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Proof Committee Hansard

SENATE

ECONOMICS LEGISLATION COMMITTEE

ADDITIONAL ESTIMATES

(Additional Estimates)

WEDNESDAY, 23 FEBRUARY 2011

CANBERRA

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Wednesday, 27 April 2011

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SENATE ECONOMICS
LEGISLATION COMMITTEE
Wednesday, 23 February 2011

Members: Senator Hurley (Chair), Senator Eggleston (Deputy Chair) and Senators Bushby, Cameron, Pratt and Xenophon

Participating members: Senators Abetz, Adams, Back, Barnett, Bernardi, Bilyk, Birmingham, Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Cash, Colbeck, Coonan, Cormann, Crossin, Faulkner, Ferguson, Fierravanti-Wells, Fielding, Fifield, Fisher, Forshaw, Furner, Hanson-Young, Heffernan, Humphries, Hutchins, Johnston, Joyce, Kroger, Ludlam, Macdonald, McEwen, McGauran, Marshall, Mason, Milne, Minchin, Moore, Nash, O'Brien, Parry, Payne, Polley, Ronaldson, Ryan, Scullion, Siewert, Stephens, Sterle, Troeth, Trood, Williams and Wortley

Senators in attendance: Senators Bernardi, Birmingham, Bushby, Cameron, Cash, Colbeck, Coonan, Cormann, Eggleston, Heffernan, Hurley, Joyce, Ludlum, Mason, Milne, Parry, Pratt, Ryan, Siewert and Williams

Committee met at 9.00 am

INNOVATION, INDUSTRY, SCIENCE AND RESEARCH PORTFOLIO

In Attendance

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

Department of Innovation, Industry, Science and Research

Executive

Ms Sue Weston, Acting Secretary

Ms Patricia Kelly, Deputy Secretary

Corporate Division

Ms Vanessa Graham, Head of Division

Mr Stephen Murtagh, General Manager, Corporate Strategy Branch

Mr Richard Byron, General Manager, Human Resources and Facilities Branch

Mr Brad Medland, General Manager, Corporate Finance Branch

AusIndustry Division

Ms Chris Butler, Executive General Manager

Ms Merryn Kennedy, General Manager, Innovation Branch

Ms Wendy Launder, General Manager, Business Development Branch

Mr Paul Sexton, General Manager, Customer Services Branch

Mr David Wilson, General Manager, Research, Development and Venture Capital Branch

Australian Astronomical Observatory

Professor Matthew Colless, Director

e-Business Division

Mr Craig Penniford, CIO and Head of Division

Mr Neil Kinsella, General Manager, ICT Systems Branch

Mr Mike Sibly, General Manager, Online e-Business Services Branch

Mr Steve Stirling, General Manager, ICT Operations Branch

Ms Andrea Cross, Acting General Manager, VANguard Branch

Enterprise Connect Division

Ms Judith Zielke, Head of Division

Mr Paul Trotman, General Manager, Trade and International Branch

Industry and Small Business Policy Division

Mr Michael Schwager, Head of Division

Mr Terry Lowndes, Special Adviser

Ms Ann Bray, General Manager, Food, Chemicals and Deregulation Projects Branch

Mr Richard Snaabel, General Manager, Industry Policy and Economic Analysis Branch

Mr Andrew Joyce, General Manager, Small Business and Deregulation

Mr Raphael Cicchini, General Manager, Business Conditions Branch

Innovation Division

Mr Ken Pettifer, Head of Division
Ms Tricia Berman, General Manager, Innovation Policy Branch
Mr Peter Chesworth, General Manager, Pharmaceuticals, Health Industries and Enabling Technologies Branch
Mr Tony Weber, General Manager, Innovation Analysis Branch
Ms Donna Valenti, Acting Chief Executive Officer, Commercialisation Australia

Manufacturing Division

Mr Mike Lawson, Head of Division
Mr Mike Balch, Deputy General Manager, Australian Building Codes Board
Mr Trent Bourne, Manager, Policy, Education and Corporate Services Section, Australian Building Codes Board
Mr Brian Ashe, Manager, Major Projects and Research, Australian Building Codes Board
Mr Kevin Newhouse, Manager, BCA Development Section, Australian Building Codes Board
Mr Jeff Beeston, Manager, Automotive Policy and Development Section, Automotive Branch
Mr Alan Coleman, Manager, Textile, Clothing and Footwear Policy Section, Competitive Industries Branch
Mr Mark Durrant, General Manager, Automotive Branch
Ms Lindy Edwards, Manager, Steel Strategy Group, Working Groups Unit
Mr Murray Fearn, General Manager, Working Groups Unit
Dr Michael Green, General Manager, Innovation and Space Branch
Ms Hilrett Johnson-Owusu, Manager, Book Industry Working Group, Working Groups Unit
Mr Detlef Jumpertz, Manager, Building Policy Section, Automotive Branch

National Measurement Institute

Dr Laurie Besley, CEO/Head of Division

Questacon

Ms Lorraine Neish, Acting Director
Mr Graham Smith, General Manager, Development

Research Division

Ms Anne Baly, Head of Division
Dr Anne Byrne, General Manager, Research Funding and Policy Branch
Ms Stella Morahan, General Manager, CRC
Dr Caroline Perkins, General Manager, Compacts and Coordination Branch

Science and Infrastructure Division

Ms Anne-Marie Lansdown, Head of Division
Mr David Luchetti, General Manager, Astronomy and Research Agencies Branch
Ms Julia Evans, General Manager, Research Infrastructure and Science Policy Branch
Ms Mary Finlay, General Manager, International Science Branch

Australian Nuclear Science and Technology Organisation

Dr Adrian Paterson, Chief Executive Officer
Mr Peter Arambatzis, Chief Financial Officer
Mr Steven McIntosh, Senior Policy Adviser

Australian Research Council

Professor Margaret Sheil, Chief Executive Officer
Ms Leanne Harvey, Executive General Manager
Professor Andrew Wells, Executive Director
Ms Julija Deleva, Chief Finance Officer

Commonwealth Scientific and Industrial Research Organisation

Dr Megan Clark, Chief Executive
Mr Mike Whelan, Deputy Chief Executive, Operations
Mr Craig Roy, Deputy Chief Executive Science, Strategy and People
Dr Alex Zelinsky, Group Executive, Information and Communications S&T
Dr Andrew Johnson, Group Executive, Environment

IP Australia

Mr Philip Noonan, Director General
Ms Fatima Beattie, Deputy Director General
Mr Doug Pereira, General Manager, Corporate Services Group

Ms Tarnya Gerbasch, Chief Financial Officer and Budget and Reporting
Office of the Chief Scientist

Professor Penny Sackett, Chief Scientist

CHAIR (Senator Hurley)—I declare open this public hearing of the Senate Economics Legislation Committee. The Senate has referred to the committee the particulars of proposed additional expenditure for 2010-11 and related documents for the Innovation, Industry, Science and Research, Resources, Energy and Tourism, and Treasury portfolios.

Under standing order 26, the committee must take all evidence in public session. This includes answers to questions on notice. Officers and senators are familiar with the rules of the Senate governing estimates' hearings. If you need assistance, the secretariat has copies of the rules. I particularly draw the attention of witnesses to an order of the Senate of 13 May 2009 specifying the process by which a claim of public interest immunity should be raised and which I now incorporate in *Hansard*.

The extract read as follows—

Public interest immunity claims

That the Senate—

- (a) notes that ministers and officers have continued to refuse to provide information to Senate committees without properly raising claims of public interest immunity as required by past resolutions of the Senate;
- (b) reaffirms the principles of past resolutions of the Senate by this order, to provide ministers and officers with guidance as to the proper process for raising public interest immunity claims and to consolidate those past resolutions of the Senate;
- (c) orders that the following operate as an order of continuing effect:
 - (1) If:
 - (a) a Senate committee, or a senator in the course of proceedings of a committee, requests information or a document from a Commonwealth department or agency; and
 - (b) an officer of the department or agency to whom the request is directed believes that it may not be in the public interest to disclose the information or document to the committee, the officer shall state to the committee the ground on which the officer believes that it may not be in the public interest to disclose the information or document to the committee, and specify the harm to the public interest that could result from the disclosure of the information or document.
 - (2) If, after receiving the officer's statement under paragraph (1), the committee or the senator requests the officer to refer the question of the disclosure of the information or document to a responsible minister, the officer shall refer that question to the minister.
 - (3) If a minister, on a reference by an officer under paragraph (2), concludes that it would not be in the public interest to disclose the information or document to the committee, the minister shall provide to the committee a statement of the ground for that conclusion, specifying the harm to the public interest that could result from the disclosure of the information or document.
 - (4) A minister, in a statement under paragraph (3), shall indicate whether the harm to the public interest that could result from the disclosure of the information or document to the committee could result only from the publication of the information or document by the committee, or could result, equally or in part, from the disclosure of the information or document to the committee as in camera evidence.
 - (5) If, after considering a statement by a minister provided under paragraph (3), the committee concludes that the statement does not sufficiently justify the withholding of the information or document from the committee, the committee shall report the matter to the Senate.
 - (6) A decision by a committee not to report a matter to the Senate under paragraph (5) does not prevent a senator from raising the matter in the Senate in accordance with other procedures of the Senate.
 - (7) A statement that information or a document is not published, or is confidential, or consists of advice to, or internal deliberations of, government, in the absence of specification of the harm to the public interest that could result from the disclosure of the information or document, is not a statement that meets the requirements of paragraph (1) or (4).
 - (8) If a minister concludes that a statement under paragraph (3) should more appropriately be made by the head of an agency, by reason of the independence of that agency from ministerial direction or control, the minister shall inform the committee of that conclusion and the reason for that conclusion, and shall refer the matter to the head of the agency, who shall then be required to provide a statement in accordance with paragraph (3).

(Extract, Senate Standing Orders, pp 124-125)

[9.01 am]

Commonwealth Scientific and Industrial Research Organisation

CHAIR—The committee will begin today's consideration with the Commonwealth Scientific and Industrial Research Organisation, and will then follow the order as set out in the circulated program. I welcome Dr Megan Clark. Would you like to make an opening statement?

Senator EGGLESTON—Before Dr Clark begins, can I make a statement on behalf of the coalition about the room that this committee is meeting in? The coalition wishes to record protest that this session of the estimates is being held in a committee room without television coverage. This is because the usual room where the economics committee has estimates was booked to another group for this morning. The coalition senators know that the House of Representatives officers responsible for committee room bookings knew well in advance of the dates of Senate estimates, and that committee room 2R1, which is usually used by two Senate estimates committees, namely the Rural and Regional Affairs and Transport Legislation Committee and the Economics Legislation Committee, would be used for these estimates, and that was quite predictable.

Senate estimates are a means of providing public accountability of the government for expenditure to the public. To effectively restrict media coverage via the net and TV news by putting this committee in a room without television coverage is quite unacceptable behaviour on the part of the House of Representatives staff responsible for committee bookings in the view of the coalition. No criticism is being made of Tony Windsor, who has been given a booking for the usual room in which we sit for this morning.

CHAIR—Thank you, Senator Eggleston.

Senator CAMERON—I see that we now have an individual recording in the room. I am just wondering what that is about. Has there been any request for individual recording devices to be used in addition to *Hansard*?

Senator EGGLESTON—Before you rule, may I say that I expressed an opinion—

Senator CAMERON—Sorry, I think I was described as a bully by shadow minister Mirabella. If that is how we are going to start here, I just do not think it should continue.

Senator EGGLESTON—Senator Cameron, I was just making a statement saying that I had told the shadow minister that I did not think there was any reason why she should not record the proceedings this morning.

CHAIR—Certainly, we have *Hansard* available, which as far as I am aware, is perfectly adequate for recording the session. But as we have had in the past a number of journalists with recording devices, I will let it continue providing the witnesses at the table at the moment have no objection. No objection?

Senator CAMERON—Just before we start, can I also indicate that given the shadow minister is sitting at the table and has started these proceedings off by describing me as a bully, I want to ensure that she does behave herself when she is here and does not start this Senate estimates off in the way that she has commenced—she should actually behave herself.

Senator BERNARDI—I am not sure if there is any recording of you being described as a bully.

CHAIR—Well, there is none.

Senator BERNARDI—There is now, because you have raised it.

CHAIR—I am certain the member will maintain decorum. Do the opposition have any questions? Would you like to start?

Dr Clark—Madam Chair, I think you asked for the opening statement?

CHAIR—Sorry, Dr Clark. In all of that, I had forgotten about your opening statement. Please go ahead.

Dr Clark—CSIRO is preparing our organisational strategy for 2011-15, and as part of that, we have been benchmarking our science standing both nationally and globally. We do that because clearly the quality of our science underpins how we deliver impact and value to the nation, and it also ensures that the government investment in CSIRO is worthwhile. Let me share that benchmarking, and I will table the supporting data today.

In 2010, CSIRO was ranked in the very high performance band by being in the top 10 global institutions in three research fields: plant and animal science, environmental ecology, and agricultural science. Just to give an example of what this means in the area of environment and ecology, CSIRO produces some 16.4 per cent, or one-sixth, of all Australian science articles in that field, and 0.83 per cent of all science articles in the world in that field. CSIRO is the only Australian institution to achieve top 10 ranking in any field. As a multidisciplinary organisation, our breadth is also our powerhouse. CSIRO was ranked in the top one per cent

of global institutions in 14 of our 22 fields last year, using the metrics of scientific publication and citation. You may note that in each of these 14 fields, CSIRO's science quality is equal to or exceeds the level of whichever Australian university is ranked as the lead higher education institution in that field. That is in all 14 fields.

I would also like to record my congratulations, and CSIRO's congratulations, to Dr Ezzio Rizzardo. Ezzio has just been named as the 18th most influential scientist in the world of chemistry over the last decade. He is the only scientist from an Australian institution to be named in this list of top 100 chemists. This recognition builds on CSIRO's ongoing commitment to science excellence, and something we can all be proud of. At CSIRO, science excellence is certainly not everything that we do. We simply do not rest until our science is used to the benefit of the nation.

Senator BERNARDI—May I take a point of order here? We started the proceedings this morning without a minister present, which I think is entirely disrespectful. The minister rolled up at seven minutes past the appointed hour, and really it is inappropriate that Senate estimates begins in this manner with such a lack of respect from the minister.

CHAIR—Senator Bernardi, I have been at many estimates hearings in both opposition and government where the minister was not present. The minister was not present and I began in order to allow the opposition to have maximum time for questions. You have used this time to do other things, and that is fine. The minister is here well in advance of any questions that you have put.

Senator BERNARDI—It is disrespectful, Chair.

CHAIR—I dispute that it is disrespectful. The minister is here in sufficient time. I could well have delayed proceedings, which I did not. I think we should now proceed. Senator Carr.

Senator Carr—Madam Chair, I thank you very much. I do apologise for my lateness. I went to the wrong committee room. But Senator Bernardi, who has never, ever been late for anything in this building, who has never, ever missed any other proceedings, would appreciate these difficulties. I have a point of order, Madam Chair.

CHAIR—Senator Carr.

Senator Carr—Since when do we have members of the House of Representative at Senate committee hearings?

Senator BIRMINGHAM—It is a public hearing, Minister.

Senator Carr—If it is a public hearing, they can join the public gallery—that is my first point of order. My second point of order is: why do we have a recording device at the table here, and under what authority has that recording device been placed here?

Senator BERNARDI—If you had been here on time, you would know.

