commonwealth grant funding under various innovation programs, P3 being one of them. They are also entitled to register for the R&D tax concession. The moneys that they receive under any granting program is regarded by the Australian Taxation Office as income for the purposes. They offset that in their tax return, as I understand it, with the expenditure on those items. If they also register for the tax concession and list in the appropriate schedule the R&D expenditures, then the Taxation Office applies the clawback provisions. So it looks, firstly, at the value of the grant.

Whilst I do not know the exact details on how it will operate for P3, for example, in the R&D Start program, the amount of the grant is doubled and deducted from the R&D expenditure to leave what is called the eligible expenditure remaining. That eligible expenditure is what will attract the 125 per cent concession under the R&D tax program. The balance that was clawed back, however, remains eligible at 100 per cent so that it offsets the granting amount. So there is a netting-out effect. This is important because, of course, many companies that might be the beneficiaries of particular Commonwealth grants for R&D might well have expenditures and programs greater than that which are supported by the grant and which should be eligible for the R&D tax concession. So, in effect, the tax concession nets out any amounts that have been paid under a granting arrangement.

**Senator GEORGE CAMPBELL**—Is it true, Mr Peel, that the department and the tax office are revisiting the PIIP program in an effort to claw back funds from companies that have accessed both PIIP and the R&D tax concession?

**Mr Peel**—AusIndustry is not involved in the administration of PIIP, so will have to ask Mr Pennifold.

**Mr Pennifold**—I am aware that the Australian tax office has contacted PIIP companies that also applied for the tax concession and is seeking to apply the claw-back provisions to those funds.

**Senator GEORGE CAMPBELL**—When the PIIP program was initiated, wasn't it made clear to applicants that they were not entitled to access both schemes?

**Mr Pennifold**—We do not have any written evidence to that effect.

**Senator GEORGE CAMPBELL**—When you say you have no written evidence to that effect, does that mean are you not aware that companies were advised that they could access both schemes?

**Mr Pennifold**—I am not aware of that. We have gone back over our files and we find no reference to such statements.

**Senator GEORGE CAMPBELL**—Let me put it in reverse. Were there any provisions in the documentation on the PIIP scheme which indicated that you would not be able to access both schemes? I understand on P3 there is. Is that right?

**Mr Pennifold**—No. The PIIP is silent on that question. If you look at the documentation, you find there are program guidelines and supplementary guidelines and they do not address that point, which is one of the reasons the new program specifically does address that point to make it clear.

**Senator GEORGE CAMPBELL**—When did it first come into effect?

**Mr Pennifold**—The payments related to the start of the 1999-2000 financial year. So it was on 1 July 1999.

**Senator GEORGE CAMPBELL**—So it has been effectively in operation for three years?

**Mr Pennifold**—Probably four years at the end of last June. It expires on 30 June 2004.

**Senator GEORGE CAMPBELL**—Why suddenly have the tax office decided to apply clawback to PIIP recipients?

**Mr Pennifold**—I am not aware of the reason for the timing of what the ATO is doing. I understand that that is the action they have taken over the last year or so. The tax office was advised who the PIIP companies were, but this action is one that has been taken over the last year or so.

**Senator GEORGE CAMPBELL**—Let me put it another way. If you were a pharmaceutical company that had access to both those programs and had done it over a period of three or four years, under the agreement that said you were not prohibited from doing it, you would be a little more than peeved, wouldn't you, that this is now occurring?

**Mr Pennifold**—As I said, we have gone back and looked at our records. There is no record that there were assurances given that a clawback would not apply.

**Senator GEORGE CAMPBELL**—I have to say that that does not appear to be the attitude of the industry. They seem to be reasonably confident that they were given that indication. How they were given it, I do not know; I am not in a position to say. But this is four years after the event. One wonders whether this is a legitimate exercise or just a dash for cash by the Taxation Office.

**Mr Pennifold**—I think that is an issue that really needs to be addressed to the tax office.

**Senator GEORGE CAMPBELL**—But it is wider than just this issue, isn't it? Aren't they looking at a whole range of other issues?

**Mr Pennifold**—The tax office? I am not aware of any other issues that the tax office was looking at.

**Senator GEORGE CAMPBELL**—The department is aware of other issues they are looking at. I understand that they are looking at the tax credits on R&D.

**Mr Peel**—From time to time, the tax office seeks advice from AusIndustry about benefits that companies might have received under our various programs. But it is up to the tax office what they do with that information and whether they use it to audit their tax returns.

**Senator GEORGE CAMPBELL**—Mr Peel, are you aware of other programs that have been subjected to scrutiny by the tax office?

**Mr Peel**—Yes, I am.

**Senator GEORGE CAMPBELL**—And the tax credits is one of them?

**Mr Peel**—Tax credits? I am not aware of that program.

**Senator GEORGE CAMPBELL**—It is the program where companies who do not have a profit can get a tax credit.

**Mr Peel**—The tax offset? That is a different issue. The tax office is having a look at the tax offset, which is a new feature of the R&D tax concession. It has indicated to us that a number of companies that have claimed that benefit appear to have made errors in their tax returns. We have worked with them to educate companies on the rules and requirements for the offset, so it is really more about an educative process, although in that they have found some inappropriate claims that they are going to investigate as well.

**Senator GEORGE CAMPBELL**—What other programs are being scrutinised by the ATO at the moment?

**Mr Peel**—Nothing in specifics. From time to time they will ask us for a list of companies that have claimed benefits and how much they have under the various programs. I remember, for example, that I think they have asked about TCF SIP, which was the program you were talking about earlier. But it is just part of their legitimate role to audit tax returns.

**Senator GEORGE CAMPBELL**—I am not suggesting otherwise. Mr Pennifold, I assume from your comments that the tax office has approached you in respect to PIIP?

**Mr Pennifold**—The tax office approached us some time ago in relation to PIIP and was seeking, again, the names of the companies that had participated in PIIP. It sought the amount of money that they had been paid for the R&D element of PIIP.

**Senator GEORGE CAMPBELL**—What caused you to go back and look at the original agreements to assess whether or not companies had been advised that they were able to claim both benefits?

**Mr Pennifold**—At the time, companies then became aware of the tax office scrutiny. We were aware that there were these beliefs in some companies that such statements had been made. So we went back and checked our records. We were certainly aware there was no reference in the formal program guidelines to that effect, and we had a look through our files as well at the time and we could not find any reference to it.

**Senator GEORGE CAMPBELL**—But the documentation was silent on that issue?

**Mr Pennifold**—Yes. The formal program guidelines are silent on that issue.

**Senator GEORGE CAMPBELL**—In terms of P3, there is specific provision?

**Mr Pennifold**—Indeed. Just looking at the guidelines for P3, there is a section called R&D tax concession which says that companies that participate in P3 are not precluded from accessing the R&D tax concession. However, standard claw-back provisions will apply. It then goes on to make clear that this is the case for the new program.

**Senator GEORGE CAMPBELL**—Thank you for that. In response to a question we asked you at the last estimates, you provided me with a table of business expenditure in research and development covering the years 1995-96 through to 2001-02. Can you tell me whether those figures that appear in that table are in constant dollars?

**Ms Berman**—I believe they are.

**Senator GEORGE CAMPBELL**—Can you check that?

**Ms Berman**—Yes, I will check that for you.

**Senator GEORGE CAMPBELL**—Can you explain the significant jump from 1999-2000 to 2000-01 and from 2000-01 to 2001-02?

**Ms Berman**—It is very pleasing to see the increase. To a large extent, it is due to an increase in the services R&D area and a turnaround somewhat in mining, which reduced in the latter half of the 1990s. It would appear in the most recent data, which was 2001-02, that it is picking up the impact of the tax rebate and the 175 premium. Hopefully, they are impacting significantly.

**Senator GEORGE CAMPBELL**—Do you have a breakdown of those figures? Can you give us the breakdown?

**Ms Berman**—For those two areas?

**Senator GEORGE CAMPBELL**—Yes, for services and for mining.

**Ms Berman**—The mining and manufacturing sectors increased by 16 per cent and 10 per cent respectively. Wholesale and retail trade increased by 14 per cent. But I have another source which shows that the services continue to increase. ICT in particular is a very large



component of that BERD and it is also continuing to increase. I think it is about 40 per cent of the total.

**Senator GEORGE CAMPBELL**—Forty per cent?

**Ms Berman**—In that order, yes. That is a number of services, including ICT.

**Senator GEORGE CAMPBELL**—Thank you for that. What has been its contribution to the R&D premium?

**Ms Berman**—The premium has shown reported expenditure of \$1.2 billion for the year 2001-02, and 481 companies registered, which is quite significant.

**Senator GEORGE CAMPBELL**—Is that above expectations? It would be, wouldn't it?

**Ms Berman**—I would have to take that on notice because there was a predicted quantum that was recommended. I think it was in the order of \$115 million that would be claimed. I do not have the actual claim figure here. I beg your pardon; \$46 million was claimed at that time so it may be less than what was predicted in the first year.

**Senator GEORGE CAMPBELL**—Thank you for that. Can you provide the committee with any concrete outcomes, such as employment or dollar values, of commercialised projects that have stemmed from the biotechnology innovation fund?

**Mr Peel**—I can, but I am afraid I would have to take it on notice and get back to you. I do not have that readily available. The program is only relatively new, as you would know. Only 32 companies have actually completed their projects to date. It is early days, but I will see if there is anything we can provide.

**Senator GEORGE CAMPBELL**—At the end of round 4, there was less than \$9 million left for the life of the fund. Now that round 5 has been completed, how much is left in the fund?

**Mr Peel**—Round 5 is not yet completed. The IR&D board's biological committee is meeting this week to decide on the applications. There is \$6 million available for round 5.

**Senator GEORGE CAMPBELL**—Which will leave \$3 million?

**Mr Peel**—That will be it. We will have to see what the next budget brings.

**Senator GEORGE CAMPBELL**—You provided me on notice with a breakdown of the applications by state. Is it possible to take it further and break down the applications from companies that are based in the metropolitan and regional and rural areas?

**Mr Peel**—We will see if we can do that.

**Senator GEORGE CAMPBELL**—Can the successful applicants all be classified as SMEs?

**Mr Peel**—Yes, I believe so, because they are all start-up companies.

**Senator GEORGE CAMPBELL**—They all fall into the SME category?

**Mr Peel**—Yes.

**Senator GEORGE CAMPBELL**—Do we know what the average number of employees is in those companies?

**Mr Peel**—I could check. I do not have it with me.

**Senator GEORGE CAMPBELL**—Can you provide us with the names of the successful round 5 applicants when it is completed?

**Mr Peel**—Yes.

**Senator GEORGE CAMPBELL**—Are any of these applicants receiving funding from other AusIndustry or DITR programs?

**Mr Peel**—Sorry, I did not quite catch that.

**Senator GEORGE CAMPBELL**—Are any of those companies receiving other funding from other programs from within the department?

**Mr Peel**—I expect so.

**Senator GEORGE CAMPBELL**—Can you also provide us with that information?

**Mr Peel**—Yes.

**Senator GEORGE CAMPBELL**—Thank you. The COMET evaluation fact sheet is located on your web site. It is pretty brief and does not really give us an insight into the results of the evaluation and how the department will react, except to say that the department will address the points raised in the report on the program. According to this sheet, COMET performed very well in the evaluation. If this is the case, are you now able to release the entire report?

**Ms Berman**—The report has been provided in that summary form on the instruction of the minister. It is quite true that there are very positive responses to the program. For example, over \$161 million in equity has been invested into firms despite expenditure in the order of about \$30 million, so it is proving to be a very effective program. The evaluation report is not readily available.

**Senator GEORGE CAMPBELL**—Can I ask you to take on notice that a copy be made available?

**Ms Berman**—I will take that on notice.

**Senator GEORGE CAMPBELL**—Otherwise we will have to go the circuitous route. Ms Berman, have there been any changes made to the COMET program as a result of the report?

**Ms Berman**—Yes. In fact, most of the changes have been related to the administration of the program. I think Mr Peel or Mr Page could refer to some of them. Are you happy to do that, gentlemen?

**Mr Page**—At a very recent meeting of the industry research and development board, its COMET committee put forward a range of changes that are essentially administrative in nature building off the evaluation report, which the board approved only two weeks ago now. Much of the changes—I do not have the full list, but I can provide it to you separately on notice—relate, for example, to providing an appeal mechanism for unsuccessful applicants and to changing some of the arrangements for the payment of moneys and the acquittal of moneys. So they were predominantly in that area. They are very much administrative in

nature to improve essentially the administration of the program. But they were not fundamentally about eligibility or access to the program.