CHAIR—Mrs Mirabella asked if she could have a desk to work at. Because of the nature of this room, she did ask the committee beforehand and we agreed to let her sit at the end of the table because that was the only desk available. We also addressed the issue of recording devices and noted that normally members would use *Hansard*, but—

Senator Carr—I would like that removed.

CHAIR—On occasion, journalists do come in and bring their own recording devices. The witnesses expressed no objection.

Senator Carr—I have expressed my objection, Madam Chair.

Senator BIRMINGHAM—Minister, these committee hearings are normally held in a broadcast committee room. This happens to not be a broadcast committee room, which means of course there are no television cameras broadcasting, web-streaming, putting this committee hearing publicly, so why would you want to dodge the type of scrutiny of actually having the proceedings recorded in the usual manner available for the media?

CHAIR—Senator Birmingham, I would like to point out that there is audio available, and Mrs Mirabella's recording device only has audio. There is audio streaming available for this committee meeting so anyone can sit anywhere in this building and hear it. That is not a valid point. As a person at the table has objected to the recording device, I would ask that it be removed.

Senator EGGLESTON—With respect, I wish to challenge that ruling, because there is no point of order at all related to recording devices in Senate committee rooms. There is no basis whatsoever within the rules of the Senate for you to make such a ruling.

CHAIR—There is no explicit provision in the rules of the Senate, but the Senate has Hansard, which is the mechanism by which people have access to the proceedings of the Senate, and there is no need for an additional recording device. We have an objection to that recording device from people at the table, and I would ask that it be removed.

Senator EGGLESTON—How do we know there are not people sitting in the back rows who also have recording devices in their pockets?

CHAIR—If Mrs Mirabella chooses to have the recording device where she sits, that is fine. But one of the people at the table has objected to having the recording device in front of them, presumably perhaps because it can pick up general conversation as well as answers. I would ask that the recording device be removed please.

Senator COLBECK—On the point of order, one of the advantages to the public and to the opposition of having visual recordings is the fact that we can get streaming back and we can access that pretty quickly. We cannot access *Hansard* very quickly, and that is a distinct disadvantage to the opposition and this committee of the decision by somebody, and I do not know who it was, to relocate this committee to a different committee room. We are at a distinct disadvantage as part of this process. We have the fascinating situation of the media now setting up recording devices and microphones in front of the witnesses. Are we going to remove the media from these hearings? This is getting absolutely ridiculous, and just because the minister has a fit of pique does not mean that this committee should fold to him being in a foul mood.

Senator Carr—Madam Chair, I have asked for the recording device to be removed, and I think it is in complete breach of the standing orders. If the Liberal Party senators want to record each other because they have some problems, they should do so.

Senator EGGLESTON—Which standing order are you referring to?

Senator Carr—They should not expect to have a minister who wishes to discuss matters with the secretary of the department with a recording device under their nose. It is an outrage. The normal custom and practice in regard to the media is that they seek permission of the Chair to film proceedings, and I accept that. What I do not accept is the idea that the Liberal Party can seek to record my private conversations with officers of this department.

Senator COLBECK—On the minister's point of order, that is clearly not what we are seeking to do.

Senator Carr—Of course you are. Why the hell is it there, then?

Senator COLBECK—We are seeking to record the events of the day and—

CHAIR—Senator Colbeck, I have already said that if Mrs Mirabella or anyone else wants to have the recording device near them, that would be sufficient to pick up any sound that comes through the microphones from the people at the table. Mrs Mirabella did ask beforehand and I said, yes, and the committee agreed, providing that there was no objection. There is now an objection, and this is my ruling: that that recording device will be removed. Then we can get along with our committee meeting.

Senator EGGLESTON—I would like to move a dissent in your ruling on behalf of the coalition.

CHAIR—Dissent has been moved. We will have a private meeting.

Proceedings suspended from 9.15 am to 9.26 am

CHAIR—The meeting will now resume. The committee has agreed that Mrs Mirabella will continue to sit at the table at the desk allocated and that she will keep the recording device in front of her and remove it from the witnesses' table.

Senator CAMERON—I move: that filming and photography of today's hearing be permitted insofar as it does not hinder or distract from the proceedings of the committee, that media representatives should not harass or distract witnesses, and filming or photography of senators' or witnesses' documents is prohibited.

CHAIR—Is there any discussion on that? There being none, that is agreed. We will now resume questioning of CSIRO. Senator Colbeck had the call.

Senator COLBECK—Has the opening statement been tabled?

CHAIR—It has.

Senator COLBECK—I should say for the record to Mrs Mirabella that that is not really a recording device; that boom that is being utilised by the media is a recording device. I refer to CSIRO's Ngara wireless technology. Can you provide advice on how that technology differs from existing technologies for using wireless spectrum?

Dr Clark—Certainly. I would like to call Dr Zelinsky to the table. Dr Zelinsky heads all of our space information and communications technologies area.

Dr Zelinsky—The Ngara technology is a technology that is under development at CSIRO for high speed broadband wireless access.

Senator COLBECK—How does it differ from existing technologies for using wireless spectrum?

Dr Zelinsky—It does require the use of wireless spectrum, but we are always interested in developing new technologies. This is a particular technology that we have developed for rural, remote and regional areas. It works on line of sight and a technology called beam forming which allows us to get greater efficiencies and greater distances with wireless communications.

Senator COLBECK—How does that differ from other existing technologies?

Dr Zelinsky—Off-the-shelf technologies do not use that beam-forming technology. They are basically technologies which allow for mobile communications—in other words, the receiving and transmitting devices can move around. So a person could be using mobile wireless access. This particular technology, Ngara, which we are developing, is for fixed locations and line of sight. You could imagine a farmhouse and a transmission tower. It is an alternative to fibre access technologies.

Senator COLBECK—When you talk about beam, you are talking about a direct link between two fixed points?

Dr Zelinsky—Correct.

Senator COLBECK—Rather than spreading the signal, it focuses the signal between those two fixed points?

Dr Zelinsky—Yes.

Senator COLBECK—On the website, the spectral efficiency is described as 'three times that of the closest comparable technology', and the data rate is described as 'more than 10 times the industry's recently declared minimum standard'. Can you unpack that a bit, particularly for those of us who are not necessarily all that technically oriented?

Dr Zelinsky—To get the greater efficiencies, we are using what they call MIMO—multiple-input multiple-output—type technology, which means that you transmit simultaneously on various frequencies and then receive. That forms an essential beam between the two points and allows for greater efficiency and greater distances. But it has to be line of sight.

Senator COLBECK—That process is what provides the efficiency at three times the closest comparable technology and 10 times the minimum standard of existing technologies?

Dr Zelinsky—Correct.

Senator COLBECK—How far away are we looking at this being ready for real application?

Dr Zelinsky—We did our first field trial application and demonstration in December last year in Smithton, Tasmania. There we demonstrated 12 megabits bidirectional transmission and receiving. We also intend to do another trial at the end of this year in Armidale, and we are hoping to do 50 megabits transmission and receiving.

Senator COLBECK—So that is both ways?

Dr Zelinsky—Both ways, yes.

Senator COLBECK—How long would something like this take to get to be commercial?

Dr Zelinsky—Our job at CSIRO is to do research and development, and then we seek to transfer the technology to telecommunications manufacturers. Typically it can take anywhere between three to five years to commercialise or industrialise such technologies.

Senator COLBECK—So you are not at that stage yet; you are still in the developmental stage?

Dr Zelinsky—We are in the developmental and demonstration stages, and we are briefing industry about our developments and what our plans are.

Senator COLBECK—From the time that you start a relationship with somebody who might be looking to commercialise it, you are saying three to five years?

Dr Zelinsky—When we start our research, we always start it to end up in the market. Right at the beginning when we decided to do the research, we thought there was a viable market. We did some research to understand, if such a technology were to be available with this kind of specifications, would there be any interest, and telecommunications equipment manufacturers from US, Europe and Asia said, ‘If you can do it, we would be very interested in talking to you.’ We have maintained those relationships and that briefing with a view that, as the technology becomes mature, we will then attempt to do a technology transfer.

Senator COLBECK—From that point in the formalisation of that relationship for commercialisation, you are saying three to five years?

Dr Zelinsky—Yes.

Senator COLBECK—How far away from that point do you see yourself being at the moment?

Dr Zelinsky—From the point of being able to do a technology transfer, I would say it is in the two-year point. I think I would expect that next year would be a time for us to be able to conclude or execute some commercial arrangements. From there, it is an industrialisation process, which I would not be able to comment on and that would really be up to the manufacturer.

Senator COLBECK—Where would you see this technology sitting in the last seven per cent that remains around the NBN?

Dr Zelinsky—It is a technology that we have developed as an alternative to fibre access. This technology would not supersede fibre, so it is in that area where the government policy has declared that the NBN will be delivered through wireless solution. So, in that space, we believe there is somewhere between probably five to six per cent; there will be an area that will be best delivered by satellite because the signals cannot be economically delivered there through relevant infrastructure.

Senator COLBECK—Even utilising this technology, there would remain a gap, potentially, that neither fibre nor this technology could reach?

Dr Zelinsky—Correct.

Senator COLBECK—Going back to the trial that you held in Smithton, I assume that that was in some of the outlying areas that fall outside that NBN footprint that exists in that town. Can you give us some sense of what your findings were from that process? What sort of range were you operating over?

Dr Zelinsky—The trials that we undertook were done in areas that were not covered by the NBN footprint. We demonstrated a number of functions to six users, basically farmhouse types of scenarios. We demonstrated high-quality streaming video, video conferencing, IP telephony and web browsing up to a distance of 15.5 kilometres.

Senator COLBECK—Do you have any sense of what the range might be at this stage?

Dr Zelinsky—We believe that, depending on the power used to transmit—the stronger the power, the further you can transmit, and that is a regulation issue—it is possible to go tens of kilometres beyond that. So, possibly, 50 to 100 kilometres is within technical reach. Scientists at CSIRO have told me that, theoretically—this is using some calculations—it could even be possible to go as far as 150 kilometres. But these things again are theoretical calculations. We always have to translate theory into practice and test that through vigorous experimentation.

Senator COLBECK—What are the regulatory constraints?

Dr Zelinsky—We are governed by ACMA, the Australian Communications and Media Authority.

Senator COLBECK—No, you indicated that there may be some regulatory constraints regarding power. Where do they sit, and how do they limit the potential for the technology as they sit at the moment?

Dr Zelinsky—If you transmit with greater power and go over greater distances, you could potentially interfere with that spectrum if it is used for other purposes. That was my point.

Senator COLBECK—So, it was not a restriction on the power of transmission that you could use; the issue is potential interference in other mediums?

Dr Zelinsky—Other mediums or other sectors, yes, because the regional areas do spill into town areas, et cetera.

Senator COLBECK—Is there a defined spectrum that you are looking at?

Dr Zelinsky—Yes. To provide the exact frequency range, I would need to take that on notice, but, broadly, it is the analog TV spectrum that has been decommissioned.

Senator COLBECK—That spectrum is to be decommissioned, so would a commercial operator look to purchase some of that spectrum to operate that particular system?

Dr Zelinsky—Correct.

Senator COLBECK—With the close down of analog television, does that completely open up that spectrum for that opportunity? Is there anything else in that range that might have a limitation applicable?

Dr Zelinsky—The technology that we have developed is actually targeting the analog TV spectrum. That will be licensed ultimately to wireless providers. The technology that is developed by telecommunication manufacturers in the future could utilise that technology. We see our job as being to provide a technology that can play into that space.

Senator COLBECK—Have you had any briefings with Minister Conroy's office in relation to the technology?

Dr Zelinsky—We have had numerous briefings with DBCDE. We have kept them informed of what we have been doing. In fact, I think there were representatives of the department at the Smithton trial.

Senator COLBECK—But you have not had any specific briefings with Minister Conroy's office?

Dr Zelinsky—No, not on this directly.

Senator COLBECK—What about NBN Co.?

Dr Zelinsky—NBN Co. are a telecommunications user company, as are other companies. We have actually informed them of what we are doing. We are informing all parties. NBN Co. were also present at the Smithton trial. We have also provided them briefings on the technology.

Senator COLBECK—Could you provide on notice the dates of those briefings that you have had with NBN and also the dates of briefings with the department. Do you know if Senator Conroy himself has had a briefing on this technology?

Dr Zelinsky—I would have to take that on notice.

Senator COLBECK—Could you also provide information as to whether Mr Harris and Mr Quigley have received personal briefings from NBN Co.? Who owns the IP?

Dr Zelinsky—The intellectual property on the Ngarra technology is solely owned by CSIRO.

Senator MILNE—With respect to the decision announced at the end of last year to cut 30 environmental research staff whose skills were no longer aligned to future needs, it was identified there would be cuts in bioindustries, biosecurity, ecology, forestry and urban science. This was only nine months after the merging of entomology with others to create a super department. How many people have lost their jobs in that super department in the area of ecology and biosecurity?

Dr Clark—Certainly our environmental investment overall is actually significant and has increased in the broader context. I will ask Dr Johnson to go into some of the detail of where we have prioritised, where we have actually added staff to the environmental area and also our prioritisation in some of the areas that you mentioned.

Dr Johnson—Just to reinforce Dr Clark's point, the investment in environmental research in CSIRO has been increasing year on year over the last decade. In terms of the specifics to which you referred, you are correct: on 23 November last year, 30 staff in the Division of Ecosystem Sciences were informed that their skills were no longer aligned to the future needs of the organisation. Currently 27 of those folks are anticipated to leave the organisation by the end of this financial year. There are redeployment efforts and other opportunities being explored for the other three staff. I should also add that we have 21 new appointments in progress in that division, so net-net there will be a loss there of nine staff.

Senator MILNE—Which skill areas are not aligned and where are the skills areas in the 21 you are now recruiting for?

Dr Johnson—There are a range of skills that were embodied in those staff who are surplus to requirements. They cover a broad range of sustainability science. In terms of the new staff that are in process of appointment, these include agricultural systems, science, ecophysiology, economics, social psychology and urban systems science. I should also state on the record that the division still retains the largest single contiguous group of ecologists in Australia. I will have to get the exact numbers, but there are in the order of 70 to 80 ecologists in that division going forward, which is by far the largest group in the country.

Senator MILNE—I was about to say, out of the 21 you just listed, there are hardly any in that list that are purely from an ecology perspective; they are all in social sciences. If I can pursue that, since there is now a larger than ever investment in environment and you are saying that we have the largest group of people, if you like, working in the area of ecology, what are your priority areas in public interest research as opposed to that contracted to the private sector?

Dr Johnson—Our environmental sciences, as you point out, play into a whole range of domains and sectors of Australian society. In terms of our core ecological research, obviously its focus is very much on the long-term health of Australia's biodiversity assets. We have a very strong focus both at a national level and supporting the endeavours of the federal department of environment. We also have a very strong emphasis on working in partnership with state agencies, in particular in Victoria, Queensland and Western Australia, to support their biodiversity activities. As you would know, particularly in Western Australia and in the wet tropics of north-east Queensland, these are biodiversity assets of global significance. So we are focusing our work there.

We are hoping to expand our footprint in the biodiversity space also into the Kimberley, which again is another part of this country of enormous global importance. We also work very closely in partnership with regional communities and regional groups. Again, you would be aware of the quite extensive network of regional NRM groups around the country, and we work closely in partnership with those folks to deliver our science so they can have an impact on the ground.