**Senator GEORGE CAMPBELL**—Could you take it on notice and provide us with a list of the changes?

**Mr Page**—Yes.

**Senator GEORGE CAMPBELL**—On your web site, the estimated total customer base for 2003-04 is 265. It says that benefits to be delivered are listed at \$7.65 million. This represents a drop from 2002-03 from 406 customers and \$11.6 million delivered. Is there an explanation for the drop?

**Mr Peel**—There was a period of time when there was an overlapping of funding under this program. With Backing Australia's Ability, from memory, I introduced additional funding for the program. There was a year when we effectively had double the funds available to us. That reduction just shows the impact of that double funding period. Now the program is coming back to normal levels.

**Senator GEORGE CAMPBELL**—I thought that double funding period was before that and that that double funding actually went from \$10 million to \$20 million.

**Ms Berman**—That is correct. It straddled two financial years, as it happened. That is why it had an impact on a later year as well as 2001-02.

**Senator GEORGE CAMPBELL**—But it would not have applied in 2002-03, would it?

**Mr Peel**—It does because the activities that the grants support more often than not extend over more than one financial year. So we are actually providing funding over a couple of financial years for a particular grant. So it shows an impact in two years rather than just one.

**Senator GEORGE CAMPBELL**—As I understood it, COMET was \$10 million and then it went to \$20 million. It is now back to \$10 million.

**Ms Berman**—Correct.

**Mr Peel**—That is right.

**Senator GEORGE CAMPBELL**—In 2002-03, it was \$11.6 million delivered, which you would probably argue was overhigh from the previous financial year?

**Mr Peel**—That is right. It is just the payments washing through. You make the grant, but the cash goes out the door in stages as companies undertake the activities that the grant is funding. We do not pay it all up-front, so the money shows itself spread across a few years rather than one.

**Senator GEORGE CAMPBELL**—But how does that explain the \$7.65 million expenditure in 2003-04, which would appear to be below the allocated funds? I understand your argument in the other direction but it does not explain why it has dropped.

**Ms Berman**—When you say 'dropped', you are not assuming that it started at \$10 million, or you are?

**Senator GEORGE CAMPBELL**—Yes, I am.

**Ms Berman**—Some of the costs incurred are related to the delivery costs. So it would not be \$10 million as such that would be provided as administered funds.

**Senator GEORGE CAMPBELL**—But the number of customers has dropped significantly too over the period of time.

**Mr Peel**—The number of customers has dropped because of the decrease in the value of the grant money available, so you can support fewer customers.

**Mr Page**—Perhaps I can help you a little with some of the numbers. As Ms Berman said, the funding for this program is split between administered and departmental moneys. In 2002-03 there was \$11.65 million available in administered moneys and \$2.35 million available in departmental, making a total of some \$14 million. In 2003-04 there is, according to the budget statement, \$7.65 million available in administered and \$2.35 million again in departmental, making a total of \$10 million, as you would expect. There is a similar number in 2004-05. Again, it is \$10 million. This is the reversion of the program to its steady state of \$10 million that you have mentioned before.

**Senator GEORGE CAMPBELL**—You said the difference between the \$7.6 million and the \$11.6 million—that \$4 million—is a hangover from the year when there was the double funding?

**Mr Page**—That is right. That double funding hung over two financial years. That is why you have actually seen it steadily coming down rather than a peak and a dip again.

**Senator GEORGE CAMPBELL**—Okay. With the industry component of the innovation access program, why was there a \$2.7 million underspend last year?

**Mr Peel**—It is due to simply a lack of demand. Since then, we have changed the arrangements by which we manage the program. Rather than have continuous applications, we now have application rounds, which has helped us promote the program more effectively and encouraged a greater number of applications.

**Senator GEORGE CAMPBELL**—If the \$2.7 million has been reallocated to this year, is it likely that there will be an underspend this year again?

**Mr Peel**—Current indications are that that is unlikely to happen.

**Senator GEORGE CAMPBELL**—It is unlikely.

**Mr Peel**—There is strong demand.

**Senator GEORGE CAMPBELL**—Under this program, can companies receive grants over multiple years?

**Mr Page**—Yes, they can.

**Senator GEORGE CAMPBELL**—Is that the rationale for increasing the allocations in the out years?

**Ms Berman**—Not quite. The increase of funding over the four years was a consequence of the funding envelope for Backing Australia's Ability. It was perceived that demand would grow and that there were more funds in the latter years available for the program than in the earlier years. So it is a combination of availability of funds and expected increased demand.

**Senator GEORGE CAMPBELL**—So that funding in the out years is based on an expected increase in the growth of demand in the fund?

**Ms Berman**—And availability of funding for that purpose, yes.

**Senator GEORGE CAMPBELL**—Can you provide us with a complete list of all the recipients of the industry component of the IAP and their grant amounts?

**Ms Berman**—We can and we will.

**Senator GEORGE CAMPBELL**—Has any independent review been undertaken of the effectiveness of this program?

**Ms Berman**—Yes. There is a review that is being undertaken within the department but involving the budget area of the department as well as the policy area of that particular program. It also involves the Department of Finance, which is normal practice. That review commenced in about early September. It is due for completion in the next couple of weeks.

**Senator GEORGE CAMPBELL**—And will the outcome of that review be made available on the web site?

**Ms Berman**—That will be a decision by the minister, but I anticipate it will be similar to the short summaries that we have provided to date.

**Senator GEORGE CAMPBELL**—Can you take on notice our request for a copy of the outcome of the review when it becomes available?

**Ms Berman**—Certainly.

**Mr Ryan**—There are a number of evaluations that are being done or have been done in recent times which are forming part of the government's policy considerations for what they are going to do into the future. They are cabinet deliberations. Until that has been completed, that may restrict the availability of any of these evaluations.

**Senator GEORGE CAMPBELL**—I understand what you are saying in that respect, Mr Ryan. If that is the case, then we have to deal with it in a different way. What I am simply asking for—and I know the evaluations are taking place—is copies of those evaluations. If for some reason you come back and say, 'You can't have them,' then we will look at the next step. The industry innovation fund: can you explain to us where that is up to at present, Ms Berman?

**Ms Berman**—It is probably more appropriate for Mr Peel to give you an update, if that is all right.

**Mr Peel**—There have been two rounds of the IIF, as I think you are aware Senator; \$130 million was made available in round 1—

**Senator GEORGE CAMPBELL**—Can you separate them? Can you tell us what is happening with round 1 and then what is happening with round 2?

**Mr Peel**—That is what I was about to do.

**Senator GEORGE CAMPBELL**—Sorry.

**Mr Peel**—In round 1, \$130 million was made available. That is all but committed. I think about 86 per cent of the funds have been invested. In round 2, there was \$90.7 million, but

only 28 per cent of that to date has been drawn down. There have been 61 investments made by the IIF fund managers. The overall value of the investments compared to the amount invested at present is about 23 per cent below the initial investment figure, which is simply a reflection of the market. Venture capital works on a J-curve: you go down for a while before you go up. But the market conditions are not the strongest at the present time.

**Senator GEORGE CAMPBELL**—There is always an expectation that your losses will be offset by your gains.

**Mr Peel**—That is right.

**Senator GEORGE CAMPBELL**—So I infer from what you have just said that there have been a lot of losses and very few gains. Do we still only have the one success story where you have had a return?

**Mr Peel**—There was a second one, but it was only very small—about \$35,000, I think—so, effectively, yes.

**Senator GEORGE CAMPBELL**—Did you say 61?

**Mr Peel**—Yes, 61. I think that is right. There are 61 investments.

**Senator GEORGE CAMPBELL**—I asked for a breakdown by industry sector.

**Mr Peel**—We did provide that.

**Senator GEORGE CAMPBELL**—Yes, you did; you said 60 companies, but it shows only two in the other list. There is, for example, bioscience, Internet and IT, and only two investments sit outside those.

**Mr Peel**—Yes.

**Senator GEORGE CAMPBELL**—Do you know what those two industries specifically were? It says the other industry sector includes mining, engineering, electronics, plastic recycling and building materials. But there are only two investments, so they could hardly be spread across all of those.

**Mr Peel**—I will have to check and let you know.

**Senator GEORGE CAMPBELL**—Okay. What is happening with round 2?

**Mr Peel**—I did mention that.

**Senator GEORGE CAMPBELL**—Is the 28 per cent take-up because of the collapse of the dotcoms?

**Mr Peel**—That is part of it. It is later than the original round. I think round 1 was at a time of quite high investment activity. Round 2 occurred at a different time. It has not been going for as long as round 1, so it takes a while to round up—

**Senator GEORGE CAMPBELL**—This was a two-for-one instead of a one-for-one arrangement, wasn't it?

**Mr Peel**—It varied between the fund managers.

**Ms Berman**—It was more competitive on the second occasion. So it was two to one in the first occasion and then the fund managers that succeeded had more competitive bids.

**Senator GEORGE CAMPBELL**—And the fund managers in round 2: were they the same as the fund managers in round 1?

**Ms Berman**—I do not believe so.

**Senator GEORGE CAMPBELL**—The only list we have is a list of round 1 fund managers.

**Ms Berman**—No, I do not believe there are.

**Mr Peel**—Let me see if I have them here. There are nine fund managers. Allen and Buckeridge and Newport look after IT&T. There are GBS and Startup in the science area. There is CM Capital, which is in IT and life sciences.

**Senator GEORGE CAMPBELL**—Is there Coates Myer?

**Mr Peel**—Yes; and AMWIN, Foundation, Momentum and Nanyang, who all have a general investment focus.

**Senator GEORGE CAMPBELL**—So that is the nine you gave me?

**Mr Peel**—That is nine, I think.

**Senator GEORGE CAMPBELL**—What was in the original one—five, wasn't it?

**Ms Berman**—There were five the first time.

**Senator GEORGE CAMPBELL**—And that was Buckeridge, AMWIN, Coates Myer—

**Ms Berman**—Coates Myer

**Mr Page**—GBS and Momentum—

**Senator GEORGE CAMPBELL**—Thank you for that.

**Mr Page**—We might be able to answer your question now on what were in the other category. One of them was in mining and the other one was in building materials.

**Senator GEORGE CAMPBELL**—These figures of the 60: do they include round 2s?

**Mr Peel**—That is a combination.

**Senator GEORGE CAMPBELL**—A combination of 1 and 2?

**Mr Peel**—Yes.

**Senator GEORGE CAMPBELL**—So how many are in round 2 as opposed to round 1?

**Mr Peel**—We will check and let you know.

**Senator GEORGE CAMPBELL**—In R&D Start in 2002-03 there was a huge drop of customers accessing the program—there were 821 in 2001-02, down to 474—and the benefits delivered dropped from \$221.4 million to \$122.4 million. Has all of this contributed entirely to the freeze?

**Mr Peel**—No. There were a number of companies that were finishing their R&D projects at that time. In addition, the expenditure patterns of companies showed a drop-off, so they were slipping in their expenditure compared to their planned R&D activities. I might say that any underexpenditure in that year was rolled forward to future years of the program, so it has not been lost to the program.

**Senator GEORGE CAMPBELL**—Yes, I understand that side of it. Are you able to identify what proportion of that decline was a result of the freeze and what proportion was a result of what you have just explained?

**Mr Peel**—There was a suspension of the program. That did not prevent any payments being made under the program. The government provided money to ensure that payments were made. During the suspension, obviously no new grants were approved. It might be difficult to work out the impact of that, but we will see what we can do and let you know.

**Senator GEORGE CAMPBELL**—I am trying to cast my mind back. I thought you were in the process of approving grants when the suspension occurred.

**Mr Peel**—There were 115 applications at various stages of the process, yes.

**Senator GEORGE CAMPBELL**—If you can work out that difference, I would appreciate it.

**Mr Peel**—We will see what we can do.

**Senator GEORGE CAMPBELL**—How many companies received a Start grant in the first quarter of the 2003-04 financial year?

**Mr Peel**—We have had 57 applications, I think.

**Mr Page**—Sorry, Senator; could you repeat the question?

**Senator GEORGE CAMPBELL**—How many companies have received a grant?

**Mr Peel**—There were 57 applications and 33 grants approved.

**Senator GEORGE CAMPBELL**—Do you have a value on those grants?

**Mr Peel**—Just over \$33 million.

**Senator GEORGE CAMPBELL**—And how does that compare with the third and fourth quarters of the last financial year?

**Mr Peel**—I have not got it broken down by quarters. I would have to check that.

**Senator GEORGE CAMPBELL**—Can you take that on notice and let us know. Has the review of the R&D Start program now been completed?

**Mr Peel**—Yes.

**Senator GEORGE CAMPBELL**—Is that evaluation available?

**Ms Berman**—No, it is not available. It is with the minister and it is also part of the process that we are going forward with, with cabinet looking at future proposals for Backing Australia's Ability.