Senator MILNE—I want to go to that issue of biosecurity and the incredibly rich biodiversity that we are trying to protect. In relation to the Asian honey bee incursion in Cairns, as you would be aware, a decision was taken recently by the national management group to determine that technically it was no longer possible to eradicate, and on that basis the funding stops on 31 March. I understand that there was disagreement in the meeting as to whether it is technically feasible to eradicate the honey bee. Can you say what CSIRO's involvement was in advising any department of the decision that it was technically not possible to eradicate it, and was that CSIRO's opinion? Who can provide some assistance on that matter?

Dr Johnson—I can give you an answer to that. First, I think it is important to understand that CSIRO was not involved in the decision made by the Asian Honey Bee National Management Group to discontinue the honey bee eradication program to which you refer. Obviously if you have any questions about that specific decision they need to be referred to that group through the department of agriculture.

We did provide, through one of our scientists, initial identification advice and determined whether the varroa mite and any pathogens were present in the initial Cairns incursion in 2007. We have not been formally invited to be a participant in any of the follow-up mechanisms, such as a proposed honey bee and pollination security CRC, but we do have the capability, the expertise and the willingness to become involved in that should we be asked. There have also been a number of comments made in the media around this, and I think they are on the public record, and CSIRO stands by those comments that have been made in the public arena about that situation.

Senator MILNE—I would actually prefer to hear it from CSIRO in this committee rather than just rely on news reports. You just told us a moment ago that you work in collaboration with state governments and with the federal government, and you advise and work closely with the department of the environment. How is it that, on a decision like this, you were not consulted or did not seek to advise, considering how serious this could be for Australia's biodiversity?

Dr Johnson—Just to be clear, this is not a matter for the department of environment. I think it is a matter for the department of agriculture. As I said, to the best of my knowledge we did provide advice in 2007 around the identification of this particular organism and any pathogens associated with it. We have provided advice that the bee would be expected to spread widely in Australia. This is based on the work that we have undertaken in the Pacific area, in both the Solomon Islands and New Guinea. We have been very clear on the public record saying that the impact would also have a significant environmental consequence. We have also been on the public record to state that the current view that is out there that the bee would not spread south of

Brisbane is not accurate, based on our understanding of the biology and ecology of this bee. We have provided that advice.

Senator MILNE—You have provided that advice to the Department of Agriculture, Fisheries and Forestry—

Dr Johnson—To the best of my knowledge, that is true, yes.

Senator MILNE—that it would spread; that it is serious for biodiversity. What is the technical advice about whether or not it is eradicable?

Dr Johnson—I am not in a position to comment as this is outside my area of expertise. I would have to take that on notice.

Senator MILNE—Could you provide that to the committee as soon as possible, because the funding runs out on 31 March? When you say it is serious for Australia's biodiversity since it can spread all over the country and has spread into highland areas in New Guinea—therefore temperate areas in Australia are vulnerable—what are we talking about in terms of biodiversity impacts, displacement of native bees, nectar feeding animals, insects et cetera?

Dr Johnson—Right now I could only answer that in general terms. I would be happy to provide a more detailed answer to you on notice. You are correct; the impact would be significant from a competitive point of view with other pollinators in the environment. It would have an impact on nesting sites for native birds and animals. Also, the bee as a vector for the varroa mite would also have likely consequences to the honey bee industry and queen bee producers. I would be happy to provide a more detailed answer to you.

Senator MILNE—Are you aware that the department of the environment was an observer at the meeting at which it was decided that it was not technically possible to eradicate and made no comment?

Dr Johnson—I am not aware of that. I was not at that meeting, and I have not been briefed on that. Again, I would have to take that on notice.

Senator CAMERON—I wish to refer to climate change. I am not sure if you saw any of the reporting of the environment estimates committee this week, but Dr Greg Ayers, the Chief Executive of the Bureau of Meteorology, was quite unequivocal that climate change and global warming was happening. Is that a fair estimation from Dr Ayers?

Dr Clark—Certainly our position is that we and many of the scientists around the world see a 90 per cent probability that our climate change is being caused by our actions, and we have certainly already seen some changes in our climate in this country.

Senator CAMERON—Dr Ayers was also very concerned that there was some literature out there that was misleading both the public and even eminent Australians like Cardinal Pell, and that publication was the book *Heaven and Earth: Global Warming—The Missing Science* by Professor Plimer. Does the CSIRO have a view about the accuracy of the assertions made in Professor Plimer's book?

Dr Clark—I think in a general sense, this is a very complex and important issue that we face as a nation and humanity. Debate and discussion around this issue is absolutely vital for us to come to grips with it. I do not have a specific comment in relation to the publication to which you refer.

Senator CAMERON—Are you aware of a Professor Michael Ashley?

Dr Clark—I do not know Professor Ashley personally, no.

Senator CAMERON—He is a professor at the University of New South Wales. He says this about Dr Plimer's book:

Plimer has done an enormous disservice to science, and the dedicated scientists who are trying to understand climate and the influence of humans, by publishing this book. It is not 'merely' atmospheric scientists that would have to be wrong for climate to be right. It would require a rewriting of biology, geology, physics, oceanography, astronomy and statistics. Plimer's book deserves to languish on the shelves along with similar pseudo-science such as the writings of Immanuel Velikovsky and Erich von Daniken.

Given that this book is out there influencing the scientific debate, would it be possible for CSIRO to do a bit of an analysis of that book in the public interest and in the national interest to establish whether there are factual errors in the book?

Dr Clark—CSIRO is called on, and many of our scientists are called on, to provide peer review for journals, sometimes for books et cetera. We were not called on to provide peer review for that particular

journal, but we do that regularly. We would do that as a normal course of events, and restrict it really to those requests for peer review. Our own science and publications in journals and peer review journals of course go through that process. In this particular instance, we would normally just keep our reviews to those professional peer requests.

Senator CAMERON—There has been no peer review request for Professor Plimer's book?

Dr Clark—Not to my knowledge.

Senator CAMERON—We also had a discussion in the environment committee about the cyclone season. Obviously it is a very topical issue, given the devastation that was wrought on Queensland, northern New South Wales and Victoria because of the cyclone and the floods. There is some debate out there now that the warming of the ocean due to climate change means that there will maybe not be as many cyclones but that the cyclones that do happen will be more severe; has that been looked at by CSIRO?

Dr Clark—It certainly has in Dr Johnson's area, and the issue of extreme events and the issue of their intensity. You also referred to frequency.

Dr Johnson—I have not seen the transcripts of the environment hearings—

Senator CAMERON—You will find them very interesting.

Dr Johnson—I am sure Dr Ayers would have also made it clear in his testimony there that it is important, and it is important for the record here, that the specific contribution of climate change to these extreme weather events is still difficult to assess. We do know from our work that, as the earth continues to warm, the likelihood of these extreme events increasing in probability in the future is high. Our work also shows that the severity of those extreme events is also likely to increase. Again, it is difficult to assess those dynamics on a short-term, year-to-year basis.

Senator CAMERON—That is on the individual issue of cyclones. But do you have an argument that CO2 is creating a problem that has to be dealt with in terms of global warming?

Dr Johnson—As Dr Clark has already answered that question, there is greater than 90 per cent probability that the change that we are experiencing is due to the inputs of anthropogenic CO2.

Senator EGGLESTON—Are you aware that there is a widespread view amongst CSIRO staff that the organisation has recently set up a special emergency or contingency fund in the order of about \$20 million?

Dr Clark—I was not aware of that. If you are asking me to comment on what contingency levels are in our budget et cetera, this year and next year, we can provide further information. Perhaps you can provide some more information as to what you are seeking here? I can refer to and discuss funding that we have provided for emergency support through our staff benevolent fund, but it was not of that order. CSIRO provided some \$250,000 to our benevolent fund which has a separate independent governance arrangement and provides support to our staff. Within the constraints of our funding, we intend to make sure that we have similar contingencies of that \$250,000—not the figure to which you refer—in our budget to make sure that we can support our staff through this independent mechanism. I am not quite sure if that is what you are referring to, but it sounds like it.

Senator EGGLESTON—I am not sure either, but there are strong rumours to that effect. What other possibilities could there be for the source of these rumours within your organisation?

Dr Clark—I would suggest that that is it. Certainly it is very important in these sorts of events that our staff get behind our own staff. With respect to the Queensland floods, our staff have a provision to contribute to a benevolent fund in our various states, and they do that out of their own salaries. Of course, in times of need of their colleagues, that kind of support has been very welcome. We also saw that the contributions to our benevolent fund in states outside Queensland were very generous to provide that and donations into our Queensland fund. We also had our staff all around the nation holding fundraisers and providing that, so it was a very effective mechanism. As I said, it is managed independently, and has a separate governance to provide that assistance on request by staff. So it is very useful in these times.

Senator EGGLESTON—But you cannot identify any \$20 million fund that might be leading to the confusion?

Dr Clark—In terms of our funding for our science areas, we can certainly go into areas of how we allocate that and how we prioritise that, but that is our science areas, not our emergency as you requested.

Senator EGGLESTON—Emergency or contingency funding—contingency might cover shortfalls in some other areas?

Dr Clark—Certainly. We can outline how we look at our investment across that area.

Senator EGGLESTON—Would you like to do that?

Mr Whelan—CSIRO is currently working through the development of its 2011 to 2015 strategic plan. As part of that process, we are working through the allocations to particular research portfolios and to particular research capabilities. It could be that people are speculating as to the outcomes of that process. As you can imagine, at this stage of the budget cycle not all resources are fully allocated, so funds that are not currently allocated might be described as contingencies. It could be that that is the source of the speculation or the information you have heard. We would expect to finalise those budget outcomes in parallel with the federal budget process and include those in our final strategic plan in June and subsequent operational plan for 2011-12.

Senator EGGLESTON—We might follow this up with further questions at later estimates.

CHAIR—Thank you. Thank you to CSIRO for coming in this morning. I am sorry it was a bit foreshortened.

[10.03 am]

Office of the Chief Scientist

CHAIR—I now call the Chief Scientist to the table. Thank you, Professor Sackett; do you have an opening statement that you would like to make?

Prof. Sackett—As this is my last appearance before Senate estimates in this role, I would only like to say that it has been a pleasure and a deep honour to serve Australia as Chief Scientist for Australia. Thank you.

CHAIR—Certainly on this committee, I think we have appreciated your very forthright and clear way of explaining scientific principles, and your role, and it has been very interesting to have you on board. Can you explain why you have vacated the position a little early.

Prof. Sackett—The reasons for my decision are both personal and professional. Both of them relate to the growth that both individuals and institutions experience. In my personal judgment, this is the right time now for me to move on.

CHAIR—It was not as a result of pressure from external forces; it was personal and professional reasons?

Prof. Sackett—Absolutely. There was no pressure at all. It was a personal decision on my part.

CHAIR—Thank you, and thank you for your work on the committee.

Senator COLBECK—Thank you, too, for your service particularly to the committee but also in your role as Chief Scientist. It is not appropriate to go into the personal issues, and I do not want to, but can you give us a sense of the professional perspective that you bring to the particular decision that you have made.

Prof. Sackett—Again, I would say that it has to do with my firm belief and also my experience that institutions grow and evolve and that there are moments when it is right to recognise that growth and those changes. I have done that for my own personal reasons, and I can say that I am quite proud of what the team has achieved over the past 2½ years. That record will show that the Office of the Chief Scientist has grown and evolved, and I believe it will continue to do that under the next Chief Scientist.

Senator COLBECK—When you talk about the growth of the institution, are you talking about the Office of the Chief Scientist?

Prof. Sackett—I am. I am talking about the Office of the Chief Scientist and what I might call the institution of the Chief Scientist more broadly speaking.

Senator COLBECK—Why do you see now—at this point in your term, which is quite early—as the appropriate time to leave?

Prof. Sackett—I would say two things about that. First of all, chief scientists in the past have had a variety of terms. Many of them have been in fact quite a bit shorter than the five-year appointment to which I was initially appointed. Chief scientists holding a role for two or three years is not actually unusual, if you look back into the history. I would just like to make that as a side remark. I believe that I have, as Chief Scientist, assisted in the institution and the office growing in its role, and I am very pleased about that. As I look

forward, I believe there will be other ways for me to contribute, and I have made a personal decision to take some time to contemplate how I can contribute in other ways.

Senator COLBECK—There is nothing in your relationship with the government or the direction that the government has taken on any of the issues on which you have a view that has contributed to this decision?

Prof. Sackett—No.

Senator COLBECK—Can you give us some sense of the level of interaction that you have had with senior members of the government? For example, how many times would you have met with the Prime Minister—in either incarnation—during the period that you have been appointed?

Prof. Sackett—I have not met Prime Minister Gillard in her role as Prime Minister. I have met with Prime Minister Rudd to give a direct personal briefing once. I have been in the presence of Prime Minister Rudd at other functions including, of course, the Prime Minister's council, including functions at which, for example, Australian Nobel Prize winner Elizabeth Blackburn visited Australia and so forth.

Senator COLBECK—So you have not formally met with either Prime Minister in your role as Chief Scientist?

Prof. Sackett—I did meet Prime Minister Rudd once for a personal briefing.

Senator COLBECK—Are you in any way disappointed at the growth of the institution of the Office of the Chief Scientist?

Prof. Sackett—No; to the contrary. I think that the record will show that what has been achieved over the past 2½ years is in fact very good growth in the role that the Chief Scientist and her office have been able to undertake in a full-time capacity. I think the interactions with key stakeholders, both within and outside the country, have been strengthened. I am pleased at the new foresight role that the Prime Minister's council is undertaking to provide over-the-horizon, long-term and whole-of-government advice. I am pleased with the Young Ambassadors for Science program that we have set up. I am pleased with what I see as an increased communication between the Office of the Chief Scientist and the people of Australia on matters of science. I am actually pleased, and think that those are appropriate levels of growth in the institution of the Chief Scientist, which is not to say that I do not expect that more will be done in the future.

Senator COLBECK—What advice would you give to your successor and what do you think could be improved about the role?

Prof. Sackett—What can be improved about the role has to be placed in the context of what the government would like for the role. Any advice about specifics about how the role could be improved I think would have to begin with the government stating what it would like to receive from the role. That, of course, is a matter of government decision and policy.

Senator COLBECK—But as outgoing, you are effectively leaving the service of the government, this is an opportunity to provide some input into where you see the role going. I am interested in what advice you would give to the next Chief Scientist. I am genuinely interested to know what could be done to enhance the role from your perspective, having been the first full-time Chief Scientist, I think, to continue what you have done over the past 2½ years.

Prof. Sackett—Thank you. I would like to set the record straight, and then I will respond to the main point of your question. In fact, I am not the first full-time Chief Scientist. I believe that the first two chief scientists, as a matter of fact, were both appointed in a full-time capacity. Later the role went to part time, sometimes in a very small fraction, and most recently it was reinstated with my appointment in 2008 to its full-time capacity. That is just to set the record straight.

I thank you for questioning me on how I think the role could be improved, but again, because it is a role that is appointed by government, first and foremost the decision has to be made by the government to set the boundaries of what it would like to achieve from the role. Having done that, it is possible to then seek a variety of opinions on how the role could be improved. But I think the responsibility rests firmly with the government to decide how the role of Chief Scientist for Australia will fit in to the variety of advice that it receives on matters of science.

Senator COLBECK—However, you are in a unique position to provide some advice as to how to take this institution and the role forward. For example, should there be regular meetings of the Chief Scientist with the Prime Minister, as the principal advisor to the government on matters of science? Is it perhaps a good idea that you meet with the Prime Minister to give some advice—and obviously that advice to government would not

necessarily be something that would be released to this committee—in relation to how the government might take this role forward? Are you seeking to provide that advice to the government, or is the government seeking that advice from you in the week that you have left in the position?

Senator Carr—Since you have asked about the government’s position, I want to take this opportunity to thank Professor Sackett for her outstanding work, particularly in communications both of Australia’s position domestically and internationally. She has performed a very, very important role on behalf of the Australian people—a role that this government made full time which your government of course had reduced in terms of the policy positions that you had taken.

Professor Sackett has met with me on average about once a month, I think. We have had regular dialogue on a range of matters, and of course formal briefings are presented in the normal practice that has emerged in terms of the advice that is tendered to government. Professor Sackett also has the opportunity to discuss with other ministers, other departments and other agencies within government work that she is undertaking and provide assistance to those agencies.

The Office of the Chief Scientist provides an important role, particularly in communications with young people, which of course is all set out in terms of the deed that was originally established for the establishment of the position. As to the future, we will walk that through with the person who succeeds Professor Sackett. In many senses, there has to be room for personal initiative and the personal in the way in which the Chief Scientist approaches this role. That is the approach that I have taken.

I encourage people to engage in public debate. I encourage people to actually take up issues that sometimes are controversial, and I think a number of speeches have been made with which opposition senators have drawn issue. I defend Professor Sackett’s right to actually undertake those conversations with people; that is part of the job.

As to what the future holds, that is a question we will discuss with the person that is appointed to replace Professor Sackett. We want to ensure that they are able to meet the criteria that we have established by way of the deed, but also in terms of their individual initiatives that they take. It is a very responsible position, and it is important that we do hear from them as to the directions that they want to take this sort of role.

Senator COLBECK—Has the timing of the resignation been completely with your volition? Have you been asked to establish this time by anyone else?

Prof. Sackett—No.

Senator COLBECK—Not by government?

Prof. Sackett—No, the decision on the timing was completely mine.

Senator COLBECK—So there has been no influence as to the date or the time of the announcement by anybody?

Prof. Sackett—Not in the least.

Senator MILNE—I add the Greens’ thanks for the work that you have done as Chief Scientist in Australia. I think you have demonstrated great courage and commitment, and taking it from a part-time to a full-time role is something we have campaigned for, so we would like to say thank you. I wanted to ask some questions about the advice that you have provided to government. Clearly you have made a number of speeches and had a lot of engagement with the community on climate change in particular. Specifically in relation to the government, were you invited to provide advice to the government on its position on targets, and burden sharing in particular, in the lead-up to or throughout the Copenhagen negotiations?

Prof. Sackett—No, I was not.

Senator MILNE—You were not?

Prof. Sackett—No.

Senator MILNE—Were you invited to go to Copenhagen with the government delegation to advise on the negotiations or the science that was being discussed in terms of those targets and burden sharing arrangements?

Prof. Sackett—No, I was not.

Senator MILNE—In terms of the advice that you have provided to government, has that advice been acted upon, and can you point to any policy position which is an accurate reflection of your advice to government on the science, the urgency or the nature of the response to greenhouse gas emission reduction?

Prof. Sackett—I believe that all of the advice that I have given has been considered. It is the nature of an advisor to realise that advice is taken from a variety of sources and to realise that that advice, particularly if it has any policy implications, is given confidentially. I respect that, and for that reason it would not be possible for me to comment directly on any advice that I may or may not have given with respect to policy matters or whether or not in any specific cases action was taken as a direct result. In fact, it is quite possible that I would not even know if my advice directly resulted in a decision of government.

Senator MILNE—You have said on occasions that if the level of ambition that was pledged in Copenhagen by all governments, not just Australia, but the collective commitment in Copenhagen was given effect, that that would lead to a temperature rise of approximately 3.5 degrees above industrial levels by the end of the century—you have not said this, but I will paraphrase—‘with disastrous impacts for the planet’. Is it still your view that the collective commitment would be well beyond the two degrees which is the Copenhagen accord?

Prof. Sackett—My understanding of the commitments that were made at the time that I made that statement would not be sufficient. That was on our best understanding of science and also respecting the fact that each of these statements has a degree of certainty around them, so not being particularly prescriptive the number would be two degrees and not 2.4 or 1.8. But with those caveats, yes, it was my understanding at the time that I made the statement that the commitments that were made by governments would be insufficient, even if acted upon, even if given effect, to give with reasonable probability a world that was only two degrees warmer than preindustrial temperatures by 2100.

Senator MILNE—Having said that, what is your professional view of what needs to happen in terms of industrial countries, annex I countries, for emission reduction commitments?

Prof. Sackett—Again, it is not my role to comment on specific policy matters. I have said publicly before, and I am happy to say it again here, that it is my firm view that all countries should immediately seek ways to reduce their greenhouse gas emissions and also prepare for the effects of climate change that are already underway and for effects which the current science tells us we have yet to expect from the emissions that are already in the atmosphere. I think that both mitigation and adaptation is called for, for all countries.

Senator MILNE—Since that includes Australia, do you regard Australia’s current target and policy efforts adequate to the global crisis that is climate change, and can you point to anywhere in government policy where you think there is an adequate response?

Prof. Sackett—Again, you have now asked me about specific policy outcomes, and it would be inappropriate for me as a scientific advisor to comment on that.

Senator MILNE—As the Chief Scientist, do you believe that your policy advice to government has been heeded? What can you point to to demonstrate it has been heeded?

Prof. Sackett—I believe that my advice has been considered. I expect that a government would seek advice from elsewhere, and I think that is the position that an advisor accepts when they take that role.

Senator MILNE—Is that a significant reason as to why you are leaving?

CHAIR—I think you should answer that, Professor.

Prof. Sackett—Could I ask you to restate that question?

Senator MILNE—Is that a reason why you are leaving?

Prof. Sackett—My decision to step down from the post after two-and-a-half years is based on a personal decision that the time is right for me to consider how I can contribute elsewhere. I believe that I have contributed over the past two-and-a-half years in ways that I am quite satisfied with.

Senator CAMERON—Could I also congratulate you on the work that you have done and thank you for that work. Back on 17 March 2009 in a speech, you said that the largest single challenge facing the world was to ‘transform the world’ in a way ‘as profound as that witnessed in the dawn of the industrial age’—this was in relation to global warming. Given the amount of fight-back there has been against governments all over the world in relation to taking action on global warming, what role can the scientific community play to educate

the sceptics, the deniers and the general public who are fed some of this nonsense continually? How do you deal with that?

Prof. Sackett—Thank you for that question which I believe is a very important question. It is one that scientists are struggling with, I think it is fair to say, all over the world. This is an enormously important time in history, probably unlike any before it, for a number of reasons. Science is not the complete answer but science does provide a way to provide evidence on which decisions can be made. Science does not tell us which decisions to make. Many factors go into making a decision, a policy decision, if it be a matter of policy—and there are decisions that are not a matter of policy, but are individual decisions. Science does not tell us which of those decisions to make but it does tell us the possible consequences of some of those decisions.

Because this is an enormously important issue—perhaps one of the most important—facing the world, it is important that scientists engage. I believe that scientists are attempting to do that. They face challenges in doing that. To do so, I believe they need to be clear about when they are talking about science and when they are talking about policy, and that line needs to be very clear so there is no confusion. I think in this country, and in other countries around the world, that line has been blurred to the detriment of both science and those in government charged with those who elect them for making policy decisions.

First and foremost, I would like to see a clean, clear and continual reminder of the division between what is science and what is policy. That is what I have attempted to do, and continue to do even here today, because I think it is a disservice to both important areas of human endeavour not to do so.

Scientists in every area of science are broadly telling us the same thing. And, when I say ‘scientists’, I would like to point out again—because I think it has been mentioned in these chambers before—that we are talking about all of science; we are talking about physics, we are talking about chemistry, we are talking about the science of the oceans. That is a very important message for people to hear. It is not a particular sort of scientist. It is not a scientist who works in government labs but not those who do not. It is not the scientists of one country only or a few countries only. It is scientists of all sorts in all countries, in all sorts of laboratories that are telling us the same thing. That is a message that I have great concern is not reaching the general populous at a level that engages them and enables them to ask the questions that they have in an environment where those discussions can take place without distractions of policy, without distractions of politics, if I may say. That is a great concern to me.

Senator COLBECK—You mentioned earlier that you have not met Prime Minister Gillard. Did Prime Minister Gillard attend the last Prime Minister’s Science and Engineering Council meeting?

Prof. Sackett—No, she did not.

Senator COLBECK—Minister Carr, what are the implications regarding the remuneration surrounding the resignation of Professor Sackett?

Senator Carr—I am not certain I follow your question.

Senator COLBECK—Are there severance termination payments involved?

Senator Carr—To tell you the truth, that is not an area of my immediate expertise; that would be Professor Sackett’s. It is a matter for the department in terms of the administration of the deed. As I understand it, the full entitlements will be paid as is the custom and practice for people that are employed through the Commonwealth of Australia.

Senator COLBECK—I directed the question to you, Minister, deliberately, because I thought that was the appropriate thing. If you needed to direct that to the department, that was fine with me. That was the reason that I asked you the question.

Senator Carr—As you would be aware, I personally do not administer entitlements for employees of the Commonwealth.

Senator COLBECK—If the acting secretary would like to provide me with some information on that, I am fine with that. I directed it to you, not to Professor Sackett, because I thought that was the appropriate place. If it is the departmental position, that is fine. That is the only reason I directed it to you.

Ms Weston—Professor Sackett does have a contract with the department, as she has mentioned, that does have provision for termination in it. I have not looked at the particular provisions, but there are provisions in there along that line and we will be following the lines of those, as Professor Sackett indicated.

Senator COLBECK—Are there any additional severance or termination payments that apply?

Ms Weston—I would have to take that on notice, unless Professor Sackett has that information. It is obviously personal information in relation to her. I will take it on notice and see what we can provide.

Senator COLBECK—It is also an expenditure of the taxpayers' funds, which is what this process is all about.

Ms Weston—I understand that.

Senator COLBECK—Was there a particular period of notice required under the contract?

Ms Weston—I would also have to take that on notice and look at the contract specifically. We might be able to get back to you later today on that matter.

CHAIR—Thank you. That is all for the Office of Chief Scientist. Thank you very much, Professor Sackett, and we will miss you.

[10.32 am]

Australian Nuclear Science and Technology Organisation

CHAIR—I now call the Australian Nuclear Science and Technology Organisation to the table. Thank you for coming in today. We have a number of senators very eager to ask questions, apparently. Do you have an opening statement that you would like to make, Dr Paterson?

Dr Paterson—Good morning, Chair. No, we have no opening statement.

Senator LUDLAM—Thanks for coming in. As you would expect, I would like to ask some questions that relate to the suspension of some of your health and safety representatives at ANSTO and some issues that we have been pursuing in here now for a couple of years. Do you have anything at all that you would like to say? I am a bit surprised that you do not have an opening statement, at least to address some of the concerns that were raised in the recent Comcare report about the treatment of some of your employees. Is there anything that you want to say about that before I put some questions to you?

Dr Paterson—In respect of the recent Comcare report, we issued a press release and media statement in respect of the report, and I think we would stand by what is in the media statement that we issued on 8 February 2011.

Senator LUDLAM—In which you effectively reject Comcare's report? You do not appear to have acknowledged any of the claims that Comcare have made around the treatment of your employees. Is that a fair assessment of your statement?

Dr Paterson—We engaged in a process with Comcare to seek a way of dealing with the report, which we think contains some significant flaws. Comcare has granted us a process, which is a standard process I believe that they have, of review. We are encouraged by that. We further engaged with Comcare to ensure that we can make a full submission, which is currently under preparation for that review. We have also been granted the right for it not just to be a desktop review, as was originally foreshadowed; we have a right to appear. We are encouraged by that.

Senator LUDLAM—I am encouraged as well that there is some due process to follow, but I must admit that it comes across to me as the behaviour of an agency in denial. You have effectively rejected what Comcare has put to you, so that is one damning report. ARPANSA's—the Australian Radiation Protection and Nuclear Safety Agency's—report into the same sequence of incidents was equally damning, and it appears to me that it is the agency itself that is the problem, not the bodies reviewing the way that you are treating some of your employees.

If I can come to some of the specifics, Comcare found there was no evidence that David Reid was advised of the allegations against him until he was suspended, which is 24 days after they were made. Why is that the case? Why was he not advised of those allegations until the day he was suspended?

Dr Paterson—We do not want to comment on any of the matters that are relevant in the report, because it is under review.

Senator LUDLAM—That does not buy you a free pass from the Senate estimates committee, I am afraid. I am glad that review is going on, but it does not give you a reason to not answer questions that are put to you.

Dr Paterson—The particular matters in the Comcare report are under review. At this point I would not be in a position to say whether that was a correct finding, whether it was procedurally fair or whether it was based

on documentation which was appropriately supplied—there are many matters. I would not want to avoid providing information in any way to this committee, but I believe that we should rely on the review process, which is the process that is agreed.

Senator LUDLAM—I still do not think that gives you any grounds to refuse to answer a direct and reasonable question that I put to you. Two of the allegations against Mr Reid, one of your health and safety officers, were found to be unsubstantiated. Comcare found that the suspension of Mr Reid was and continues to be extreme and disproportionate to any breach alleged by ANSTO. Why is he still suspended, nearly two years after these incidents occurred?

Dr Paterson—Mr Reid is suspended because we have been engaging with Fair Work Australia in a process which the union, we and Mr Reid have been involved in for the time since he was suspended. We need to do proper diligence with respect to those processes and it is those processes that have caused this lapse of time.

Senator LUDLAM—No, what has caused the lapse of time is that you have kept him on suspension, despite these quite disturbing findings by ARPANSA and then by Comcare.

Dr Paterson—I cannot agree with you.

Senator LUDLAM—What do you think this does to the safety culture of the organisation—that a number of people who blow the whistle on quite serious safety breaches at that facility find themselves suspended?

Dr Paterson—I see no correlation between the suspensions of the employees and whistleblowing in respect of any safety incident. It is the responsibility of every employee in ANSTO to raise any safety issues and safety concerns on a daily and an ongoing basis.

Senator LUDLAM—When they do, you park them outside the building?

Dr Paterson—No, we do not. We take safety extremely seriously and the issues that are raised by staff are taken on board. They are taken into our processes of continuous improvement. Our staff are engaged with and are in continuous conversations about how we can improve the practice and the handling of the human factors related to safety. We have training in that regard. This is a continuous process for the 1,084 staff members of ANSTO on a daily basis. It is simply not correct to suggest that the fact that a very small number of staff members are subject to behavioural suspensions that protect their fellow workers and allow us to conduct investigations is in any way related to safety practice.

Senator LUDLAM—That is what Comcare have found.

Dr Paterson—And that is why we have asked for a review of the report.

Senator LUDLAM—I am sure you have. Comcare also found that it was incumbent on ANSTO to investigate Mr Reid's allegations of bullying and harassment and that you failed to do so. Why were those allegations not investigated?

Dr Paterson—If I can just correct an impression that might have been created, Comcare specifically did not find that Mr Reid was suspended because of safety allegations. I think the record should reflect that.

Senator LUDLAM—I strongly dispute that but, as you say, this matter is under review, so we will see what the outcome is there.