**Senator GEORGE CAMPBELL**—Can you take it on notice and make a copy of the review available to us?

**Ms Berman**—Certainly.

**Senator GEORGE CAMPBELL**—Has there been any review of the guidelines making tax exempt businesses ineligible for the R&D Start Program?

**Mr Peel**—No.



**Senator GEORGE CAMPBELL**—I understand that earlier this year that NATSPAC's general manager met with the minister, Brendan Nelson, to discuss the issue. Has anything come out of that meeting? It was reported in the press. It was reported in the *Financial Review* on page 44 on 15 July.

**Mr Page**—I am advised that nothing came out of the meeting that changed guidelines or approach and that the meeting resulted in a reaffirmation that tax exempt companies were ineligible.

**Senator GEORGE CAMPBELL**—Can you explain why it is that tax exempt companies are eligible for funding under schemes such as the Technology Diffusion Program but not the R&D Start grant?

**Ms Berman**—In terms of the Technology Diffusion Program or the Innovation Access Program, frequently what comes forward in terms of a proposal is a combination of firms and academic institutions. So it could be a group of researchers plus a research organisation plus one or two firms who together want to bring in a new technology or work on a new technology. That is why they are able to access that whereas that is not the case in R&D Start, because they have to be companies which are involved.

**Senator GEORGE CAMPBELL**—Sorry; what was the last bit you said?

**Ms Berman**—In R&D Start, we fund companies. We do not fund tax exempt companies; normal trading companies, I should say.

**Senator GEORGE CAMPBELL**—But it is true that there are a number of tax exempt organisations out there that could benefit from Start grants in terms of the work they are doing?

**Ms Berman**—It is a question that has been around for some time; in fact, since Start commenced. There has always been a suggestion that there should be a collaborative approach. At this point in time the funds are not provided to that collaborative partner, but the trading partner can work with that partner and it can, I guess, contract work to the other member. But the funding goes directly to the trading partner.

**Senator GEORGE CAMPBELL**—I see. So you are saying there are ways and means of doing it?

**Ms Berman**—No, I am not saying that at all. I am just explaining what can happen.

**Senator GEORGE CAMPBELL**—Can somebody walk me through the process that occurs when you are processing an R&D Start grant application?

**Mr Peel**—Yes. Through our promotional activities, the company would be become aware that R&D Start grants are available. They would make contact with an AusIndustry customer service manager, who would talk to them about whether or not they are eligible for the scheme and whether the R&D project they have in mind is worth taking forward for funding. They would then complete an application form for the scheme, which would be looked at by our customer service manager. Once the form has been completed it would be reviewed, probably by the state manager of AusIndustry in the particular area where the application is lodged. It would then go for approval to either a committee of the IR&D board or, for grants

of \$250,000 or below, to a committee in AusIndustry chaired by me. The committees would make a recommendation in relation to whether or not the application would be approved.

All applications for a particular round would then be looked at together to ensure that we had the funds available to fund all the grants recommended. If that was the case, the financial delegate within AusIndustry would approve those grants. The companies would be advised, contracts would be put in place, milestones would be agreed for their projects and payments would be made on the basis of those milestones and reviews of progress of the R&D project would be undertaken as the milestones came along. That is roughly the process.

**Senator GEORGE CAMPBELL**—Okay. Mr Peel, the process with the customer service manager: is it true that this on average has taken eight to nine weeks?

**Mr Peel**—It would be variable depending upon the level to which the company applying for the grant is advanced in its thinking about the R&D project that it wishes to do. Some customers are clearer and more prepared than others, so the amount of time it would take is variable.

**Senator GEORGE CAMPBELL**—I am advised that on average it is taking roughly eight to nine weeks to go through this process with the customer service manager.

**Mr Peel**—That sounds like a long time to me. I would not have thought it would take that long.

**Senator GEORGE CAMPBELL**—Have you a way of evaluating that?

**Mr Peel**—Yes; we can check it out and see.

**Senator GEORGE CAMPBELL**—Could you take that on notice?

**Mr Peel**—I am trying to find our targets for customer service on the program, but the customer is effectively responsible for preparing the application.

**Senator GEORGE CAMPBELL**—Yes, I understand that. Many circumstances are stunted by qualified accountants or accountancy firms, but I am told it does not vary the amount of time it takes to process it through the customer service managers.

**Mr Peel**—We can check our current time lines, but that sounds a long time to me.

**Senator GEORGE CAMPBELL**—I would appreciate that. The next step of going through the IR&D committee: again, I am told that it usually takes around five to six weeks.

**Mr Peel**—That is possible because the committees only meet about once every six weeks. So, depending on when the application is lodged for the committee's consideration and depending on the distance between them and the meeting, it could potentially take that.

**Senator GEORGE CAMPBELL**—Is it a question of when the application is lodged or is it a position that has been determined by the IR&D board or its committees that they want that much notice?

**Mr Peel**—No. The committees have a schedule of meetings through the year. They meet about every six weeks and they consider the applications that are ready for them to consider at that time.

**Senator GEORGE CAMPBELL**—There seems to be a feeling out there that applications are not getting to them. Is there any shorter time frame than the five- to six-week period?

**Mr Peel**—I do not know where the feeling is coming from. We have quite high levels of customer satisfaction for the R&D Start program, so I am a bit dubious about that nine-week figure. But we will certainly check it. As I say, it does vary and it does depend on the readiness of the customer to complete an application.

**Senator GEORGE CAMPBELL**—Is there an additional step in the process? Is there a finance committee which these applications go to?

**Mr Peel**—There is a financial delegate. I mentioned that step. The committees review the applications and decide which ones they will recommend for approval. Before they are approved, we need to check our financial position to ensure that they can be funded.

**Senator GEORGE CAMPBELL**—And how long does that process usually take—a couple of weeks?

**Mr Page**—No. Since I am the financial delegate, I can tell you that in fact within one week, at the outside, of all of those committees having met—and there are four different committees that meet on a sectoral basis to consider the applications—all of those recommendations signed by the chairs of the committees are with me. I deal with them, as I say, within the week. Following on from that, advice is then passed back that day to the customer service managers in each of our state offices as to the results of the committees' deliberations. It is worth noting, however, that committees may from time to time attach conditions to their approvals. That may then result in the applicants needing to go away and do some additional work before they are deemed to be in compliance with the approval. That happens in a minority of circumstances, however.

**Senator GEORGE CAMPBELL**—I will come to that issue; I had not forgotten that one either. What is the average period that it is now taking to process an application for a grant from the time you receive the application to the time the grant is approved?

**Mr Page**—If the point at which the grant is approved is the point at which I sign off as the financial delegate—

**Senator GEORGE CAMPBELL**—I presume nobody gets any money until you do.

**Mr Page**—I am certainly hoping they do not. First of all, our published service standard for that is 60 days. I understand that we have a compliance with that well in excess of 90 per cent. I would need to take on notice an actual average. I trust I could do that for this financial year or this calendar year, whichever suits you best.

**Senator GEORGE CAMPBELL**—Could you do that? The view amongst some in the industry is that it is taking anywhere between three and four months.

**Mr Page**—I would be exceedingly surprised if that were the case. I put to you that sometimes some people get a little confused between the point at which they have an application that is acceptable for lodgement, which is the point at which we start keeping records of how we have been progressing it, as opposed to the point at which they might have first approached AusIndustry with a completed application form but where they get

professional advice from a customer service manager that a lot more work needs to be done if they are to be successful.

**Senator GEORGE CAMPBELL**—I can assure you that the people who have given me this information are not confused about the system works.

**Mr Page**—I accept what you say. We will come back to you with the numbers.

**Senator GEORGE CAMPBELL**—I would appreciate you having a look.

**Mr Page**—Sure.

**Mr Peel**—We would be very happy, of course, to meet with those people and discuss any concerns they have—

**Senator GEORGE CAMPBELL**—You probably have.

**Mr Peel**—about the program and see what we can do.

**Senator GEORGE CAMPBELL**—That is commercial-in-confidence.

**Mr Peel**—Unlike you, I cannot move a motion to get it.

**Senator GEORGE CAMPBELL**—That is true. I return to the point you made, Mr Page. One of the assumptions out there is that you are deliberately slowing the process down.

**Mr Page**—That is absolutely not true.

**Senator GEORGE CAMPBELL**—I accept that you say that. That is your assessment. That is the assumption out there by people who are accessing these funds. They make it on the basis that you are probably oversubscribed again and, rather than go through the suspension pains, you find another way of dealing with the issues. I am simply putting the cards on the table. You can probably guess where I am coming from anyway.

**Mr Page**—Perhaps in response we can say that there is no policy whatsoever in AusIndustry to slow down the processing of R&D Start applications—quite the contrary. We do not have a funding issue of the nature that you are referring to. We are open for business. We have been encouraging applications. We process them as quickly as possible.

**Senator GEORGE CAMPBELL**—I am very pleased to hear you say that. I would assume and hope that companies of the nature that are accessing these grants are not being held up for three or four months. For many of them, it is probably an opportunity come and gone.

**Mr Peel**—We are certainly not holding them up deliberately, as you say. What you have to bear in mind is that it is a lot of taxpayers' money that we are responsible for. We need to make sure that applications are appropriate and completed properly. So there is some time involved. It is not a 'tick and flick' exercise. But we are certainly not deliberately holding them up. I do not believe there is any significant delay in the processing of applications. As I said, we will certainly check that for you and let you know what the figures are.

**Senator GEORGE CAMPBELL**—My advice, Mr Peel, is that in the processing of these applications through the customer service manager, or whatever stage they are at, is that the reverse is happening to what Mr Page just described. Applicants are not being told about where there are deficiencies in their applications, even where those deficiencies might be

minor and require a bit more additional information to meet what the department requires. In fact, when they are told their applications have failed, they are being given scant information as to the reasons why they have failed. They are having to go through the procedure all over again. That seems to be at odds with what Mr Page has said, which is that you are consulting them all the way through the process in terms of their application and making the appropriate adjustments to it to meet whatever your guidelines might be.

**Mr Peel**—I would certainly be concerned if that were the case. One of the principles through which AusIndustry operates is that we help our customers to make competitive applications. So that would be contrary to our objectives. If there are any instances of that, we will certainly deal with them. But I am not aware of them.

**Senator GEORGE CAMPBELL**—Do the customer service managers operate to a manual?

**Mr Peel**—Yes.

**Senator GEORGE CAMPBELL**—Does that recommend to them or give them guidance in terms of how to handle these applications?

**Mr Peel**—Yes. We are there to help people access the government's programs.

**Mr Page**—Perhaps it may be of some assistance if I just give a touch more detail about the process when an application has been decided by a committee. Recorded on an individual decision sheet for each application if it is not approved are the reasons for its non-approval. That decision sheet is signed both by the chairman of the committee and me and is returned to the customer service manager to enable them to give feedback to the customer about the reasons why they were unsuccessful. We, of course, would be keen to speak with anybody who feels that the level of information that is then passed back to them has been insufficient. Our intention in our system is actually to provide them with that feedback direct from the committee about what the aspects of their application were that they found uncompetitive. Of course, that applicant is then entirely within their rights—and is encouraged, in fact—to readdress, if they can, those particular weaknesses and resubmit their application.

**Senator GEORGE CAMPBELL**—I will pass your comments on, Mr Page. There are two elements here. One is the one you have just raised. There is a lot of concern about the information that is being given being scant. The second element is this other issue about, where there are deficiencies as the process works its way through, the applicants being told about them and being given the opportunity to correct them or provide the additional information. People are saying that it is not happening.

**Mr Peel**—I will repeat a point I made before in case it escaped. We did recently undertake a customer satisfaction survey of people's experiences with the R&D Start Program. The overall level of satisfaction was 84 per cent, which was a 10 per cent increase on a survey we undertook in 2001. So our customer satisfaction data is telling us that people are generally happy with the R&D Start Program. What you are telling me is a bit at odds with that. Hopefully, what you are telling me, if it is occurring, is isolated instances.

**Senator GEORGE CAMPBELL**—It may well be. I will pass your comments on to my customer.

**Mr Peel**—We would be happy to talk to them.

**Senator GEORGE CAMPBELL**—And you will do an assessment of whether or not the claims have any basis in fact or not.

**Mr Peel**—Yes.

**Senator GEORGE CAMPBELL**—Has the evaluation of the tax concession been completed?

**Ms Berman**—No, it has not. But we expect it to be completed within the month. I will take on notice your question.

**Senator GEORGE CAMPBELL**—Thank you. So I cannot ask you what its main findings were. Do you know how many companies accessed the R&D tax concession for the first time in 2002-03?