CHAIR—Senator Ludlum, I know that you have a lot of other questions. Senator Bushby has indicated he has, so if we have time, I will come back to you.

Senator LUDLAM—Can I move through a few more fairly quickly?

CHAIR—No. Senator Bushby.

Senator BUSHBY—Did ANSTO conduct or commission, or was it otherwise involved in, a telephone survey on nuclear science and nuclear power in the months leading up the federal election?

Dr Paterson—A survey was conducted during the latter part of July and the early part of August.

Senator BUSHBY—On those issues?

Dr Paterson—Yes.

Senator BUSHBY—Have you released those results publicly?

Dr Paterson—We have not released the results publicly.

Senator BUSHBY—Are you going to release those results publicly?

Dr Paterson—I am not sure of the exact process we have in place. I will take it on notice.

Senator BUSHBY—Why haven't you released them publicly at this point?

Dr Paterson—We regularly seek feedback from our different stakeholder communities on a number of issues. When we conduct these surveys, we tend to cover a range of issues, including people's knowledge of and associations with ANSTO. We use that information to improve our communication strategies and to gain insight into the types of issues that the public is interested in from a nuclear science and technology perspective.

Senator BUSHBY—In terms of stakeholders, this particular survey was surveying the public?

Dr Paterson—It did indeed survey the public.

Senator BUSHBY—The survey included questions about nuclear power?

Dr Paterson—It included a range of questions, and I do believe that there were questions in relation to people's attitudes to nuclear power.

Senator BUSHBY—Are there any other surveys that you do regularly that you do not make public?

Dr Paterson—We regularly seek feedback from nuclear medicine clients, for example, about how the services are supplied to them, and how they could be improved. We tend to use those internally to improve our customer service relationships.

Senator BUSHBY—The survey that was conducted in July-August—particularly as it relates to nuclear power—are you able to indicate what those results showed about the public's opinion on that?

Dr Paterson—As I indicated, I do not have the details to hand, and we will take the question on notice.

Senator BUSHBY—Are you aware of what those results showed?

Dr Paterson—I believe that the general finding of the results is consistent with the types of press reporting we see of similar surveys.

Senator BUSHBY—Is the Victorian government's lobbyist register correct when it nominates a Llewellyn Rees as lobbying for ANSTO?

Dr Paterson—It is correct.

Senator BUSHBY—Is this the same Llewellyn Rees who was a Labor candidate in the Victorian election and who is reportedly a close friend of the minister?

Senator Carr—I am not certain that ANSTO would know who my close friends are.

Senator BUSHBY—It will be a matter of public record whether he was a Labor candidate in the Victorian election.

Dr Paterson—I did not know that he was a Labor candidate, but he certainly has worked with us in Victoria.

Senator BUSHBY—Minister, did you facilitate his engagement in any way at all?

Senator Carr—No.

Senator BUSHBY—You have had no involvement whatsoever?

Senator Carr—No.

Senator BUSHBY—What does he do and how long has he worked for ANSTO?

Dr Paterson—He has been working with ANSTO in a role and position within Victoria. As you know, in our corporate strategy, we have indicated that we should not just be a New South Wales based organisation. We have been trying to get an insight into an enhanced role in the Victorian setting. He has helped us with a number of events and presentations, specifically, for example, he assisted us with the Australian Collaboration for Accelerator Science and the launch of that initiative with the University of Melbourne. That would be an example.

Senator BUSHBY—How much has he been paid in that time?

Dr Paterson—I will take that on notice.

Senator LUDLAM—I might briefly change the subject then I will come back. Are you aware of whether or not Australia has formally withdrawn its request to join the Generation IV International Forum, the GIF? Is that something you are directly or indirectly engaged with?

Dr Paterson—ANSTO has engaged government on this matter. As we understand at the moment, government does not have an intention to move that forward at this point. That is where I believe it rests.

Senator LUDLAM—Have you advised government one way or another, or does the agency have a position on whether it would be useful for us to be engaged in that forum?

Dr Paterson—We do track it as part of our responsibility to be able to provide advice to government, so we do know about the activities of the Generation IV International Forum, which is headquartered at the Nuclear Energy Agency, Paris. They produce regular public reports. They also have, obviously, private activities, bilaterally and multilaterally, between the members of that group. It is regarded globally as the group that is doing the most foresight oriented public work for new generations of nuclear reactors. Obviously, it is important that we are able to provide input to government on the significance of that. We have no formal proposals before government in respect of membership or non-membership at this point.

Senator LUDLAM—Minister, can I put that one to you, if I can just grab your attention for a moment? Could you update us on the status of Australia's participation, formal or informal, in the GIF?

Senator Carr—I am just checking my facts on this matter. This question has been before government and still remains before government.

Senator LUDLAM—So no decision yes or no?

Senator Carr—No decision has been taken on the matter.

Senator LUDLAM—We have not withdrawn our request to participate?

Senator Carr—That is my recollection. I would like to ensure that there is no agency that has advised you of that, but it is not a position I believe I have advised ANSTO of on behalf of the government.

Senator LUDLAM—Can I ask you to put something in writing to the committee at some stage?

Senator Carr—We will take the question on notice; what the position is, if that would be suitable for you?

Senator LUDLAM—Yes, it would. That would be fine. Thank you very much. The ANSTO website does say ANSTO participates in research associated with the Generation IV International Forum, is that a correct statement?

Dr Paterson—That is a correct statement.

Senator LUDLAM—What is the nature of that research?

Dr Paterson—It is materials research.

Senator LUDLAM—Would you just give us a little bit of detail on what that means?

Dr Paterson—Yes. Nuclear materials are widely used in applications outside of the nuclear environment as well. Some of the most challenging issues in materials science are found in the whole area of developing materials for new generation reactors. We participate in that research in order to ensure that we have the capacity to work at the cutting edge of materials science in the nuclear field. Because we operate a nuclear reactor ourselves, we can derive great benefit from understanding the materials research for next generation reactors in the ongoing operation of our own reactor and improvements in the general handling of materials in the reactor environment on behalf of the Australian and the international communities.

Senator LUDLAM—Is it possible to tell us how much of your budget is spent on generation IV research?

Dr Paterson—We can take that on notice and provide you with information.

Senator LUDLAM—That is great, thanks. I realise the committee is quite short of time, so anything that sounds complex, I am happy to just have taken on notice as we go. Dr Paterson, you commenced as CEO of ANSTO in March 2009. Prior to that, you were working as General Manager, Business Development and Operations at the Pebble Bed Modular Reactor Company, South Africa, which is a kind of generation IV technology. Were you appointed in part because of your experience in that form of technology?

Dr Paterson—I do not believe that was a major issue in the interviews I went through. Obviously, it would be important for me to have some insight into research and development in nuclear issues if I was to provide appropriate leadership to the organisation.

Senator LUDLAM—Did that come up in your job interview?

Dr Paterson—It certainly does not appear in the specification of the job, and the framework within which I am operating. I had eight interviews prior to being appointed. I think in a number of those interviews people were interested in my current role, and in that context I certainly did discuss next generation reactors.

Senator Carr—Can I just indicate at that point, as you have asked about Dr Paterson's appointment process, that he has indicated to you just how rigorous it was, with eight interviews. I might say that I think we have just produced an outstanding result for Australia, and I am very pleased that he has been able to accept the role. In terms of the way ANSTO has been administered, I see no evidence to suggest anything other than the fact that we have been the great beneficiaries of his movement to Australia. Dr Paterson was appointed because of his wide range of expertise across an extraordinary number of areas. I was delighted with the recommendation that he be appointed. The government made the appointment on the basis of the breadth of his expertise.

Senator LUDLAM—Minister, apart from the process that ANSTO is engaged in now with Comcare, what has the government actually done in response to the allegations that have been raised about the treatment of employees?

Senator Carr—I would like to say a few things on this matter. Obviously, I have taken it very seriously and I have indicated that to this committee on previous occasions. I have watched this issue develop from afar, but I have sought detailed briefings on the allegations that have been made and the conduct of the individuals concerned. I have tried to advise you on numerous occasions that you should seek a briefing on these questions because you will find the situation is considerably more complex than what the media presentation on this matter has been.

I was very disappointed with the assertions that were made in the Comcare report, and I believe that ANSTO had every right to seek a fundamental review of those assertions. Particularly, I was concerned that 20 officers of ANSTO were named without being given the appropriate level of judicial and procedural fairness before the assertions were made. The report was leaked in draft form and used for blatant political purposes, which I thought was, frankly, inappropriate.

Senator LUDLAM—It sounds like you are more concerned about Comcare's conduct than ANSTO's.

Senator Carr—No, I want to make the point about the actual report itself, because there has been some suggestion that we have not taken a close interest in this matter. I have had discussions with the union concerned in this matter as well. I have not just relied upon the advice of the officials. When the secretary of the union says that this is a matter that he wishes to settle quickly, I think it should be a fair guide to you about the importance of getting this matter resolved.

Notwithstanding the fact that there is a Comcare review and that is subject to a detailed reassessment from the draft report that has been leaked to the ABC, and because of the nature of the allegations and the seriousness of the allegations, I thought it would be necessary to satisfy myself that the assurances that I have been given were in fact accurate. As a consequence, we have established an inquiry, independent of ANSTO, into the current practices at ANSTO and whether or not the provisions of its licence are being met. In both occupational and health and safety terms, and with regard to the provisions of the licence, I wanted to satisfy myself that the advice I have been receiving is in fact a fair reflection of the current situation. I will ask one of the officers to indicate the personnel who have accepted the appointment to a review panel. I want to emphasise to you that they include persons who have detailed knowledge of these issues, and a union representative is on the review panel as well.

CHAIR—Senator Ludlum, I am going to end this. We have gone into this topic before. I have two other senators with questions, and we are well over time. I need to move on.

Senator EGGLESTON—Tell me about the status of our supplies of nuclear isotopes for medical purposes? We were importing quite a lot from overseas, I believe. Are you now able to provide sufficient isotopes for domestic use?

Dr Paterson—In respect of the reactor based isotopes, the OPAL—the Open Pool Australian Lightwater—reactor has been very reliable and very productive. Indeed, our team who produce the main medical isotope, molybdenum-99, which converts to technetium-99m, now operate at four runs a week. They have been able to significantly improve yields. I am extraordinarily proud of the work of that team. On the basis that we now have four runs a week we fully provide for Australia with some two runs a week, and are now in a position to assist the Asia-Pacific region and other countries with the supply challenges that they face. I think that is an excellent story.

We continue to provide yttrium-90 for the treatment of liver cancer. About 40 treatments a week are being provided. Of course, the reactor based isotopes that are used to mitigate bone pain for people who have cancers of the bone can only be produced in reactors, and we provide them as well.

In the area of cyclotron based isotopes, we are providing F18 into the market with the PETNET cyclotrons, but we do import a number of isotopes that would require a 30 MeV cyclotron. Typically these are iodine-123, thallium and gallium. These isotopes have slightly longer lives, so we are able to import them. We are successfully importing them and providing them into the market at the moment. If there is a suitable economic case, which we are reviewing at the moment, to build a 30 MeV cyclotron, we would obviously be able to ensure domestic supply to a higher degree. That is certainly something we are paying very active attention to. I had a number of meetings this week in that regard.

I think at present there is an improvement in supply. In working very closely with a group in Germany we are for the first time starting to bring in supplies of lutetium, which is a therapeutic radioisotope which has not previously been available in Australia. So we are indeed expanding the range of isotopes that are available to Australians for healthcare purposes.

Senator EGGLESTON—That is a very encouraging story, and I congratulate you on what you have achieved from what was the situation a few years ago. What range of isotopes do we still import?

Dr Paterson—The ones that we are importing at the moment are iodine-123, the thallium produced in cyclotrons and gallium. They are the major streams of imports. When the reactor is down we import molybdenum-99, chiefly from South Africa. So we back each other up depending on the reactor cycles, and can therefore provide assurance of supply.

Senator CAMERON—I will put this question on notice. Can you tell me the genesis of behavioural suspension? When did ANSTO start using behavioural suspensions? What is the definition of behavioural suspension? Is it part of your agreement with the trade unions on the job or is it a managerial prerogative issue? What lessons have you learned from the application of behavioural suspensions?

Dr Paterson—We will take that on notice.

CHAIR—Thank you, and thank you ANSTO for coming in this morning.

Proceedings suspended from 10.56 am to 11.11 am Australian Research Council

CHAIR—We will make a start again. Thank you to the Australian Research Council for coming in this morning. Professor Sheil, do you have an opening statement?

Prof. Sheil—No, I do not.

CHAIR—Thank you. We will start immediately with questions.

Senator MASON—Minister, officers, good morning. I will commence with questions relating to the procedure in awarding grants by the ARC. Can we have a brief look at the five colleges—the ARC College of Experts. What role do the five colleges of experts play in the ARC's work? Do they assess applications and give their recommendations or do they also approve or reject applications in the respective disciplines?

Prof. Sheil—The entire body of committees that informs the two major programs in the National Competitive Grants Program—that is, discovery and linkages—is known as the College of Experts. That is further divided into five panels, committees or selection advisory committees—whatever you want to call them—based on clusters of like-minded disciplines. Their role is to review the information that we seek on proposals and then rank those proposals based on their own judgment and the information that is provided to them. The information that is provided to them is assessments by other reviewers, either national or international experts in the field. After we receive the reviews for a particular scheme, the applicants are provided with those written reviews and they provide a rejoinder. The members of the college of experts look at the review material and the rejoinders, and they also read the proposals and form judgments about the proposals themselves. Then they provide a ranking which is then consolidated together with the ranks provided by expert reviews and other members of the college. That is consolidated using a formula known as the weighted average per cent rank, which creates a ranking that the committees consider. Then each of the committees meets, depending on the scheme, either in April or in August. The committee is present, together with an executive director or me, depending on who is looking after a particular committee, and our staff. We consider the proposals in turn, based on the ranking. We start at the one with the highest rank.

Senator MASON—Who makes the decision?

Prof. Sheil—The committees form the rank.

Senator MASON—They form a rank, but that is not my question. They form a rank—I understand that.

Prof. Sheil—They would form the rank and make a decision on whether they agree that it is fundable—that they want to recommend it for funding—and what level of funding should be allocated. At the end of that process we then have five sets of ranked proposals. We have a reserve list of fundable proposals. The executive directors then take that information and make recommendations. We have a process for balancing between schemes based on quality and so on. The scheme executive director—in the case of discovery it is Professor Wells—recommends to me, and then I review that information. If I am satisfied, that information is then recommended to the minister as the grants that we approve.

Senator MASON—It goes from these committees, in effect, to Professor Wells; then to you, Professor; and then, finally, to the minister?

Prof. Sheil—Yes.

Senator Carr—I have undertaken that if I disagree with those recommendations I will publish the direction as to why I directed the ARC other than to accept the advice. Senator Mason, you will not mind me making this point to you: under the previous government there were 10 occasions where the minister chose to intervene.

Senator MASON—I recall.

Senator Carr—I have made it clear that we will accept the advice of the ARC unless I am prepared to publish the direction as to why not.

Senator MASON—Minister, have you, in any case, not acceded to the decision of the ARC?

Senator Carr—No.

Senator MASON—You have not exercised that discretion yet?

Senator Carr—I have not had the need to exercise that.

Senator MASON—Professor, who selects and appoints members of the colleges and on what basis? How do you do that?

Prof. Sheil—Up until last year the process was that we call for nominations through the institutions. They are submitted to the—

Senator MASON—Institutions through the university?

Prof. Sheil—Through the universities, yes, but other institutions can nominate. CSIRO, for example, has had members of the college. They are received and collated according to their areas of expertise. Again, those applications are considered and ranked by the executive directors. A committee within the ARC then looks at the balance across the various schemes. For example, we try very, very hard to ensure that we have adequate gender representation on all our committees. Also, where we can, we want to ensure that smaller institutions are represented appropriately. We may balance off; we may have a situation where we have two experts who have about the same level of expertise but one is from an institution where there are no other representatives on that committee. So we like to ensure that we have as much representation as we can. Also, from a practical level, because the college members cannot deliberate on any applications from their own institutions, if you have three or four people from one institution on a particular committee then you cannot function; you cannot get the spread that you need. So we have to balance off. It is not a straight academic merit issue; it is about a balance. This year we also introduced an additional step for the members that are appointed from this year where we sought referees' reports on the applicants.

Senator MASON—The institution itself does not nominate the experts, but it is self-nominating?

Prof. Sheil—They are nominated through their institutions. The deputy vice-chancellor needs to certify to us that they are comfortable that this person could be represented on the committee, yes.

Senator MASON—Do you get many more applicants for those positions than there are positions available?

Prof. Sheil—Yes, we do.

Senator MASON—Do you seek to balance, for example, Group of Eight universities and other universities?

Prof. Sheil—We do.

Senator MASON—That is part of the balance?

Prof. Sheil—Yes.

Senator MASON—Would you be able to provide to the committee, for all the rounds in the last two years, the list of all the successful applications as well as the list of applications that were rejected? Would that be possible, not now but on notice?

Prof. Sheil—We do not normally provide, publicly, the details of unsuccessful applications. We have, and we table at the appropriate time in parliament—and it is also on our website—all the successful applications, but we do not provide public information in relation to unsuccessful applicants.

Senator MASON—Why?

Prof. Sheil—Because of the protection of the applicants.

Senator MASON—I am a politician, so I am used to my failures being made public.

Senator Carr—This is a pattern that was established by the previous government. One of the issues I had to deal with in revealing the 10 occasions on which previous government ministers intervened to overturn ARC decisions was the issue about identifying persons who had been rejected by government or political intervention. This is a longstanding issue. I do not believe we have ever revealed by name candidates who were unsuccessful, particularly by grant. In terms of the provisions, I would want to maintain that. If there are particular questions that you would like a briefing on, I am sure we could organise discussion on that. I cannot provide, on privacy grounds, the information concerning unsuccessful applicants.

Senator MASON—How about the title of the application? Is that possible, or would that give the game away?

Senator Carr—It is pretty commonly known.

Prof. Sheil—We do provide all the details at an institutional level of how many applicants are received for a particular scheme from a particular institution, but we do not identify the individuals.

Senator JOYCE—Would you also be able to provide a private briefing on the events surrounding the resignation of Dr Clive Spash from the CSIRO?

Senator Carr—It is a matter for the CSIRO. Could I just make this point to you: I have never denied a briefing to any member of the Commonwealth parliament in the time that I have been a minister.

Senator JOYCE—So you would be happy to provide me with one?

Senator Carr—I would like to talk to the CSIRO about the particulars, but I personally do not have a difficulty. I think most of the stuff on the Spash matter is on public record. Before I confirm it, could I just indicate that there is nothing else that I do not know about. As I say, my record is that if members request a briefing they get one.

Senator MASON—I will move on now to the ERA, the Excellence in Research for Australia initiative. I think we had a discussion last time about the methodology that has been used. You said in response to a question:

We are noting that feedback and we will take that into account before we have another round of ERA, if indeed that is the decision.

Professor, can I just share with you some of the conceptual and mythological problems that some distinguished researchers—I am sure you would be aware of them—have with the process. This is not my area. Research methodology is not something I am an expert at, so forgive me if I perhaps do not sound as informed as I should. Professor Lord May of Oxford University said this, and I would like your comments, if that is all right. He said: ‘I was distressed against this background of Australian excellence to find the current ERA in Australia to have a very significant component which relies on a form of bibliometric analysis which borders on the lunatic. It may seem attractive to avoid the subjective judgement of peer review by simply asking not what was in the papers people published but which journals they published them in. The problem with this is that you need to have a sophisticated awareness of the interrelationship between journals, impact factors and the character of the journal. You cannot compare the impact factor of journals in different disciplines.’ He concludes by saying: ‘There is no substitute for peer-reviewed evaluation of the body of the work, and simply looking at the journals the work is published in not only is foolish but is increasingly putting impossible pressures upon the journals themselves.’ I notice that Professor James Allan, Garrick Professor of Law at the

University of Queensland, makes a similar point about the importance of peer review, as opposed to the weighting of particular journals. Could you reply to that?

Prof. Sheil—First of all, with great respect to Lord May of Oxford, he is missing a couple of elements of the ERA process in that analysis. The first thing is that we have not simply done a metrics based exercise. We have taken bibliometrics where they are appropriate, whether they be citation rates or ranking of journals—we particularly did not use impact factors; we used discipline recommendations on journals—which, together with other information, was considered for each field of research by experts. It was not simply a metric exercise. That criticism, which we get periodically from people that are not close to the process, assumes that we just looked at the metrics and did not have expert evaluation of the metrics. That is the first thing.

Senator MASON—It is a metric. There might be expert evaluation of the metric, but I think Lord May is saying that there should be the peer review.

Senator Carr—And there is peer review.

Prof. Sheil—Secondly, we consulted with each like-minded cluster of disciplines and asked them what they felt were the most important indicators for their discipline. If you look at the physical scientists, they were completely comfortable with the metrics, with citations, with where people publish, with income and so on, so that is what we did for the physical scientists. For the humanities and social scientists, they wanted peer review, and we indeed did that.

Senator MASON—At what proportion?

Prof. Sheil—Twenty per cent of the outputs in that unit evaluation were peer reviewed. For 56 of the 157 disciplines we had peer review. That was predominantly the social sciences and the humanities and the pure mathematicians. Other areas of maths said they were comfortable with metrics; pure mathematicians wanted peer review. So it was done for the purpose of what the disciplines themselves felt comfortable with.

Senator MASON—Are they comfortable with 20 per cent?

Prof. Sheil—We did not get any feedback around that. If you look at the British Research Assessment Exercise, the number of outputs is five per person. It is not a very high proportion either.

Senator MASON—To be fair to him, I think what Lord May is saying is that the attempt to quantify—to use your word—metrically, in effect, or on some sort of metrics, is simplistic, and that peer review, for many disciplines, is a far better process—although I suspect peer review has its own problems, to be fair. I am aware of that, Minister.

Prof. Sheil—The other thing I want to say is that many of the elements that generate the metrics are themselves peer reviewed. I talked to you about the extensive peer review of the ARC grants. The information around ARC fellowships, for example, was one of the metrics. All the articles themselves are peer reviewed. We do know that peer review is more rigorous for some journals than for others, so that was some of the basis of the ranking.

Senator MASON—I do not think that peer review is just about the peer review of the journals; it is peer review of the work. That is a different thing.

Prof. Sheil—But we know about the level of peer review that goes into each article that then is submitted for a particular journal. That was my point.

Senator MASON—It is a different issue; I follow you. Would you say then, for example—and this is something I know only a little bit about, but I have some familiarity with it—that the *Griffith Law Review* is equivalent to the *Yale Law Journal*?

Prof. Sheil—The journal ranking exercise, as we have talked about in this place before, went through a fairly extensive process. I think it would be fair to say that the area of the general rankings where there has been the most concern about the outcome has been in law.

Senator MASON—Is that right?

Prof. Sheil—Yes.

Senator MASON—That was the only thing I know anything about; and not very much there either.

Prof. Sheil—Apparently the Griffith journal of law is not on the list. It does not meet the criteria for peer review.

Senator MASON—To be fair, I made that whimsical statement, but Professor Allan says that the process ‘grossly overweights Australian journals’ and:

The journal list created by the ARC for law would not be taken seriously by any American or British legal academic.

I think that is fair as a general criticism, but the weightings struck me when I saw the list.

Prof. Sheil—Sorry, the *Review* is not on the list. *The Griffith Law Journal* is on the list.

Senator MASON—It is.

Prof. Sheil—Regarding the criticisms of the journal ranking—as I indicated, out of 22,000 journals there are a relatively small number where we have had repeated criticisms—it is the case that some critics say that we have not got enough Australian journals on the list and that it is too focused on international journals, and other critics say we have too many Australian journals on the list. It depends very much on the perspective of the person who is making the criticism.

Senator MASON—That does not answer the question. It is open to interpretation, sure, but we have to do our best.

Prof. Sheil—We did do our best. We did an extensive consultation over the journals.

Senator MASON—So, you were happy with the ranking of the law journals?

Prof. Sheil—As I said, the law journals ranking was the one where we had the most divergence amongst the law community. The Council of Australian Law Deans was the body that did it.

Senator MASON—It is strange. It is the only thing I know anything about, but I know from friends and so forth and legal academics that there is quiet outrage at the ranking. They think it does not reflect quality at all. I am being frank; I am not making that up—that is a frank assessment from many people.

Senator Carr—I think in our last conversation on this matter you made the point, and certainly across the table we made the point, that this is a highly fractious group of people. Just as you say there are people who will complain about the composition of this from one direction, there will be others who will complain from another. In general terms it would appear, from the advice that I am getting, that it is about right. However, we are open to further conversation about these matters. All of these things are subject to—

Senator MASON—I was going to ask that, so you are still prepared to—

Senator Carr—That is the nature of the beast.

Senator MASON—A rolling gauge.

Senator Carr—You have got to constantly engage with us. No one has a dogmatic attitude on this. On the available evidence to me, the balance is about right.

Prof. Sheil—We have opened the consultation on the journal rankings. We opened it on 14 February. We were already taking feedback and talking to peak bodies. I believe that the Council of Australian Law Deans will take a much more proactive role from the outset this time.

Senator MASON—Just to make it clear, you are saying that the ranking of law journals is a product of the Council of Australian Law Deans?

Prof. Sheil—They advised us.

Senator MASON—Did you adopt their recommendations in toto?

Prof. Sheil—I would have to look at each individual journal to tell you if that was the case. We did have another process because we had additional input into the exercise from 700 peer reviewers who looked at the lists. There was additional information provided, as well as that from peak bodies. Ms Harvey can tell you about the tender process for how we are going to engage the peak bodies in the next exercise.

Senator MASON—No, that is fine; if you tell me you are engaging, that is fine.

Ms Harvey—It is an open tender.

Senator MASON—I understand that. I have plenty of criticisms here. This sounds like I am trying to pull this apart. We would hate to be stuck on the lawyers, wouldn't we, Chair? It would be very dangerous to be stuck on the law journals.

I will just mention a couple of last ones. Dr Terry Cutler, who, of course, the minister knows well because he chaired the Cutler review, criticised the ERA because it is disciplined based and therefore reinforces

disciplinary silos and cannot properly recognise the cutting edge research that falls outside of conventional disciplines. You would be aware that he has made this criticism. Let me quote:

In particular, this framework cannot naturally account for extra-disciplinary inquiry or cross-boundary collaborations. The result is we will continue to fail to recognise or value the nature of the synergies that drive much of what we recognise as innovation.

Do you understand the criticism?

Prof Sheil—Yes.

Senator MASON—And a lot of research these days is at the borders of disciplines.

Prof Sheil—Yes, we understand that. I think Dr Cutler pointed out environmental science, which is actually covered as a discipline in itself, and includes the social sciences. It is probably the most interdisciplinary discipline. We know that now. We did not know before the extent of interdisciplinarity because we did not have any sense of how big an issue this was and what the scale of the problem was. We know now how big environment science is. It also includes quite a bit of management, as you would expect, and social science. We know how many of the environmental science publications also include a social science component.

Senator MASON—Did you try to take account of Dr Cutler's concerns?

Senator Carr—Some of the concerns are just misplaced—factually inaccurate. Secondly, the nature of this process is that we want to engage with people.

Senator MASON—That is why I am raising it.

Senator Carr—There is no problem about that. Personally, I am not the slightest bit defensive about the fact that people want to debate these issues, because this is an incredibly important instrument and I think it has been incredibly successfully administered. It has huge implications for universities and for research. This is a very, very important public policy tool and I think it has gone extremely well.

Senator MASON—I agree.

Senator Carr—People want to argue the toss—Lord May, I think, from the quote you have given, does not have the complete information as to what is actually happening here. That is a process of discussion that the ARC is prepared to engage in with individuals and I am certainly prepared to engage in in terms of the government. We welcome that conversation and we, frankly, think this is a measure of the success of ERA in that people are prepared to discuss these things in a serious way.

Senator MASON—Good luck with the lawyers, Minister.

Senator Carr—Lawyers, professionally, are in the business of argument. I expect nothing less.

Senator MASON—I know we only have a minute to go, so I just raised Dr Cutler's objection. I have one last objection. It is what people call the Robert Manne problem. Professor Manne, as you know, was a high profile public intellectual. He was sometimes left and sometimes right, I understand, in his political persuasion, so this is not a partisan or ideological question. He is quite prolific. Most of his output, as you know, is not in learned journals; it is in newspapers and television. If he were to be ranked by the ERA he would be virtually invisible yet, his impact—for good or for bad, let us not get into that—can be significant. What do we do with a Professor Manne-type figure? Do you understand the issue?

Prof Sheil—Yes, I understand the issue. Most public intellectuals also publish in the peer-reviewed literature as well.

Senator MASON—Yes, but not all.

Prof Sheil—It is not universally the case, but that is really an issue for the institution. If they are quite comfortable—and I would be if I were a deputy vice-chancellor and I had Robert Manne amongst my group of academics performing unbelievably important public discourse—that is up to the institution.

Senator MASON—You are generous, Professor. What happens if he does not bring in the money because the ERA says that he is not worth the money?

Senator Carr—ERA will not tell you—

Senator MASON—There could be implications for funding later on.

Prof Sheil—It depends—

Senator Carr—It would not be on that basis.

Prof Sheil—The other thing is if there is a research element in his portfolio, as is the case with the creative artists and the musicians and so on, that can be included in the portfolio. It is whether it is original research is the key.

Senator MASON—Yes.

CHAIR—Senator Mason, I think we have time for one more question.

Senator MASON—I was just getting started. I just wanted to say to the Professor that academics can have enormous influence in public policy and public discourse, yet publish virtually nothing. It is a fact. The ERA process really does not—

Senator Carr—It is a measure of quality. It is about quality assessment. The whole process is a different set-up entirely.

CHAIR—I thank the ARC for their appearance here today.

Ms Weston—Can I answer that question for Senator Colbeck?

CHAIR—Yes, please; go ahead.

Ms Weston—Senator Colbeck asked a question about Professor Sackett's termination arrangements. I can read from the contract that the Chief Scientist may terminate her engagement under this deed for any reason at any time. It does not require a provision for notice. Of course Professor Sackett will be entitled to other entitlements such as leave. If she has some accrued leave that is what she will be paid out.

CHAIR—Thank you, Ms Weston.

[11.39 am]

IP Australia

CHAIR—We welcome IP Australia. Do you have an opening statement you would like to make?

Mr Noonan—No, thank you.