**Mr Peel**—The latest figures we have are for 2001-02 because it is in arrears. In 2001-02, we had 4,720 customers register for the tax concession. That is the latest figure I have. The previous year, 2000-01, there were 3,718, so that is an increase of about 1,000. I cannot say that all that 1,000 registered for the first time, but there has certainly been an increase in the number of companies registering.

**Senator GEORGE CAMPBELL**—What I am really after is how many out of that 4,720 would be first-timers.

**Mr Peel**—We will try and find out. I am not sure that we can, but we will take it on notice and see. It might be something the tax office has.

**Senator GEORGE CAMPBELL**—What I am really trying to establish is whether or not there is a new batch of companies coming in.

**Mr Peel**—There were 1,520 registered for the tax offset, for example, which was a new element to the program. Of the 175, there were 481, but they could be duplicated in other figures. So it is sort of looking at about 1,000, but we would have to go behind those figures and check.

**Senator GEORGE CAMPBELL**—But they could be people who have claimed in previous years?

**Mr Peel**—Well, they could have registered years ago and re-registered.

**Ms Berman**—There are people who come in and use it and go out all the time. Sometimes it is because companies have merged or ceased and started with a new ABN. It is something we are wanting to look at more closely. Particularly with the introduction of the two new elements, we have to give a report back, as you know, to parliament on the impact that that has had on SMEs and how many more have been picked up. We expect that we will have that information shortly.

**Senator GEORGE CAMPBELL**—There was a newspaper article which appeared in the *Financial Review* on page 50 on 5 August headed 'R&D tax survey sows doubts'. Can you tell us what the nine-page survey that was sent to companies by AusIndustry was about and what its purpose was?

**Ms Berman**—It was a survey as part of the tax concession review. It went out to a large number of firms. I am sure it was more than 1,000. It was a very large quantum. We got a fairly good return rate because we had done a similar thing back in 2000 to survey users then. It was a critical aspect of the evaluation because it was finding out from the customers just how they spent their money, whether there was additionality involved and whether they had achieved exports and so on as a consequence of the support they had got. The concern expressed by customers was the rapid turnaround needed, but I think it was some four to six weeks which was allowed. We understand that at any time, particularly at the end of a financial year, it is difficult for such people to be filling in all these forms. Certainly next time we will give them much more notice than we did on this last occasion.

**Senator GEORGE CAMPBELL**—Was there any reason why it was sent out at that particular time of the year, when companies are in the middle of struggling with doing their tax returns?

**Ms Berman**—Yes. It is all to do with looking forward in terms of what will be in the next Backing Australia's Ability proposals. That is coming forward for the next budget. So I guess that in some way impacted on the timing. We went out with a consultancy to undertake that survey and the evaluation. The time frame was a three-month turnaround. This had to be fitted into that. However, I think all of the people who have been involved in evaluations in the last six to eight months believe that putting so many together in such a short period probably is a very big ask for the customers out there. We will give much more warning in future and try to stagger them.

**Senator GEORGE CAMPBELL**—It is true in the context of this survey that it created a lot of uncertainty and insecurity for our companies out there. They did not seem to be aware of what was happening. There was concern about the time of the year it was happening. Has the department done anything to quell those fears? Have you gone back to them and said, 'Look, don't get excited?'

**Ms Berman**—There was actually a letter that accompanied the survey which made it quite clear what this was about and put the context in place. It is possible that that letter was not what was delivered to the person who had to fill in the survey because we were aware from the beginning of concern, as we would be, if we were asked to fill out a similar survey. I think the right approach was taken, but next time there should be three months warning, for example, that this is going to happen.

**Senator GEORGE CAMPBELL**—Could we have a copy of the letter that was sent out?

**Ms Berman**—Yes. We could provide you with that.

**Senator GEORGE CAMPBELL**—We would appreciate that. I have one final question: where is the innovation mapping exercise up to?

**Ms Berman**—At the moment, the mapping has been concluded in terms of information gathering and analysis. It is proposed that it will be released some time later this year, and I guess it is for the government to decide exactly when that will be. But the process is basically completed.

**Senator GEORGE CAMPBELL**—It has been completed?

**Ms Berman**—Yes.

**Senator GEORGE CAMPBELL**—Where is the process at at the moment? The evaluation that has been put together, has that been done by consultants?

**Ms Berman**—It has been done by the Department of Education, Science and Training.

**Senator GEORGE CAMPBELL**—So that is in their hands?

**Ms Berman**—Yes. We assisted them but they are primarily printing the document, and so on.

**Senator GEORGE CAMPBELL**—Can I assume that the mapping exercise will be made public?

**Ms Berman**—I can only assume that that will happen, Senator, in due course.

**Senator GEORGE CAMPBELL**—We will wait and see if your assumptions are correct. Thank you.

**CHAIR**—We will now have a short suspension.

**Proceedings suspended from 4.01 p.m. to 4.16 p.m.**

**Senator LUNDY**—I want to revisit a couple of points about R&D Start. Can you point me to the page in the annual report which contains the figure for the total expenditure for R&D Start for 2002-03?

**Mr Peel**—I can tell you what it is, Senator.

**Senator LUNDY**—Yes, but I also want you to tell me where it is in the report.

**Mr Peel**—We are not sure there is a number in the annual report.

**Senator LUNDY**—No, I could not find one.

**Mr Page**—That number, however, will be in the Industry Research and Development Board's annual report.

**Senator LUNDY**—Is that available?

**Mr Page**—Not as yet. It is in an advanced draft stage and is with the board for comment and completion. I am not sure of the date on which it will be tabled. But the board's report will cover off all of the expenditures on its various programs of responsibility.

**Senator LUNDY**—So what is the number?

**Mr Peel**—An amount of \$114.55 million for grants and \$7.82 million for loans.

**Senator LUNDY**—That does not compare particularly well to the year previous or the estimates for the following year. Is that explained by the freeze?

**Mr Peel**—No, Senator. What happened with the R&D Start in 2002-03 is that we carried forward some unexpended funds to future years.

**Senator LUNDY**—An amount of \$16 million, wasn't it?

**Mr Peel**—No, it was \$21 million in the budget statement, and since then we have had approval to rephase another \$10.5 million to future years of the program. Essentially, the underexpenditure was caused by slippage of current grantees in their R&D projects. We



surveyed them all in about December last year to get an indication of what their final spend would be. They indicated to us that it would be about \$18 million less than we had budgeted. We did not quite believe that, so we added another \$3 million on and it ended up being \$32 million under. And we have carried that forward to future years.

**Senator LUNDY**—Sorry, can we go back a step: what was the budgeted figure for R&D Start for 2002-03?

**Mr Peel**—It was \$146 million. We have carried \$32 million forward.

**Senator LUNDY**—And you expended \$114 million, leaving that \$32 million?

**Mr Peel**—Yes, \$114 million.

**Senator LUNDY**—From the figures you gave me at the last round of estimates, the 2001-02 expenditure for R&D Start was \$205.32 million.

**Mr Peel**—That is correct, yes. That was the year that we had record expenditure for the program, which resulted in the suspension—

**Senator LUNDY**—And that was the actual expenditure, wasn't it?

**Mr Peel**—That is right. An amount of \$205.35 million.

**Senator LUNDY**—And what was the original budgeted figure for that year?

**Mr Peel**—It was \$144.65 million.

**Senator LUNDY**—Where did the \$21 million that was carried forward previously come from? Can you explain that to me again?

**Mr Peel**—The \$21 million was what we asked to be carried forward in the budget. That was our estimate of the underexpenditure in 2002-03.

**Senator LUNDY**—I see.

**Mr Peel**—So we asked for it to be carried forward to future years. Since the budget, there was further slippage of about \$10.5 million—and this will probably show up in the additional estimates, I imagine—which has been approved for carry forward in addition to the \$21 million, which gives you the \$32 million that I mentioned.

**Senator LUNDY**—Okay. The figure that you have given me for 2003-04 as the forward estimate was \$168.2 million. So do we now add the \$32 million to that figure?

**Mr Peel**—No, the \$32 million has been rephased, carried forward, as follows: \$5 million to 2003-04, \$4 million to 2004-05, \$12 million to 2005-06 and \$10.5 million to 2006-07.

**Senator LUNDY**—So if you add those figures to the forward estimates given last time, what are your new totals for the forward estimates for R&D Start?

**Mr Peel**—For 2003-04 it is \$168.22 million.

**Senator LUNDY**—That is what it was. If you add \$5 million to that, that would make it—

**Mr Peel**—Sorry, the \$5 million was already included in that figure, so it was \$163 million.

**Senator LUNDY**—Well, you gave me those figures back in June, so did you already know how much you were carrying forward then?

**Mr Peel**—Yes, because the budget was in May.

**Senator LUNDY**—Yes, but you only thought you were carrying forward \$21 million then, not \$32 million.

**Mr Peel**—The other \$11 million is being added to 2006-07. So we would have given you \$36 million for 2006-07, and it is now \$46.5 million.

**Senator LUNDY**—Right. So that is the only number that has changed?

**Mr Peel**—If you have already got those then yes, that is correct.

**Senator LUNDY**—I had the figures of \$168.2 million, \$173.07 million and \$173.23 million for those three years.

**Mr Peel**—Yes, and 2006-07 should be \$46.53 million now.

**Senator LUNDY**—Now, with the additional \$10.5 million.

**Mr Peel**—That is correct.

**Mr Page**—The 2005-06 is \$172.23 million. I think you might have said \$173.23 million.

**Senator LUNDY**—An amount of \$173.23 million is what is in the *Hansard* record of the hearing.

**Mr Peel**—That is what I have, too. Your figures and mine, Senator, are the same. We will go with those.

**Senator LUNDY**—I was trying to listen to Senator Campbell's questions in relation to this but I apologise if I repeat anything. The \$114 million expended in 2002-03 on R&D Start, the low level of that figure compared with the sort of figures that we have seen expended to date, even factoring in the very successful year that the program had in 2001-02, is still a significant underspend, isn't it?

**Mr Peel**—It is, yes, but the important thing is that the money is still there for future years; it has not been lost to the program. We had grantees with significant slippage in their projects and, as you mentioned, there was the suspension of the program and it was not opened again until November 2002. So there was a period where no grants were paid. So all of those factors combined resulted in that lower level of expenditure for that year, but the money, as I say, is still there. The government has agreed to it being carried forward, so it has had no overall impact on the program. It is just that particular year was lower than others.

**Senator LUNDY**—Constrained. Minister, this might be one for you. Was that decision to lessen the amount actually expended in 2002-03 designed to offset the overexpenditure in the prior financial year to help balance that out a little?

**Mr Page**—Perhaps not. I think the short answer to that is no, but it might be helpful to understand some of the mechanisms and dynamics inside the R&D Start program in the 2002-03 year. I think we might have discussed previously that most contracts in place at that time gave the Commonwealth no option but to agree to matching expenditure at any rate that the successful applicant spent their money at. So if the applicants were slower than expected in spending their money, the Commonwealth had no option but to agree to that and to rephase that money into future years or later in the year. Recognising that, one of the changes that

have now been made in the program is that that provision no longer exists in any new contracts that we write. In fact, there is a fixed budget for the applicants for each year, and it can only be varied by mutual agreement.

However, last year, the predominance of agreements were in the old form. We had a very substantial number of our grantees actually not meeting their budgeted rate of expenditure and, because of that, we were seeing our expenditure rates slow down quite dramatically. However, customers, when approached by our staff, were consistently indicating that they expected to pick up their rates of expenditure and that we would therefore need to be able to match them. In that set of circumstances, we need to leave it in our financial system that those amounts are committed and that they cannot be allocated for new grants. In the end, most of the customers did not come through on their expected budget spends.

**Senator LUNDY**—For that financial year?

**Mr Page**—For that financial year. And that simply leaves us with nowhere to go, because we cannot free up the commitment to make further grant approvals and we get to the end of the financial year and we are underspent. That situation will slowly but surely change as we roll over into new contracts which provide for fixed annual budgets where we can indicate to the customers that the earlier they come to us and say, ‘We honestly can’t spend it all this year, can we negotiate something to change it to the future years?’ the more we can have flexibility. We can agree to change that commitment earlier, and it will free us to make new grants and get closer at least to spending the money.

**Senator LUNDY**—In that financial year.

**Mr Page**—Frankly, we were a victim of those old contracts and circumstances beyond our control last year. As Mr Peel says, the government has agreed not to lose that money to the program and we have it in future years.

**Senator LUNDY**—Well, you have signed a contract, so you have to have it.

**Mr Page**—True enough. But, of course, the moneys have been allocated out as far as 2006-07 and virtually none of those contracts that were in force and were causing us a problem last year will be around in those years.