Senator MILNE—I just want to go to the vexed questions that arose in the context of the research and development bills; they are still unresolved in the parliament. The issue of intellectual property went to the question of a change whereby intellectual property generated in Australia would no longer have to be registered in Australia but could be registered overseas.

Senator Carr—Could I suggest that this is a matter for the R&D tax credits issue? It is not necessarily a question for IP Australia I would not have thought?

Senator MILNE—Are we not dealing with intellectual property?

Senator Carr—That is a different policy area.

Senator MILNE—It is not really; they are going to advise on intellectual property. If that is appropriate, Minister, then I will go to that, but I just want to ask—

Senator Carr—The question of beneficial ownership test, I think, is probably handled by other aspects of the department—is that correct?

Mr Noonan—That is correct, yes. IP Australia is responsible for the registration of IP applications and for questions around policy about what should be able to be registered or not but the question of the application of that in a program setting is more for the department.

Senator MILNE—So you cannot advise me as to what the likely impact is—

Senator Carr—Outcome 1 at two o'clock is where the appropriate conversation would take place.

Senator MILNE—Could I just finish what I was saying. So you cannot advise me, you are saying, on the likely impact of registering IP overseas and not here?

Mr Noonan—That would be a matter for the department to address.

CHAIR—Are there any more questions for IP Australia? Thank you very much for coming.

[11.43 am]

Department of Innovation, Industry, Science and Research

CHAIR—I will now ask the science and research area of the Department of Innovation, Industry, Science and Research to come to the table for outcome 2. I welcome the department. Is there an opening statement you would like to make?

Ms Weston—Thank you. I do not have an opening statement other than to note to the committee that the secretary is on leave and he wanted me to pass on his apologies for not being able to be here with the committee today.

CHAIR—Thank you, Ms Weston. I think Senator Mason has questions.

Senator MASON—Thank you. Minister, this is really a continuation of our discussion five minutes ago with the ARC, if we could just go back a second. Minister, does the government see the latest ERA ranking result showing a third of Australian universities being deemed world class as a good result?

Senator Carr—Yes, I do. I can observe a couple of things. Firstly, it demonstrates that we do have very high-quality research institutions in this country and that by international standards—and this is the key measure—we do achieve a great deal. Similarly, I put the view that ERA highlights our weaknesses, and that is just as important. It is no good just constantly congratulating yourself; we have to identify where we are strong and we have to identify where we are weak. This is a tool which I trust will be useful to university administrations, to university academics, to students and to companies. It is very important in terms of our relationships and in terms of building a more productive economy that we are able to ensure that our university system plays a prominent and appropriate role within the innovation system. It is also an important tool for government because it will identify areas, and particularly the weaknesses, which will be helpful for future policy making.

Senator MASON—I think about a third are deemed to be world class. Does the government have a specific goal to increase that to, say, 40 or 50 per cent?

Senator Carr—Can I come back off that point about the third, because this is not about a leagues table. We strongly resist that interpretation. I know it is particularly popular in some sections of the media to try to reduce everything down to nice simple formulas to put on a front page.

Senator MASON—Probably some of the universities as well, Minister.

Senator Carr—Some of them take particular pride in pointing out that they are No. 1, that is true.

Senator MASON—Which is understandable.

Senator Carr—The fact is that all our universities ought to have real areas of international or internationally recognised strengths. The objective that the government is pursuing is excellence and we want to pursue excellence for all our universities in particular areas. We want to work with them to identify what those areas are and we want universities to take more responsibility for ascertaining what their strengths are and devoting resources to those strengths, but it is a negotiation. That is what the compacts are for.

Senator MASON—I was going to get to that.

Senator Carr—So it is about a dialogue with the universities rather than dictating. That is what I talked about in terms of institutional autonomy and academic freedom; those principles are extremely important but we have to balance that as well with the propositions that go to resource allocation.

Senator MASON—Let us get to that. How are the ERA results going to influence government research funding in the short term and indeed in the long term? What is the government vision of how the ERA results should be used to direct research funding? This is a pretty critical question.

Senator Carr—Yes, of course it is, and what we are doing is working with the universities about how that is to be done.

Senator MASON—What do you mean? It is a bit opaque at the moment.

Senator Carr—It is because I am not going to predetermine an outcome of a consultation, because that is not a consultation. In regard to aspects of our program, we want to start in the SRE and move on to the Research Training Scheme and other areas—discrete areas—and develop models, in consultation with the universities, that will ensure that we are getting it right.

Senator MASON—Thank you; I appreciate that, but that does not quite answer my question.

Senator Carr—Can I just let the officers explain what they are doing directly with the compacts and with the universities?

Senator MASON—Ms Baly, did you hear my question?

Ms Baly—Yes, I heard your question.

Senator MASON—I know the minister does not like it, but regarding the ERA findings—which are in effect a leagues table, a list of achievement—how does that relate to government funding?

Ms Baly—I will just make a couple of comments both in terms of the block grant funding and in terms of the compact process that we are in the middle of doing at the moment. As the minister has said just now and publicly on a number of occasions, the results of the ERA will inform future funding for a number of government programs. The two that have been mentioned have been the Sustainable Research Excellence initiative and the Research Training Scheme. The allocations for all of those block grants for this current year have already been determined and universities have been advised of those.

Senator MASON—Sorry; could you just go back and repeat those two.

Ms Baly—The Sustainable Research Excellence initiative and the Research Training Scheme.

Senator MASON—So those two will be influenced by the ERA results?

Ms Baly—They will be, but the outcomes of the block grant allocations for 2011 have already been advised prior to the results of ERA being available.

Senator MASON—I understand that.

Ms Baly—So ERA is not going to influence the allocation of funding for this year, for 2011. During 2011, we will be working with universities through a consultative process to work out how ERA will be incorporated into the allocatory formulas for those block grants.

I think it is too early to speculate on what that might look like because we are at the very beginning of thinking about it. We have only had access to the results for a couple of weeks and so our thinking is still in its early days, but we certainly will be doing it in consultation with the sector. We will put out a discussion paper and consult in the sort of way that we normally consult with universities.

Senator MASON—On the question of, to use your words, the allocatory formula, would it be right to say that more money would be given not to the universities with the best results per se but to those who have improved the most; in other words, those who have come from a low base and may not have received much research funding in the past but have jumped up 15 places? Do you have any idea how the allocatory formula is going to work, because everyone is interested in this?

Ms Baly—That is right. I think it is too early really to speculate on that. We will not have any information on improvement until another round of ERA. This is effectively baseline information that we have got. Over time, whether it is used to reward more to those that have improved the most, as you say, is something that is a policy consideration for the future.

Senator MASON—The government thus far does not have a formula with respect to granting money from the initial ERA results?

Ms Baly—No.

Senator Carr—Senator Mason, we simply cannot pre-empt the consultative process by determining the formula.

Senator MASON—Let us look at compacts.

Ms Baly—Can I just finish on the block grants before we go to the issue of compacts?

Senator MASON—Yes.

Ms Baly—There are already performance measures in most of the block grant formulas, so it is not a new thing for universities to have their money allocated on the basis of some sort of performance measure or measures. We would expect that, for the two programs that I have mentioned, ERA would replace some of the performance measures that are currently in those formulas.

Senator MASON—How much money is at stake roughly?

Ms Baly—The Research Training Scheme is \$615 million and the Sustainable Research Excellence initiative is about \$120 million this year.

Senator MASON—That is \$740-odd million?

Ms Baly—The Sustainable Research Excellence initiative goes up to \$164 million next year and then it goes up again after that.

Senator MASON—If we add them together how much are we talking about?

Ms Baly—It will be about \$300 million a year from 2013 in the Sustainable Research Excellence initiative.

Senator MASON—The Research Training Scheme?

Ms Baly—The Research Training Scheme will go up by rate of indexation.

Senator MASON—Close to a billion?

Ms Baly—Yes, the block grants in total are about \$1.5 billion this year.

Senator MASON—How will the ERA results and funding tie in with, as the minister has mentioned, university compacts?

Ms Baly—As you probably know, we are in the middle of doing the compact visits at the moment. We are fairly early in the process. I think in total we have done about eight. We have been asking universities to have a think about targets for improvement in their ERA results as part of the compact. The draft compact makes provision for universities to identify the extent of the improvement and the areas that they want to improve in, and that has been a key part of the discussions we have had with the universities that we have met with so far.

Senator MASON—I take the minister's point about that. You are right; it is a matter of identifying strengths and weaknesses as well. I accept that and think as a policy—a goal—that is excellent.

Senator Carr—The thrust of our program is to aim for excellence, but that is not arbitrarily determined by a minister. The university administration—the university community—has to make some decisions and set priorities. If it is identified that there is a real area of weakness operating within a university, the university may well have to make some decisions as to what it does about that. It may choose to strengthen resourcing in that area or it may choose to suggest that some other administrative arrangements are made.

Senator MASON—In terms of compacts and ERA, in the end it is a decision for the universities?

Senator Carr—Not entirely. In the compact arrangements, there are national interest issues.

Senator MASON—Okay.

Senator Carr—There are genuine issues about the direction of research in this country that the Commonwealth has got a responsibility to take a keen interest in. There may be some areas, and I do not want to pick any particular area, where if this process identifies gaps in our research capabilities which this country feels we need to meet and which may not be being addressed, it may well be that in the compact process we will have the opportunity to discuss that with universities. We may have the opportunity therefore to actually build up those strengths. We are investing in a whole range of infrastructure. We have got the largest increase in investment and infrastructure since records began.

Senator MASON—This is interesting. I understand, and you are right to suggest, that particularly over the last decade both with the coalition government and now with the Labor government, universities had to make very tough decisions about where they spent their money because they cannot be excellent at everything, let us be frank.

Senator Carr—That is right. That is exactly right.

Senator MASON—I think that is right. That is fair.

Senator Carr—We are talking about research concentration here and we are saying to the universities, 'You have got to take responsibility.' We have also got responsibilities.

Senator MASON—Yes, that is what I am saying; that conjunction interests me.

Senator Carr—That is the nature of the dialogue, that is what the compacts are about. They are not just about applying abstract formulas; they are about identifying areas of capability in which the Commonwealth has a real interest.

Senator MASON—Can you give examples, where the government might say, 'We want the ANU—

Senator Carr—A question has arisen in this round about applied economics. Our business schools are not performing as well as we would like; that is one thing. There is an area with regard to education research—

which I find extraordinary given the amount of money that is spent on education teaching in this country—we have identified through this process a real weakness in our education research.

Senator MASON—What would you do? How would this work?

Senator Carr—We have not made any decision about this in the process of discussion, but I believe that ERA provides us with the tools to have that conversation. It may well be that we need to look at the issue of our capabilities in policy areas—for instance, in terms of education—where we want a dialogue with the universities about what they are doing.

Senator MASON—That is where the Commonwealth would make its interests known?

Senator Carr—It is the nature of a negotiation, as distinct from the individual universities dictating to the Commonwealth or for the Commonwealth in that matter saying, ‘You will do this or else.’

Senator MASON—I am sure it will be a gentle dialogue which you will handle very well, Minister.

Senator Carr—The truth of the matter is that the Commonwealth dollar can unlock many inequalities.

Senator MASON—I understand that.

Senator Carr—That has been a key to policy in this area for a great deal of time.

Senator MASON—So that compact process, in effect, could be used by the Commonwealth—how do I put this—to promote certain interests to the Commonwealth and to encourage universities to undertake certain research; is that right?

Senator Carr—I think there is a range of policy initiatives that we need to look at. We have not made those decisions yet but this is a tool that provides us with information which allows those decisions to be made.

Ms Baly—If I could just add to that, it is clear from the compact discussions that we have had so far that universities are actually taking this matter quite seriously, and their public interest responsibility seriously as well. They are looking quite hard at the areas where they have performed not as well as they might have expected to, and will make some tough decisions over the coming years about the extent to which they improve that or maybe leave it to others to do. I think it is happening at the institutional level already.

Senator MASON—When do the next ERA results come out?

Ms Baly—The data will be collected in 2012 and the results will come out when it is complete. It will be done by the ARC, which is why I am looking to my colleague behind me.

Senator MASON—She will know.

Ms Baly—Early 2013.

Senator Carr—No, I would like to see it at the end of 2012 or early 2013. We are not letting it get away that easily. We want to make sure we actually keep the foot on the pedal on this. The aim is to secure those results in that period, 2012-13.

Senator MASON—You will have your benchmark from this round and then you will look at improvement and so forth? In effect, the results in late 2012 and early 2013 will give us a much better profile of achievement?

Senator Carr—That is right.

Senator MASON—Madam Chair, I have some questions on the Cooperative Research Centres Program and the Collaborative Research Networks program.

CHAIR—Senator Bernardi, do you have questions?

Senator BERNARDI—Yes, if you do not mind.

Senator MASON—I yield to Senator Bernardi.

Senator BERNARDI—Thank you. Ms Kelly, I will address this to you. In an answer to a question on notice by Senator Colbeck with regard to social media use by officers of the department and employees, it was said:

During the week commencing 17 October 2010 the total time spent accessing Youtube, Facebook, Myspace, Twitter and online discussion forums and blogs was approximately four hundred hours.

Four hundred hours seems a lot of time for employees to be—

Senator Carr—Senator Bernardi, we put a letter into the paper about that. Those interpretations are widely disputed. A few facts: that is for two departments, not just one, and involves something like 2,900 people. Of course it includes all forms of social media across the 2,900 staff across the two departments and it works out to about 10 minutes per staff member.

Senator BERNARDI—I accept that it says two departments. It says that use of YouTube, Facebook, MySpace, Twitter, online discussion forums and blogs was 400 hours. Thank you for the clarification. I know that your representative was quoted as saying it is not excessive in the paper yesterday. Is there an agreed business case that needs to be provided before there is access to Facebook, MySpace and Twitter?

Ms Kelly—Yes.

Senator BERNARDI—How does the agreed business case process work?

Ms Kelly—Craig Penniford could answer that, but just to give you an example of the kind of business case that is put forward, we have in the department a public sector innovation blog in which officers across the public sector share their innovation ideas. When there is a new post to that blog we tweet people to let them know there is something new to read on it. That just gives you an example of where we have agreed on a business case to use social media. Mr Penniford can outline the actually process.

Senator BERNARDI—Can I pick you up on that one, thanks? So it does not happen automatically with the tweeting, you have to actually manually do it whenever there is an update on that blog?

Senator Carr—This is the Department of Innovation.

Senator BERNARDI—Hang on, Minister, I am asking a question, go back to sleep.

Ms Kelly—I think that is a technical question, and again I think Mr Penniford can answer that.

Mr Penniford—The situation is in the department that the three sites that you mentioned, Twitter, Facebook and MySpace, are turned off except where a business case has been forward by the relevant business area which justifies that there is a business need to utilise these tools to access particular interest groups. Patricia Kelly gave one example. Another example is that we have a Twitter feed on our business.gov.au site out to Australian business which sends news about new government initiatives and new information that industry might be interested in. That is another application of Twitter. The business area puts forward a case which needs to address what the purpose is, how they would go about monitoring it and which specific people are actually required to have access. That is then assessed in our communications area and then would come to us to turn those services on technically for those specific people.

Senator BERNARDI—Can I just go back to the question that I put to Ms Kelly? When a blog is updated—for example, the one to which Ms Kelly referred and the one to which you just referred—does the Twitter feed go out automatically, or does someone have to manually access the Twitter account and then send it off?

Mr Penniford—I am not aware if it does go out automatically from a blog.