**Senator LUNDY**—So what would have been the total commitment given in the financial year 2002-03, even though it did not end up being fully expended because of the slippage?

**Mr Page**—My recollection of it is that, at the actual end of June, we were probably about \$10 million uncommitted. If you wanted a precise number, I would have to take it on notice.

**Senator LUNDY**—Yes, \$10 million uncommitted.

**Mr Page**—At the end of June.

**Senator LUNDY**—And what was the budget allocation for that year again?

**Mr Page**—Well, \$147 million less the \$21 million that we had sought in the budget context to be rolled forward, so it was \$126 million.

**Senator LUNDY**—So the \$10 million was even after you rolled that \$21 million forward?

**Mr Page**—Yes, sure. When companies get into late May and early June and start realising that they have an expenditure problem, they come rushing in to us to say, ‘We actually need to push this out into next year.’ Under those contracts, we had no option but to agree to it, which frees the commitment but we are too late in the year to actually let any new contracts that would soak up that money. That we had a relatively large amount but small percentage uncommitted at the end of the year is not surprising.

**Senator LUNDY**—I am just making notes of all of this. The figure originally was \$147 million and ultimately you still had \$10 million to allocate—that all makes sense.

**Mr Page**—There is one thing that I should point out: it is not as though we had uncommitted funds all the way through to June and suddenly we finished the year with \$10 million uncommitted. In fact, earlier in the year we were fully committed. We actually had the program fully committed on any number of occasions earlier. As companies come back towards the end of the financial year and say, ‘Oh, we have realised we cannot possibly spend all this, despite what we have been telling you,’ my colleagues and I are in no position to do anything other than to agree with their request because they are on old-form contracts. Then our financial system backs out those commitments, as we have to agree to them, and our final position was \$10 million uncommitted. But I would not want you to think that we had actually had scads of money sitting there throughout the year and we just never managed to commit it all.

**Senator LUNDY**—Well, that is what I was going to presume.

**Mr Page**—I am glad I clarified it for you.

**Senator LUNDY**—And the changed nature of the contracts now means that you can just allocate money as it is required by the companies and it is not predetermined to be made in any given financial year; is that correct?

**Mr Page**—No, it is actually exactly the opposite of that. We and the companies agree on a budget amount year by year. They do still have to meet all of their contractual obligations on progressing the contract satisfactorily but, presuming that they do that, they will then be paid those amounts that we have agreed. If they start slipping back in achieving their milestones and therefore are unable to receive the funding at the rate that was agreed in the contract—the amounts are by year and they are being paid roughly quarterly as well, based on their reports to us—then we are under no obligation to roll forward unspent amounts in any one financial year into the next one. And that is the big change.

**Senator LUNDY**—Well, that is pretty tough, isn’t it?

**Mr Page**—Well, I guess—

**Senator LUNDY**—It solves your problem, but I suspect it does not solve theirs.

**Mr Page**—It does not preclude them from approaching us to seek that money being rolled forward. All that we have done is that we have removed the automatic ability for them to have the moneys rolled forward where we have no opportunity to negotiate, where we have no opportunity to have early solid advance warning of what is likely to happen, and it was that scenario which frankly delivered the outcome we got last year. This puts it much clearer in the

grantee's mind that, by working with us, we can get a mutually satisfactory outcome provided they talk to us early enough. I do not personally think it is tough.

**Senator LUNDY**—But we do not know how this is going to work because it has not yet been implemented.

**Mr Page**—We now have, as of today, approaching 50 per cent of our current grantees on new-form contracts. We have already had several circumstances where, on the advice of technical committees, we have refused to rephase money.

**Senator LUNDY**—Refused to?

**Mr Page**—We have refused.

**Senator LUNDY**—How many companies have you refused to rephase money to?

**Mr Page**—It would be less than five, Senator, and it has actually been on the basis that the project was not proceeding adequately. It was a technical set of advice to us.

**Senator LUNDY**—So who gets to make those assessments? What I am thinking of is the scenario where start-up companies in particular quite often have difficulties meeting their milestones for a whole range of reasons: there just might be fluctuations in the particular market that they are looking at, a missed trip overseas to market their product, or whatever. There is a whole range of things, and that is a constant negotiation between them and their investors. Who makes the assessment within the department that they are not meeting their milestones and that it is unreasonable as opposed to reasonable and understandable? What are the criteria for ticking the fail box?

**Mr Page**—Companies are required to provide quarterly progress reports to AusIndustry. Where their expenditure is slipping significantly and, through the customer service manager's contact with the company, they become aware that it is unlikely that they will be able to meet their expenditure budget for the full financial year. So we are not necessarily concerned intraquarter about whether they are within budget strongly or not; we are concerned with what their prospect is for the full year. Where they are concerned that that company will not make its full budget, we will enter into a process of discussions straightaway.

In a number of circumstances, a request will then come forward into the central office of AusIndustry, to me as the financial delegate, seeking approval to rephase their grant. Sometimes the customer service manager, in providing a report to me, will also indicate that they have concerns at the lack of progress within the project. I will generally make a decision, and it is at my discretion, that I will refer it to the technical committee of the IR&D board, the relevant one, and ask them to review the case and to make a recommendation to me on whether they view the project as being able to progress satisfactorily or not and whether they are supportive or not of rephasing that money. In a very small number of cases, they have come back saying, 'They have looked at all of the facts and they don't accept that the project's outcomes would be enhanced by extending the project and agreeing to the money being moved forward into out years.'

**Senator LUNDY**—So effectively a request to rephase creates an opportunity for the department to veto the grant—to switch it off—just because you are not happy with progress?

**Mr Page**—I am not sure I would characterise it that way.

**Senator LUNDY**—Maybe not, but I think that would be the effect on the company.

**Mr Page**—But let me stress again that these circumstances occur in a very small number of cases.

**Senator LUNDY**—Can you tell me how many have applied for rephasing and been successful?

**Mr Page**—The overwhelming majority is the answer, but I would have to take it on notice.

**Senator LUNDY**—You have told me five got knocked off—so how many have been ticked?

**Mr Page**—I would like to take it on notice so that we get accurate numbers for you.

**Senator LUNDY**—Is it more than five?

**Mr Page**—It is way more than five. It is more like 95:5, frankly.

**Senator LUNDY**—All right. I like ballpark figures.

**Mr Page**—Ballpark is all right, is it? Sorry, that question was not meant to be cheeky; it was to ask if you actually do want the figures on notice.

**Senator LUNDY**—Yes, I do.

**Mr Page**—Okay. I guess what I am really saying to you is that in an extremely small number of cases, as you would expect in a program like this, you have some projects that do not proceed according to plan and where the grantee in fact, for a range of reasons, is unable to satisfactorily conclude the project. In those circumstances no-one in AusIndustry makes a technical judgment about the acceptability of progress. Where we may have concerns, they are referred to the technical committees for advice. More often than not, they actually come back and say, 'We are supportive of you going ahead and negotiating with these people to change the phasing of their funding.' They usually also ask us to go in and talk to them about some of the remedial action that is necessary to get the project back on track. In a very few cases they will say to me, 'This project is actually dead in the water. We should cut our losses and not continue with it further.' Those cases are extremely few, but what I am saying to you is that under these new contracts we are in a position to actually talk to companies, firstly, about sensible rephasing but, in extreme cases, to actually stop throwing basically good money after bad.

**Mr Peel**—We are actually trying to be helpful.

**Senator LUNDY**—I understand that. I am just trying to look at it from a company's perspective, particularly because, as I am sure you are aware, the R&D Start Program performs quite an important role now in terms of the appeal and attractiveness of a start-up company for external investors as well, so this variation in how they can manage and attract their funds might cause problems. I am trying to look at the changes in the program through the eyes of those companies. I do not really want to go much further. I think you have explained it very well. I just really hope that the recipients of R&D Start understand the changes.

**Mr Page**—If I can make one other observation which I think is important: these decisions are not taken in a light manner.

**Senator LUNDY**—Can they be appealed?

**Mr Page**—No, they cannot. But at the end of it all they do not come out of the blue for these companies either. They tend to have a track record of difficulties in the project. These are last-resort measures that we use. We actually go out of our way to work with the company to try to make sure that we can give them every opportunity to get back on track, meeting all of their milestones and progressing towards a successful R&D project. On extremely few occasions, that is not possible.

**Senator LUNDY**—Do you have a complaints process for people who are not happy with the assessment that is afforded them by the technical committee on the IR&D board?

**Mr Peel**—People that apply for R&D Start and do not get their grant can ask for their application to be looked at again or can submit an application afresh. Certainly they can get feedback on the reasons it was not approved and some advice as to what issues they might need to address to make it more likely that they be successful next time round.

**Senator LUNDY**—Just a couple of questions about innovation: as far as the various funds that are operating—the IIF pool development funds, the Pre-Seed Fund and the renewable energy equity fund—what proportion of those funds to the licence holders goes in management fees?

**Mr Page**—Can I first of all observe that there are two distinctly different types of programs sitting in those venture capital programs. To answer your question, we have to say to you that pool development funds and venture capital limited partnerships are tax based saving—

**Senator LUNDY**—I did not ask about the VCLPs.

**Mr Page**—You did include PDF, I think, and PDF is in fact a tax based program where we could not tell you the answer.

**Senator LUNDY**—Right, sorry. I am more interested in the IIF, the Pre-Seed Fund and the renewable energy equity fund or REEF.

**Mr Peel**—I think the IIF is about three per cent for round one. In round two we introduced a more competitive arrangement for management fees and, from memory, they vary between about 2.5 per cent and 2.8 per cent. For REEF, I think it is around three per cent as well. For the Pre-Seed Fund, it was slightly higher than that, recognising that more work would be required by the fund managers to actually get investments. Again from memory, I think it is 3.5 per cent. But I will double check those figures and let you know if there are any changes. Sorry, it is 3.25 per cent for the Pre-Seed Fund.

**Senator LUNDY**—And I would like to know whether there is any variation between the different licensees as well. So for round two, if there are any variations, could you tell me what they are for each.

**Mr Peel**—There are, actually.

**Senator LUNDY**—Could you take on notice all the detail.

**Mr Peel**—We will do that.

**Senator LUNDY**—I have a couple of questions I want to ask about IT services in DITR. Chair, how long do I have to place questions on notice?

**CHAIR**—I think you can place questions on notice until the end of the examination of the portfolio, so that would be by the end of this evening but I will just get some advice from the clerk. You are allowed until the end of this week, apparently.

**Senator LUNDY**—Excellent, I will have time to prepare some questions. DITR has become quite famous recently, given your involvement in the wheelie bin debacle and the loss of tapes. I was wondering if you could tell me what was on the backup tapes from your department that were lost by Telstra Enterprise Services earlier this year?

**Mr K. Noonan**—The tapes were backups of the email servers, so they were pretty much totally emails. Other data from databases and the like were backed up in a different way, so it was only emails. As with the rest of the cluster, it was a monthly backup tape, so it did not affect the daily backups.

**Senator LUNDY**—In terms of it being a monthly backup of the email servers, how far did the data on the actual tapes go back?

**Mr K. Noonan**—All the way to the beginning of the contract.

**Senator LUNDY**—To the beginning of the contract. So how many years is that?

**Mr K. Noonan**—It was an incremental backup so that it added on to the end, so it was for the entire period of the contract.

**Senator LUNDY**—And that contract was signed in about 1999 or 1998?

**Mr Beens**—That is correct.

**Senator LUNDY**—1999?

**Mr Beens**—Yes.

**Senator LUNDY**—What month, June?

**Mr Beens**—I think that is right. From 1 July I think it was. So basically all the emails were potentially on the tapes.

**Senator LUNDY**—So all emails from about July 1999?

**Mr Beens**—Potentially, yes.

**Senator LUNDY**—We have heard some pretty amazing stories from other agencies and departments affected, but I am just interested in what it has meant for DITR. For example, what have you done as a department to change the processes to ensure this does not happen again? Can you explain to me the process now for keeping those backup tapes secure and ensuring they don't go missing?

**Mr K. Noonan**—Sure. I suppose we need to look at it from two perspectives. One is the cluster, because it is still being run as part of group five and the backups themselves happen as part of group five. We have acted as fairly active members in working out a group response. Secondly, there is a departmental response, which I think comes to your question. Could I first just cover some of the group answers that we have worked with them on?



**Senator LUNDY**—Certainly.

**Mr K. Noonan**—One is that we worked with cluster 5 as part of getting an internal audit type review with KPMG to review the tapes. We were quite active in that process. The department has a contract with KPMG to do internal audit for the department, and under the auspices of that contract we were able to use KPMG to do that review. That review found a number of issues that needed to be fixed up in terms of work process within TES. TES informed us that they were implemented.

**Senator LUNDY**—Sorry to interrupt, but one of the things that came out in evidence provided by Prime Minister and Cabinet yesterday was that one of those strategies to resolve the problem was to put the tapes in a different colour wheelie bin. Is that your understanding?

**Mr K. Noonan**—My understanding is that it is in a particular type of container which is more proper for tape storage.

**Senator LUNDY**—Is that a euphemism for a different colour wheelie bin?

**Mr K. Noonan**—No.

**Senator LUNDY**—I know it sounds hilarious, but it is just so absurd that I am interested to know whether that has been TES's response to this problem and whether it is an audited response to this problem. If it is, then I think the response to that solution really says it all, and people cannot believe it.

**Mr K. Noonan**—I have seen the report on what they intend to and have done. But I am afraid I cannot comment on the colour. I have not actually gone and seen it.

**Senator LUNDY**—Right. You do not know about that?

**Mr K. Noonan**—No. The report I saw was that the incident at the time was a staff member literally picked up a waste bin that was sitting under her desk as a handy repository to put the tapes in and then left them there. And that is why they were picked up as rubbish and, we presume, turfed out. The recommendation is that they should use a proper fit-for-purpose container—

**Senator LUNDY**—With a sign on it.

**Mr K. Noonan**—That is right, yes.

**Senator LUNDY**—Saying 'not to be thrown out'.

**Mr K. Noonan**—Not a bin. Computer operations areas have containers and things as just part of the workplace. As part of the way people work in the organisation, they have proper containers that they use. So it is to use proper storage, and the tapes need to be then transported in a proper type of storage when being sent off as opposed to being left for somebody to take out of the wastepaper bin.

**Senator LUNDY**—That is a new version of it that I have heard.

**Mr K. Noonan**—That is right. I was listening to yesterday's proceedings, and I think in one sense we are sort of saying the same thing. It is a different coloured container, yes, but I think it is probably a bit more than that. The report I have is that they did not just buy a different colour wastepaper basket.

**Senator LUNDY**—Is it possible for you to provide that report to the committee, the KPMG review, and then the results of that?

**Mr Beens**—I would like to check that with the group 5 management committee, but I do not see a problem with it. Can I take that question on notice?

**Senator LUNDY**—Yes, certainly.

**Mr K. Noonan**—We would need to do that as part of the cluster as opposed to an action on the department itself.

**Senator LUNDY**—I appreciate that. I have not put that request in through other estimates so, if you could take it up on behalf of the group 5 departments, that would be helpful.

**Mr K. Noonan**—Sure. We would be happy to do that.

**Senator LUNDY**—Thank you. In terms of what comes next, we heard DCITA have actually market tested and selected a different contractor for continuing the contract next July when the TES contract runs out. What is DITR going to do?

**Mr K. Noonan**—At the time of the tape incident, we had already made a decision that we would go out to market again and that we would not continue on with the existing contract.

**Senator LUNDY**—So you had made that decision even before this debacle?

**Mr K. Noonan**—That is right, yes, we had made that decision and we were preparing ourselves for that process. In fact, I could give you some dates that may be useful. On 7 and 8 April, we put out a note in the paper asking for people who were interested in responding to an RFRI. So we had a process under way well and truly by the time this happened.

**Senator LUNDY**—Have you selected a contractor?

**Mr K. Noonan**—No. We are out to tender at the moment. The RFRI closed on 29 May and, out of the 23 respondents, we have then gone out to an RFT process. The RFT is for web hosting. That RFT was released on 27 October and will be out for a period of four weeks. We are letting a second RFT for what we are calling IT infrastructure, but really that is another word for PCs, desktops, servers and the like.

**Senator LUNDY**—Yes, hardware.

**Mr K. Noonan**—That is right.

**Mr Beens**—It is actually the LAN/WAN desktop support services.

**Senator LUNDY**—So it is the integration—

**Mr Beens**—Not the hardware.

**Senator LUNDY**—Right. So not the boxes, but the process of putting it all together.

**Mr Beens**—The support for those.

**Mr K. Noonan**—That is right.

**Senator LUNDY**—So that has gone out as well?

**Mr K. Noonan**—Today. It hits the market today and will be out for a period of six weeks, which means that it closes just before Christmas so that the department gets to work over Christmas this time round.

**Senator LUNDY**—I bet all those companies out there will be putting in their tenders in like mad leading up to Christmas. Any other RFTs going out?

**Mr K. Noonan**—Yes. While we are on that topic, referring back to the TES contract, if I could also just add that a couple of things have been insourced, so we will not be going out at all.

**Senator LUNDY**—What are they?

**Mr K. Noonan**—One is what we call the service desk, which is really a combination of activities. It is the help desk and IT rover type function where somebody wanders around providing assistance and general desktop support, which is your face-to-face contact. That is our service desk activity.

**Senator LUNDY**—So you have insourced that?

**Mr K. Noonan**—We have insourced that, yes, with the clear intention that the front-line service is to be provided by the department so that staff members see a departmental person giving them service.

**Senator LUNDY**—I bet everyone is going to be relieved—I am allowed to make those comments. How much were you paying for a help desk call?

**Mr K. Noonan**—I could not give you—

**Mr Beens**—Sorry, what was the question again?

**Senator LUNDY**—Under the TES contract, how much does DITR pay when a departmental employee makes a call to the TES help desk?

**Mr Beens**—It is really difficult to disaggregate the service component that we pay for now. I do not have the detailed figures here anyway, so I would need to get that back to you. There is no specific figure for help desk support as opposed to anything else. It would have to be an estimate of that.

**Senator LUNDY**—Can you tell me what the original contracted price was for Telstra Enterprise Services for the five-year contract?

**Mr Beens**—For our department?

**Senator LUNDY**—DITR only, yes.

**Mr Beens**—It was in the order of \$24 million over five years.

**Senator LUNDY**—Then DISR's component and how much you have paid out up until the end of the last financial year.

**Mr Beens**—We provided some of those figures, I think, to you in June. In total the DITR component of group 5 is \$24.14 million. To the end of 2003, we had paid about \$16.6 million. That is in comparable figures. So the \$24.14 million does not include additional projects or anything like that which were identified separately under the original contract.

**Senator LUNDY**—Right. So how much is it all-up, including those additional projects?

**Mr Beens**—All-up it is in the order of \$18 million.

**Senator LUNDY**—I have run out of time. Thank you for that. Before I finish, can you just tell me what your general level of satisfaction is with TES and what has motivated you to market test and insource a bit and put tenders out for others? I presume you will not be proceeding with any clustered approach in the future.

**Mr K. Noonan**—No. We believe there is a better way. We think that the market has matured and that the industry has matured a fair bit along the way. We are really looking at best of breed in a number of areas. That will also give SMEs a bit more of a go.

**Senator LUNDY**—Are you going to lead by example by engaging with local industry?

**Mr K. Noonan**—We are having a bit of a go at that. Without going into who has responded to tenders and things like that, we can say that we have had some interest from SMEs.

**Senator LUNDY**—Great.

**Mr K. Noonan**—We have put a bit of effort into structuring the evaluation process so that it is friendly to SMEs.

**Senator LUNDY**—I have noticed that you have a reasonable response time as well. I have heard of some ridiculously short response times for departments, so congratulations for that as well and good luck with the process.

**Mr K. Noonan**—Thank you.

**CHAIR**—Senator Allison has indicated that, because she is occupied in another estimates committee, she will be placing her questions on notice.

[5.02 p.m.]

#### **Office of Small Business**

**Senator CONROY**—I would like to ask some questions of the Office of Small Business, but I have one question on notice to do with the tourism portfolio. Have we lost Mr Paterson today?

**Mr Ryan**—He is overseas.

**Senator CONROY**—What a lucky man! I understand that, as a follow-up to that now-famous seminar that Mr Hockey starred in—and of which a videotape or DVD or whatever was made and distributed—the department will be sponsoring a series of home based business seminars at the end of this year; is that correct?

**Ms Weston**—Yes, we do plan to hold a number of seminars, I think 10 all up: a couple this year and the rest early next year.

**Senator CONROY**—Are you running those?

**Ms Weston**—We are involved but we have contracted with an organisation to run those for us.

**Senator CONROY**—Whom have you contracted?

**Ms Weston**—I will try to find the exact name.

**Mr Brugger**—It is Switzer Communications.

**Senator CONROY**—Switzer Communications. Could you just briefly describe the tender process?

**Mr Brugger**—We went out with a selective tender process. I think from memory we went to seven firms under a selective tender, and responses were received from two of those. They were assessed by a panel which involved a member from the Office of Small Business, a member from AusIndustry and a member from the department's corporate area. They made a recommendation and we endorsed that recommendation.

**Senator CONROY**—Did the company that you recommended win?

**Mr Brugger**—I did not recommend—

**Senator CONROY**—The Office of Small Business, the panel.

**Mr Brugger**—The panel's recommendation was adopted, yes.

**Senator CONROY**—How much is the contract?

**Ms Weston**—It is \$239,000.

**Senator CONROY**—What is required for that?

**Ms Weston**—I am just glancing through my notes. They are required to deliver a series of 10 seminars and the Home-Based Business Summit and expo. I believe they also have responsibility for the communication around that. I probably could clarify that further for you, Senator.

**Senator CONROY**—I am happy for you to take that on notice and just give me the details.

**Ms Weston**—I do not have the exact detail of the contract here with me.

**Senator CONROY**—Sure. Expo is part of it—

**Ms Weston**—The national summit is going to have an expo attached to it, yes.

**Senator CONROY**—How does the expo work? Is that a renting out booths type expo?

**Mr Brugger**—Yes, there will be the opportunity for firms to rent out booths at the expo.

**Senator CONROY**—Is that for free? Will they be able to rent them out for free?

**Mr Brugger**—There is a cost recovery element on the booth rental.

**Senator CONROY**—So there is no profit to be made by this company in terms of running an expo in the normal way that people who run expos are profit driven?

**Mr Brugger**—No more than the profit they would have built into the contract as a whole, so the expo itself does not have a profit element attached to it.

**Senator CONROY**—Except by definition they are not doing it. Switzer Communications are not doing it for cost recovery.

**Mr Brugger**—No.

**Senator CONROY**—Who is Switzer Communications?

**Mr Brugger**—Switzer Communications is Peter Switzer and other elements. We can get you more background. On this exercise, they have included in the tender an event management company who is skilled in the event organising functions.

**Senator CONROY**—Okay. So is there a separate component for the event management?

**Mr Brugger**—No, they have to manage the event management as part of their contract. We only have one contract, but they do have to provide us with the details of it so that we can ensure that we are not being overcharged.

**Senator CONROY**—Will speakers be charged a fee to speak?

**Mr Brugger**—No.

**Senator CONROY**—There are no appearance fees for them?

**Ms Weston**—I understand their travel is being met but other than that—

**Senator CONROY**—And that is out of the \$239,000, or are there any other costs that the department will incur?

**Ms Weston**—I understand that we have some sponsorship for Qantas that will go towards some of that as well, Senator, but there probably is an element in there. If you would like that clarified, I can do that for you.

**Senator CONROY**—Sure. So it is possible that the department may pick up those travel costs.

**Ms Weston**—For instance, I think the ATO are coming and I would expect them to meet their costs. There would be some other speakers—

**Mr Brugger**—We will have some small travel costs in relation to departmental staff involved in the seminars and that is attendance—

**Senator CONROY**—Sure. I do not include that as the costs of the contract, though.

**Ms Weston**—There would be a couple of home based business persons who are giving their story. We have taken their costs—

**Senator CONROY**—So there will be some other small costs from flying them in, so to speak, and putting them up.

**Mr Brugger**—We would have to take it on notice and review the contract.

**Senator CONROY**—Sure. Do you know the name of the event management company off the top of your head?

**Mr Brugger**—Not off the top of my head.

**Ms Weston**—Sorry, we do not have that detail with us today.

**Senator CONROY**—Peter Switzer, that is a familiar name. Does that ring any bells with you?

**Ms Weston**—He is the small business writer for the *Australian* newspaper generally.

**Senator CONROY**—That would be him. Looking at the web site, he opened the Home-Based Business Summit.

**Ms Weston**—He did a 10-minute speech or so, yes.

**Senator CONROY**—Did he receive a payment for that?

**Ms Weston**—We certainly paid for his airfare, to my knowledge. I would have to check that for you.

**Senator CONROY**—Please, if you could, and how much it is.

**Ms Weston**—Sure.

**Senator CONROY**—I noted a question in question time recently by a government member to Mr Hockey about the government's policies on small business. Mr Hockey always waxes lyrical. He talked about reducing taxes on small business and he went on to say:

We are committed to doing that. We have done it in the past by reducing company tax from 36 per cent to 30 per cent, abolishing wholesale sales tax, reducing fuel excise, abolishing stamp duty on the transfer of shares and undertaking a range of other initiatives that are all about reducing the burden of taxation on small business.

Then he went on to say:

I picked up on a comment by an economist by the name of Peter Switzer.

Is he an economist, as far as you are aware, on his qualifications?

**Ms Weston**—I am not aware of his qualifications.

**Senator CONROY**—Mr Hockey said:

Peter Switzer has not always been a big fan of the coalition, but when I saw this comment it really prompted me to respond. On the John Stanley program on 2UE he said:

Certainly I think the important thing is if Labor had any brains—  
and we know that Labor is currently not displaying many brains at the Federal level—

**CHAIR**—Who is this sage?

**Senator CONROY**—Peter Switzer. Do you think this would be the same Peter Switzer the government has just employed to run some seminars for it?

**Ms Weston**—It is a very unusual name, Senator.

**Senator CONROY**—Yes. It would be a remarkable coincidence if there were two Peter Switzers commenting on small business matters in this country, wouldn't it?

**Ms Weston**—Highly unlikely, I would have thought.

**Senator CONROY**—I suspect you are right, Ms Weston. So this would be the same Peter Switzer that writes a column in the *Australian* newspaper on small business matters and is in the employ of the federal government to run seminars on its behalf on small business making comments about public policy on radio. You would be pretty certain it would be the same Peter Switzer, wouldn't you?

**CHAIR**—Do you know, Ms Weston?

**Ms Weston**—I am not familiar with the particular 2UE interview.

**Senator CONROY**—I am just quoting from an answer that the minister was giving in parliament. That was all. I just thought that maybe the department had picked up this quote. Do you provide briefings?

**CHAIR**—Before we have this torrential flood of questions, the last question was: is this the same Mr Switzer? What is the answer to that? Is it or do you not know?

**Ms Weston**—I did not hear the radio interview but it is an unusual name. It could very well be the same person but I do not know, Senator.

**CHAIR**—Right; next question.

**Senator CONROY**—Thank you for helping me with my questions, as always, Senator Brandis. I appreciate that you are always trying to help me, Senator Brandis. Ms Weston, do you prepare question time briefs for the minister on small business?

**Ms Weston**—Yes, we do.

**Senator CONROY**—This is what they call a Dorothy Dixie in the business. I am sure you are familiar with them. Is this transcript one that you or anybody else in your office has heard of before? It is just unusual that the minister would miraculously have this transcript on hand. I was just wondering if—

**Ms Weston**—To my knowledge it did not come from the department.

**Senator CONROY**—You had better watch out—he's freewheeling here. That is against orders, Senator Minchin; you had better speak to him. So we have established that Switzer Communications, which is headed up by Mr Switzer, is on the government payroll to the tune of \$230,000, but Mr Hockey believes that Mr Switzer is an economist and that he likes to make derogatory comments about federal Labor's policies.

**Senator Minchin**—I do not think the officials are confirming that we are talking about the same person, so do not put words in their mouth.

**Senator CONROY**—Come on, Senator Minchin, surely two Peter Switzers talking on small business—

**Senator Minchin**—I have no idea either, but certainly you should not put words in their mouth.

**Senator CONROY**—I note that we cannot confirm.

**CHAIR**—You certainly should not say that they said something they did not say.

**Senator CONROY**—No, I apologise. I was not trying to verbal them. I am just surprised—

**CHAIR**—You can put propositions to them and you can ask them to comment on them. But if they do not comment—

**Senator CONROY**—No, I am just surprised that the minister was giving an answer quoting Mr Switzer and that the minister has so much free time he is listening to 2UE on a regular basis. It is possible that he might have known Mr Switzer was even going to be on.

**Ms Weston**—I should probably note that, in the amount being paid to Mr Switzer, the substantial portions were for actual costs like hire of venues and so on.



**Senator CONROY**—I think Mr Brugger suggested there was a profit element. He is not doing it for cost. Mr Switzer is earning money off the federal government. He is in the paid employ of this government.

**CHAIR**—Is he an employee or a contractor?

**Senator CONROY**—He is a paid contractor. I defer to you. Anyway, I think we have been able to establish as much as we can if you are able to assure me that you did not supply the transcript to the minister. The government has its own media monitoring, so it is entirely possible.

**CHAIR**—Just to perfect the record, you shook your head a moment ago to indicate that you were negating Senator Conroy's proposition. Could you actually say, 'No, that is not right, Senator Conroy,' so that it is on the transcript?

**Ms Weston**—Senator, the Office of Small Business to my knowledge did not provide the transcript to the minister.

**Senator CONROY**—And you tick off on all the—

**Ms Weston**—Either I, Antony or the other general manager would.

**Senator CONROY**—Okay, thanks. Mr Paterson is not here, so I hesitate to be accused of putting words in his mouth. In evidence to the recent Senate inquiry into the late payments bill, Mr Paterson indicated that you did not think late payments were a widespread problem for small business. That is a reasonably accurate description.

**Ms Weston**—The department does recognise the concerns expressed by the smash repairers and the difficulty they experience in securing timely payments from insurance companies. The department understands, however, that insurance companies dispute claims of the smash repair sector, maintaining that 97 per cent of payments are made within 30 days. The Victorian Automobile Chamber of Commerce, as representative of the smash repair sector, has been asked by the department to provide detailed factual evidence to support and demonstrate its claim of systemic late payments in the sector. The department notes the ACCC also requested evidence of late payment from the VACC during roundtable meetings convened to discuss a number of smash repairer insurer issues.

As detailed in the ACCC's smash repairers insurance issues paper, which is based on the roundtables and was released in September 2003, these requests are yet to be met by the VACC. The department will continue to liaise with the VACC as it attempts to gather the requested evidence. The department has invited the VACC to forward information supporting late payment claims for its consideration and the department will shortly meet with VACC to explore their concerns further. A date has been set for that: 13 November.

**Senator CONROY**—Thanks. Mr Brugger, you sent us a copy of the Dun and Bradstreet survey?

**Mr Brugger**—Yes.

**Senator CONROY**—And your letter highlighted the finding that it is down from 67 to 47 days across a range of industries.

**Mr Brugger**—Yes.

**Senator CONROY**—Just to quote a few: mining, 68 days; manufacturing, 50 days; communications, 52 days; and retail, 50 days. Ms Weston, you indicated that you accept that there is a possible problem in the insurance industry, but with mining taking 68 days for payment on average, manufacturing taking 50 days, communications taking 52 days and retail taking 50 days, they all seem well outside the 30 day reasonable period that we identified and talked about previously. That to me indicates it is a more widespread problem than just the insurance industry.

**Ms Weston**—It does depend on the terms of trade that are established within various industries. I saw an invoice the other day where 90 days were the terms of trade. Obviously, 30 days are some terms of trade. Other people ask for cash on delivery.

**Senator CONROY**—We are talking about small business—

**Ms Weston**—Some small businesses ask for cash on delivery. Some allow—

**Senator CONROY**—I am sure they do. I have never met one that has asked for 90 days but maybe Mr Switzer—if that is the invoice you are referring to—has offered you 90 days. Do you accept that the problem is a bit more widespread than just the insurance industry? That was the basic thesis you put forward in your last answer.

**Ms Weston**—I can report, as I did at that inquiry, that a concern about cash flow, which might not necessarily be late payments, in the Yellow Pages Sensis survey has been trending down. This would indicate that any issues are improving. And certainly Dun and Bradstreet did indicate that they felt that the GST was one of the factors that were making people concentrate more fully on their cash flow situation.

**Mr Brugger**—Further to that, as Ms Weston indicated, there are different terms of trade across different industries. It is almost exclusively from the smash repair sector, the complaints have been raised with the government.

**Senator CONROY**—I thought CPA may not have written this directly, but in their evidence they were indicating—and they survey many thousands of small businesses, their members—that they believed it was also a problem. I think the fact that the smash repairers have been very vocal about the problem is certainly true, but I am not sure it can be dismissed, especially given these sorts of figures in different sectors, plus the CPA.

**Mr Brugger**—I was not dismissing the concerns. I was highlighting—

**Senator CONROY**—Mr Paterson did.

**Mr Brugger**—I was highlighting that those who were taking the complaints forward and bringing them to the government's attention have almost exclusively been in the smash repair sector.

**Mr Ryan**—It is also worth noting that we have conducted two surveys of government agencies' responses to small business. What they show is that almost 90 per cent of invoices are paid within 30 days of receipt for a correctly rendered invoice. We currently have another survey under way.

**Senator CONROY**—I encourage and endorse your attempts to keep the government honest on this one as well. At the recent meeting of the Small Business Ministerial Council in Melbourne in July I think it was—

**Ms Weston**—Yes, Senator.

**Senator CONROY**—The Commonwealth made a commitment to work with the states and territories to ensure that the original intent of section 46 is preserved and that a work plan is developed by ministers to meet this aim. What steps has the government taken to implement this commitment?

**Mr Brugger**—I think the first meeting of the officials arising from that ministerial council is scheduled for 2 December, and that would be the obvious vehicle to take that commitment forward.

**Senator CONROY**—The communique is dated Thursday, 31 July; is that right? Does that ring a bell? I am sure you were down there.

**Ms Weston**—I was, Senator, on 31 July.

**Senator CONROY**—Enjoying Melbourne's wonderful weather.

**Ms Weston**—I think it was beautiful that day too.

**Senator CONROY**—So the first follow-up meeting is nearly five months later?

**Mr Brugger**—We do not coordinate the meeting. The chair of the Small Business Ministerial Council rotates.

**Ms Weston**—It is with Tasmania, and they have been taking a while to get organised. The former official has moved to Queensland and they have taken a little bit longer to get organised than otherwise might be the case. But obviously there is further activity in that field. It will be useful to have that work through as we approach that meeting.

**Senator CONROY**—Has a work plan been developed? I know it is still a little under four weeks away.

**Ms Weston**—We have been working on that. The person in the Office of Small Business who handles that has been speaking with my colleagues here who look after the markets or the Trade Practices Act.

**Senator CONROY**—Is it possible to get a copy of the work plan or is it just a little too early?

**Mr Ryan**—Not until after it is considered by the minister.

**Senator CONROY**—That is only fair. Does the Commonwealth maintain that section 46 still meets its original intent?

**CHAIR**—That is a policy question.

**Senator CONROY**—I am not asking them to give a new policy on it, I was asking—

**CHAIR**—I think that might trespass over the rule against asking the Commonwealth officers—

**Senator CONROY**—I will ask the minister. Does the Commonwealth still maintain that section 46 of the Trade Practices Act meets its original parliamentary intent?

**Senator Minchin**—Well, that is my understanding of the current policy position of the government.

**Senator CONROY**—What is Mr Hockey doing having meetings to ensure that it still does?

**Senator Minchin**—I cannot answer that but I am happy if that question is taken on notice if you want a full fuller explanation.

**Senator CONROY**—I am just conscious that Mr Hockey has signed up to a communique that is about working to ensure that the original intent of section 46 of the TPA is preserved.

**Senator Minchin**—To have a government position on that does not preclude one from engaging in discussions with those who may have a different view or subjecting that matter to a process of discussion. That happens all the time.

**Senator CONROY**—But this was discussed at the meeting, I understand.

**Senator Minchin**—Apparently.

**Senator CONROY**—And this communique arose out of those discussions.

**Senator Minchin**—Sure.

**Senator CONROY**—So that discussion has already been had.

**Senator Minchin**—It should not be taken that that discussion necessarily means that the government as a whole has come to a view that section 46 does not meet its original intentions.

**Senator CONROY**—Following the meeting in Melbourne, a spokesman for Mr Hockey said, 'We do not think there is any way you can rewrite section 46.' That seems consistent with what you are saying, Senator Minchin.

**Senator Minchin**—Well, I think so.

**Senator CONROY**—Has the office examined any of the submissions or is it following the Senate inquiry into the TPC?

**Mr Brugger**—Yes.

**Senator CONROY**—Fun reading. Have we had you along yet? I do not think we have.

**Mr Brugger**—No, we are appearing next Friday.

**Ms Weston**—Next Friday.

**Senator CONROY**—This is going to upset you, but unfortunately I am not going to be there. Have you discussed the ACCC's solution to clarifying section 46?

**Ms Weston**—Discussed where—within OSB?

**Senator CONROY**—Have you had a discussion with the ACCC? They put in a submission that made some suggestions about how they would clarify or improve or help define. Have you spoken to them at all?

**Ms Weston**—Not on their submission.

**Senator CONROY**—Do you think it would be worth while having a chat with them? This is the organisation that is the prosecutor of section 46; it is the one that takes the actions, by and large, and hires good people like Senator Brandis—not any more, of course. You might do some pro bono. Do you have any spare time?

**CHAIR**—Get on with it, Senator Conroy.

**Senator CONROY**—I just thought that, given that they are the main prosecutorial organisation and they have some views about whether section 46 works or not, you might have been engaged in some discussion with them.

**Ms Weston**—We have read their submission.

**Senator CONROY**—You have not discussed it with them?

**Ms Weston**—It is clear what they are saying, and they are obviously entitled to say it. But at this point there is no reason to meet with them. We do meet with them regularly, of course. That is not to say we might not see them shortly and have an opportunity to discuss—

**Senator CONROY**—Put it on the agenda. Have you been involved in developing the legislative response to the Dawson inquiry?

**Mr Brugger**—We have been involved in meetings with Treasury and the Department of Prime Minister and Cabinet, yes.

**Senator CONROY**—Excellent. Have you been involved in discussions on the proposal for a notification of procedure for small business?

**Mr Brugger**—If this is in relation to collective negotiation provisions, yes, Senator.

**Senator CONROY**—Will this procedure allow effective boycott?

**Mr Brugger**—There have been a number of statements saying that there was nothing that would stop a collective boycott. The exact parameters of that are still in the process of being worked through.

**Senator CONROY**—Given that the report was handed down in April, when will that legislation be introduced?

**Mr Brugger**—That is a question for the Treasury portfolio. They have the primary carriage.

**Senator CONROY**—What is the current status of the Small Business Consultative Committee?

**Ms Weston**—Their terms of reference expired on 30 June this year, so that committee has wound up.

**Senator CONROY**—Why was it decided not to continue this body?

**Ms Weston**—It had its original terms of reference. The minister is looking at other options to go forward with talking to small business and he is obviously doing that. It is time for a change.

**Senator CONROY**—Time for a change. Okay, it is December, what are we changing to?

**Ms Weston**—That is for the minister to advise on.

**Senator CONROY**—When was the decision made to terminate?

**Ms Weston**—It was in their original instruments of appointment two years ago.

**Senator CONROY**—I appreciate that it would expire, but there must have been some point at which a decision was taken to allow it to expire and not to renew it.

**Ms Weston**—It would have been some time this year. Would you like me to—

**Senator CONROY**—If it is possible to get a date, that would be helpful. How many times did the committee meet with the minister this year?

**Ms Weston**—They generally meet four times a year, and this year they met on 19 June and earlier in the year on 27 March.

**Senator CONROY**—Was 19 June a bit of a farewell party?

**Ms Weston**—It was not so much—

**Senator CONROY**—I presume the minister broke it to them that they were not going to be renewed.

**Ms Weston**—They already knew that, Senator. They had been advised that.

**Senator CONROY**—When were they advised?

**Ms Weston**—In the period between the two meetings this year, they were advised.

**Senator CONROY**—Were they advised in writing?

**Ms Weston**—I believe so, senator.

**Senator CONROY**—Is it possible to get a copy? It just may set out, as you eloquently put it, time for change. I was just wondering whether the minister used that phrase.

**Ms Weston**—I do not think he used that. That was just a comment I made. As I understand it, the Prime Minister has terms for people. It is probably as well to have different people coming forward at various meetings and offering perhaps a different point of view. In terms of providing a letter, I probably would need to ask the minister's permission to do that.

**Senator CONROY**—I appreciate that.

**Ms Weston**—In terms of the last meeting, they got into some pretty interesting topics and continued on their good work.

**Senator CONROY**—Obviously not interesting enough given they were terminated a few weeks later.

**Ms Weston**—That is probably an unfair comment.

**Senator CONROY**—I will move on. Do we have any indication as to when a decision will be made about what the ongoing process will be? Is there any indication? Is it pending? Is it soon? I appreciate that trying to read the minister's mind would be tricky. If you need to ask Senator Minchin, I am happy for you to caucus with Senator Minchin.

**Ms Weston**—He is definitely considering moving forward with a new committee.

**Senator CONROY**—Thanks. We look forward with interest to finding out about the new committee and the new process, and maybe Mr Switzer would be available. What do you reckon, Minister? Do you think there are any ethical issues with an independent journalist who does not declare that he has a government contract?

**Senator Minchin**—Are we back to this Mr Switzer?

**Senator CONROY**—I was just wondering. You are a man who I do consider generally ethical.

**Senator Minchin**—I appreciate that. I would hate to think that you thought I was unethical.

**Senator CONROY**—Better than most, let me tell you. Do you think there should be a disclaimer at the bottom of his column saying, ‘I have a government contract’?

**Senator Minchin**—As I understand it, he successfully won a tender to perform a one-off function for the government. He is not a government employee; he has won a one-off tender to perform a function. If you think he should declare that at the bottom of his column—

**Senator CONROY**—I was asking whether you thought.

**Senator Minchin**—you should let him or his editor know that.

**Senator CONROY**—No, I am just wondering if you thought that.

**Senator Minchin**—I have not thought about it before.

**Senator CONROY**—Do you think it is good practice for journalists if they are receiving money from the government?

**Senator Minchin**—He is not on the government’s pay roll, he is doing a one-off function, as I gather.

**Senator CONROY**—It is 10 one-offs.

**Senator Minchin**—Well, it is a one-off contract that he won on the basis of a successful tender.

**Senator CONROY**—I am not critical of the work in winning it.

**Senator Minchin**—I would imagine there would be a lot of people who make public comment in one form or another who may have done one-off contracts of one kind or another for various state or federal governments. If you think that they should declare those in every column or comment they make, you can pursue that matter.

**Senator CONROY**—You can imagine it would be a bit hard if he is working on government policy, in implementing the government’s policy, he would possibly have a bit of a conflict in criticising government policy. Do you think there was an issue there?

**Senator Minchin**—No, I would not. If it is the same Mr Switzer that I have seen writing in the newspaper, I have noticed he is quite critical of the government from time to time.

**Senator CONROY**—No, I think Mr Hockey said he had previously been critical, but since he got the contract it seems that he is highly critical of the Labor Party. That is all.

**Senator Minchin**—That is what you say or that is what Mr Hockey says?

**Senator CONROY**—I read the quote. Let me reread it for your pleasure.

**Senator Minchin**—No, I heard that quote.

**Senator CONROY**—Mr Hockey said he had previously been critical of the government.

**Senator Minchin**—My understanding of this gentleman is that, as with any public commentator, he is critical of both sides of politics from time to time.

**Senator CONROY**—It is just that he has not been critical of the government recently. I would not expect you to follow him as eagerly as maybe the OSB does.

**Senator Minchin**—I have not read his column recently but I have certainly read his columns where he has been quite critical of the government.

**Senator CONROY**—He attacked the Labor Party in his column this week on its paid maternity policy.

**Senator Minchin**—I am pleased to see he is evenly balanced in his criticisms.

**Senator CONROY**—So you do not think there is any ethical declaration?

**Senator Minchin**—I have not thought about it. I would not have thought so, because there are any number of commentators who from time to time do one-off contracts for governments and others.

**Senator CONROY**—Yes. Mr Irwin, the crocodile hunter, just this week was paid \$175,000 and a few weeks later the Prime Minister is the greatest Prime Minister we have ever seen. Remarkable coincidence, but he got to go to the Lodge.

**CHAIR**—Do you have another question, Senator Conroy?

**Senator CONROY**—I do. I think Senator Minchin is being bashful.

**Senator Minchin**—I do not wish to be enticed into a conversation—

**CHAIR**—Senator Minchin is teasing you, Senator Conroy. You do not realise you are being teased.

**Senator CONROY**—I think you are right. I think he is. You have picked it in one, Senator Brandis. Let us discuss the Red Tape Register which was released last week by the New South Wales Chamber of Commerce. Are you familiar with that? It received a bit of publicity at the time.

**Ms Weston**—Yes, Senator, I am familiar with it. I think that it was a bit disappointing in a lot of ways that the survey and comments were not as helpful as they might have been.

**Senator CONROY**—Helpful to whom?

**Ms Weston**—Firstly, it was unclear from the results whether the respondents were only companies or whether they included sole traders, partnerships and trusts because, as you know, a lot of small businesses fall into those categories—

**Senator CONROY**—Mr Switzer is probably in that category.

**Ms Weston**—as this would impact on questions about the time taken to do the company return, which is one of the comments they made. Also, comparisons between company tax and BAS compliance are probably problematic because businesses complete the BAS



themselves, whereas a lot of them would rely on their tax agent to do their company tax returns. And comparisons in the media release between New Zealand and Australia are also problematic because New Zealand only has the GST on their statement whereas the BAS includes GST, pay-as-you-go withholding, pay-as-you-go income tax instalments, FBT, luxury car tax and the wine equalisation tax.

**Senator CONROY**—Are you reading from a dorothy dixer answer?

**Ms Weston**—No. But we did have a chat with the chamber and they were interested to talk with us.

**Senator CONROY**—So you have explained to them the error of their ways?

**Ms Weston**—If they are going out to the marketplace to get information, it is really good to have information that could be useful for policy development purposes or anything like that. So we did have a chat.

**Senator CONROY**—I think you alluded to this a little earlier. It found that more than two years after the introduction of the GST compliance is still proving to be a huge problem for small business and it found that the average business is spending up to 60 hours a year on GST compliance. Ms Osmond I think described the amount of compliance time spent on the GST as ludicrous.

**Ms Weston**—I have not got her statement here directly. I think the payroll tax was the biggest time killer for the small businesses. According to her, 130 hours a year were spent on payroll tax out of 200.

**Senator CONROY**—Unfortunately, they are state government matters which you and I cannot fix.

**Ms Weston**—Indeed, Senator.

**Senator CONROY**—Just so you do not think I am verballing her, she said in her press release:

It is just ludicrous that the average business is spending up to 60 hours a year on GST compliance.

**Ms Weston**—Just having a look at the survey, it said the BAS was completed by 44 per cent of small businesses in one to two hours and 38 per cent took a bit longer than that. Incidentally, our hospitality case study also showed that businesses in the hospitality sector were taking one to two hours to complete the BAS.

**Senator CONROY**—How do you think she comes up with the 60 hours a year on GST compliance figure then?

**Ms Weston**—I think she is looking at the 38 per cent that might take between five and 15 hours.

**Senator CONROY**—She says the average business.

**Ms Weston**—Well, 15 times four times a year is 60. That is where it may have come from. The ATO keep some records on that. I think the last time we looked, which is some time ago, it was around four hours for a BAS return, which would be somewhere between those two figures in small business.

**Senator CONROY**—She goes on to say:

Australian businesses are spending four times as long filling out GST paperwork as their New Zealand counterparts.

**Ms Weston**—And I have noted the problematic comparisons between New Zealand and Australia, and of course New Zealand, as you would be aware, has a more pure GST model than the Australian one.

**Senator CONROY**—I have heard that rumour. Obviously it was an issue that drew sufficient response from Ms Osmond's membership of the state chamber. Are you still receiving feedback that it is as much of a problem as Ms Osmond's members seem to be concerned about?

**Ms Weston**—Certainly, the cumulative burden of red tape is a concern for business and there is no doubt that there is a disproportionate burden on small business. We are hearing that. There are moves afoot. The tax office's change program is trying to reduce some of the administrative burden there. We are hearing that, yes.

**Senator CONROY**—Do you do your own surveys along these lines or do you just pick up the industry style surveys like those done by the CPA or ACCI? There are regular surveys done by a variety of institutions.

**Ms Weston**—We have done surveys.

**Senator CONROY**—Last time we spoke, you told us that you were doing small sectoral case studies examining the compliance burden on small business and you mentioned the hospitality one. Are they complete? Is it just hospitality or are there others?

**Ms Weston**—We did complete the hospitality case study and that fed into the Restaurant and Catering Industry Action Agenda. But we have started further case studies in the tourism sector and we are part way through the process. We expect to interview some businesses, if I recall correctly, towards the end of this year.

**Senator CONROY**—Are you proposing to release the results of those studies? Are they available?

**Ms Weston**—I see no reason why we would not, like we have with the hospitality case study, release information on our findings.

**Senator CONROY**—If I could get a copy of that, that would be great.

**Ms Weston**—Which one, Senator?

**Senator CONROY**—The one you have completed, the hospitality one.

**Ms Weston**—Yes, certainly.

**Senator CONROY**—And no doubt, when we see each other again in February, I will ask for the tourism one. I have no more questions.

**CHAIR**—The hearing is adjourned. I thank the minister, the officers and the secretariat. We will resume at 9 a.m. tomorrow morning for consideration of the estimates for the Treasury and agencies associated with the Department of the Treasury. Thank you.

**Committee adjourned at 5.43 p.m.**