Senator BERNARDI—Perhaps you could take that on notice?

Mr Penniford—We could take that on notice.

Senator BERNARDI—Similarly, you might be able to take on notice—you may be able to provide it now but I doubt it—which Facebook pages, MySpace pages and Twitter accounts have been approved as having an agreed business case for access by your employees and which employees have access to them.

Mr Penniford—When a business case is approved, those specified staff have access to all of the subsites in those particular areas that you identified.

Senator BERNARDI—It is a business case that is made for a particular project or communications initiative. That is a reasonable conclusion to make—is that consistent with what happens?

Mr Penniford—Yes.

Senator BERNARDI—You said before, if I understood you correctly, that the unit has to put forward the business case and say what staff they want to access it for that particular usage; is that correct?

Mr Penniford—That is correct, yes.

Senator BERNARDI—You must then have a list of which pages they want to access, because there are a million Facebook pages, for example, but they would have had a specific use for a particular Facebook page in their business case and they would have requested which people need access to it, so you must have that information.

Mr Penniford—The advice I have is that we switch that service on—MySpace, Twitter, what have you—but it is not restricted to specific web pages within Twitter. So we will turn Twitter on.

Senator BERNARDI—Okay, so you will turn Twitter on but the business case would have been made for the particular accounts required and the reason they want to access them. There must be a Twitter account that was used to justify the access needed. It would not be so that you can do your personal tweets—I do not know if you have one—but it would not be like that, it would be for the business case, so there must be an official communications channel?

Mr Penniford—The business case is usually about contacting particular groups for particular purposes rather than using specific websites, so when that approval of the business case is given staff agree that they will use these tools for official purposes. We do not monitor each and every site that they are going to. There is only a very small number of staff, less than five per cent of the people in the department, who are authorised to utilise those particular websites.

Senator BERNARDI—I am not sure you are getting my question, so I will try and be even more direct. When a business case is made, tell me that the business case does not simply allow an individual to communicate via their personal Twitter account with their friends or people who follow them? There must be a Twitter account which is required or which assembles a group of people in a particular demographic that is related to the department's business that they can then access. If it is not, it just makes a mockery of the business case.

Mr Penniford—Perhaps if I can explain it this way: I gave the example of business.gov.au, which is a particular website that contains information. In that case, there is a Twitter account that business.gov.au has, and they send that information out to a number of people who sign up to that Twitter service. So they will sign on to that website.

Senator BERNARDI—Mr Penniford, fantastic, that is terrific. I want a list of the business cases of the Twitter accounts, the Facebook pages and the MySpace pages that are actually there to designate the communications needs of the department. Because that is what you have told me, that business.gov.au have their own Twitter account; they may have a Facebook account and a MySpace account. Every business case would have had to have been made in the same manner, would it not?

Mr Penniford—I will take that detail on notice. I do not have the information on all of those individual business cases that have come forward.

Senator BERNARDI—I would appreciate that. I would also like to know the list of employees that have been granted access to communicate via those streams?

Senator Carr—We will take that on notice. Providing lists of public servants is not customary practice.

Ms Kelly—Do you want the positions of people who have access?

Senator BERNARDI—I was interested in the number of people specifically.

Ms Kelly—It is 116 people, around five per cent of our 2,900 staff.

Senator BERNARDI—That is right. Thank you for providing it. The minister just said he provided it, which is not true.

Senator Carr—Sorry?

Senator BERNARDI—You said you provided the number, the 116 people. You did not provide it.

Senator Carr—No, I said five per cent.

Senator BERNARDI—No, Mr Penniford said that.

Senator Carr—You have come in here and made assertions about these departmental officers, you have made wild claims in the newspapers about bureaucrats wasting their time.

Senator BERNARDI—Why?

Senator Carr—That is what you said here. You said, 'Wasting public servants whittling away hours on social media sites.'

Senator BERNARDI—400 hours a week.

Senator Carr—I said to you it was about 10 minutes per employee across the two departments.

Senator BERNARDI—Of 116 people.

Senator Carr—Now you have chosen to engage in this Neanderthal attitude towards the use of technology. The officers have explained to you how many people are involved and maybe you could take some lessons from that.

Senator BERNARDI—Minister, you said it was 2,900 employees and it was 10 minutes per person.

Senator Carr—This is another one of your knuckle dragging exercises, Senator.

Senator BERNARDI—Do not let the facts get in the way of your opinion.

Senator Carr—You are not picking on a bunch of Muslims here, you have got to remember that this is actually a much more serious question.

Senator BERNARDI—You are a disgrace, Minister, an embarrassment, an embarrassment to your government.

CHAIR—Can we get back to questions, please? There have been no questions asked here. Have you got more questions, Senator Bernardi?

Senator BERNARDI—I have asked for that information. Are you able to distinguish between the official usage of *Facebook*, *MySpace* and *Twitter* by the 116 staff versus the general access to *YouTube*, forums and blogs which is, as I understand the question on notice, accessible to all staff?

Mr Pennifold—We can look at the usage by the particular sites. We can look at how many people are using *YouTube*, and how many people are using *Twitter* by the amount of time that it is made up. Could I just clarify the numbers? The 400 hours was a representative week taken last year. The 400 hours represented usage across all forms of social media by some 2,900 people, because a lot of what is called social media is turned on, for example *YouTube*, which is used by many news sites to carry vision, many of the prominent news sites in Australia and internationally use that. The access to *Twitter* and *Facebook* is, however, the area that is restricted. That is just a component of the 400.

Senator BERNARDI—I understand that and that is why I was interested in whether you can distinguish between the official usage that is authorised through the business case for *Facebook*, *MySpace* and *Twitter* versus other access that is not from a business case scenario?

Mr Pennifold—We can take that on notice and provide the information.

Senator BERNARDI—If you could, that would be good. A final question, I hope it is my final question, is that some other departments have information and communication technology security policies in place and restrict the access to discussion forums and blogs, et cetera because of the concerns around the security aspects of it. Does this department have an information and communication technology security policy?

Mr Pennifold—Yes, we do.

Senator BERNARDI—Why then is your department satisfied that there is no security risk attached to accessing some of these forums and blogs where other departments are clearly not?

Mr Stirling—The access to those social media sites is through a number of electronic firewalls that manage the risk to the organisation in terms of viruses, et cetera, infiltrating via that internet access.

Senator BERNARDI—Just for my understanding, these are obviously not consistent across departments?

Mr Stirling—That is correct. We buy a commercial service from a provider to manage that risk to the organisation.

Senator BERNARDI—Can you just give me the name of that service?

Mr Stirling—Macquarie Telecom is the provider of our firewall infrastructure effectively, yes.

Senator BERNARDI—Thank you. I will put some other questions on notice.

Senator MASON—I will be as quick as I can but I may need to put a few questions on notice. I will go to the Collaborative Research Networks Program. At the October estimates, the committee was told that the guidelines with respect to the collaborative research networks have been released, applications called for and expressions of interest already received from all 16 eligible institutions. Where are we with the application process and what is the timetable?

Ms Baly—The applications for the Collaborative Research Networks program are part of the discussions we are having with universities during the compact process. As you are probably aware, that process has been delayed from the end of last year to now; we are just doing them now. As a result of the changed time for the

compact discussions, we have called for full applications from universities for the Collaborative Research Networks program and we are discussing the full applications with universities now.

Senator MASON—What is the timetable?

Ms Baly—Applications closed on 3 December and the last compact visit is some time in April. After April the decisions will be made about which applications will be funded then we will enter into a funding agreement.

Senator MASON—You say some time after April, can you do any better than that?

Ms Baly—The funding agreements need to be concluded by June.

Senator MASON—Madam chair, can I just hand something up to Ms Baly? There is a copy for the chairman as well. Ms Baly, can I just avert your attention to that? This is from the red book, the Collaborative Research Networks program. There has been so much deleted there and I cannot work out why because the CRN program never struck me as a highly contentious program at all, I have to say. Is there something I should know about?

Senator Carr—Do you want me to put that back in, do you?

Senator MASON—I just cannot work out what the issue is. Am I missing something?

Ms Baly—I do not have a copy of the original with me so I do not know what has come out, so apologies there. It may be that there was reference to third parties and we had not done any third party consultations before this was released.

Senator MASON—Perhaps it showed us how to make an atomic bomb or something.

Ms Baly—I think you are right in your assessment that it is not a controversial program and I do not think there is anything there that we would put in the controversial category.

Senator MASON—I am just surprised because it did not strike me as a highly contentious policy area at all. How are the 16 eligible institutions selected?

Ms Baly—This is a program for the less research intensive universities so—

Senator MASON—You are hoping to team them up with—

Ms Baly—To team them up with more research intensive universities. They were basically selected on the basis of their research intensity.

Senator MASON—You are looking at the 16 with perhaps the least intensive research profile?

Ms Baly—That is right. The cut off was \$2.5 million of competitive grant income plus there was also a regional overlay on that as well. There were some regional universities that had higher than the \$2.5 million and it went up to about \$10 million or something for the regional universities.

Dr Perkins—I think it went up to \$9 million or \$10 million.

Senator MASON—They still qualify in effect because they are regional and they were given a loading in effect?

Ms Baly—In effect.

Senator MASON—There was discrimination in favour of regional universities?

Ms Baly—Yes, in effect recognising some of the particular circumstances of regional universities in building up a research profile.

Senator MASON—I have got just a couple of questions on cooperative research centres and so does Senator Colbeck. Can I go to that now?

CHAIR—Yes, certainly.

Senator MASON—Can we just move cooperative research centres? The committee was informed at the October estimates that 13 applications had been invited to the next stage, the department was finalising the peer review assessment of applications that were going to interviews in November, and by December the department was going to make recommendations to the minister. I think that was the evidence from the October estimates?

Ms Baly—Yes, that sounds right.

Senator MASON—Can you update the committee with the process since those estimates in October regarding the 13 applications initially accepted for the CRC program selection?

Ms Baly—The successful applications were announced by the minister on 9 December. There were four successful CRCs from those 13 that were short listed.

Senator MASON—Is there any pattern that stands out with respect to those successful applicants?

Ms Baly—They were all good quality applications.

Senator Carr—They are all good.

Senator MASON—Are there any patterns other than that? Usually there are.

Ms Morahan—I would say on this occasion that no, there really is not any pattern particularly. There were two new CRC and there were two extension CRCs and basically they were very high quality applications.

Senator MASON—I had better have a close look and see if I can divine a pattern. I will have a look.

Ms Baly—To be successful they have to focus on an end user problem that is clearly articulated.

Senator MASON—Yes, indeed.

Ms Baly—It has to be a collaborative venture, it has to be a strong collaboration and there has to be strong partnerships between all the players.

Senator MASON—Finally, at the last estimates the committee was told that on average every five years you undertake an impact study of the CRCs. We had that discussion last time. The last study in 2006 showed that for every dollar invested in the CRC program there was a \$1.16 return in monetary terms. I think the quote was in terms of monetary benefit to Australia. So we had \$1.16 return for every \$1 spent on the CRC.

Senator Carr—That is cash, if I remember rightly.

Senator MASON—I am just going from memory here.

Senator Carr—There was also the review we did as well on top of that to cover this issue.

Senator MASON—Is another impact study scheduled for this year, because this would be five years since the last one?

Ms Morahan—Planning is well under way to conduct another study.

Senator MASON—For this year?

Ms Morahan—For this year.

Senator MASON—Great. Any idea when that will be?

Ms Morahan—In the first half of this year. We hope to have it done in the first half of this calendar year but it will really depend on workload and things like that.

Senator MASON—I understand. Regarding that \$1.16 return in monetary terms, how does it compare to other Australian government research funding programs? Do you want to take it on notice?

Ms Baly—I just want you to clarify the question. Are you just talking about the impact?

Senator MASON—I was told last time \$1.16 was the return in monetary terms. That is the evidence from last estimates. How does that compare with other government programs?

Senator Carr—Senator Mason, let me make it clear: not all programs have this cooperative nature in terms of a dollar for dollar type return.

Senator MASON—I understand that.

Senator Carr—In the research area there are different levels; the Linkage Projects scheme in the ARC, for instance, would be one that could be measured but most of them are infrastructure grant programs and do not require a private contribution as such. Some do, some do not. So it is not an easy question to respond to in the sense that the CRC program is specially designed on industry collaboration.

Ms Morahan—Senator, can I add something further? I would be very reluctant to try and compare that result to any other study that might have looked at the monetary benefits of other research programs, because you could not guarantee that the same methodology had been used, and the same level of assumptions had been used. To my knowledge, there is no study that has looked at everything on the same basis, and nor would it probably be appropriate to do so. It is extremely hard—

Senator MASON—It is fine to say that, but in the end, the parliament wants expenditure to be accountable, whether it is international comparisons, or national comparisons. Unless the parliament can be assured that the money is being well spent, then the parliament becomes suspicious. Do you understand that?

Ms Morahan—I understand.

Senator Carr—That is a very reasonable point, and I do not think there is any issue about the money in the research program being well spent. There are evaluations of a multitude in nature. There are, however, different funding arrangements for each of the block grant type payments. There is no point taking a question on notice which we know we cannot answer. We can obviously look at what we can provide for you, in terms of what is known about private sector or commercial contribution.

Senator MASON—That would be useful.

Senator Carr—The \$1.00 for \$1.16 arrangement goes to industry contributions, broadly defined.

Senator MASON—I understand that.

Senator Carr—The question is open to a whole lot of methodological assumptions. We can find out what information is available, and I do not believe it would be very much.

Senator MASON—Finally, with this review at the end of the second half of this year, if you had \$1.16 last time, you would be doing some similar analysis to look at the last five years?

Ms Morahan—Yes, in fact we are looking at all CRCs since the beginning of the program, simply because the benefits do continue to flow on.

Senator MASON—I understand that.

Senator COLBECK—Following on from where Senator Mason has been, you announced—I think you said—four successful CRC results in December?

Ms Baly—Yes, that is correct.

Senator COLBECK—According to a statement from the minister, your focus was on manufacturing innovation, social innovation and sustainable regional communities?

Ms Baly—They are the priorities for the next round, not for the round that was announced in December.

Ms Morahan—If I could clarify?

Senator COLBECK—That does put a context to that.

Senator Carr—We will get some clarification in terms of the way the community approach the issue.

Ms Morahan—For the 13th round, the priorities were manufacturing innovation and social innovation, and there were four successful CRCs announced from the 13th round. One of those was in social innovation. For the 14th round, which is currently underway, there are three priorities: clean manufacturing, social innovation and sustainable regional communities.

Senator COLBECK—Clean manufacturing?

Ms Morahan—Clean manufacturing.

Senator COLBECK—What does that mean?

Senator Carr—It is a matter we raised during the election campaign about trying to find ways in which we can assist manufacturing industries to transform their production and processes, and methods of operation, to be able to be more sustainable environmentally.

Senator COLBECK—Referring to comments by GrainCorp spokesman, David Ginns, he said that the country's defences against invasive plants, pests and diseases are under serious threat because of the government's refusal to fund the plant biosecurity CRC. Is he also right when he says the costs of this, particularly following the closure of the Biosecurity CRC for Emerging and Infectious Disease last June, is likely to be 'almost incalculable'?

Senator Carr—I will get Ms Morahan to answer your question specifically, but in general terms, this issue about unsuccessful CRCs comes up after every round. It came up when we were in opposition, and similar types of questions were undoubtedly asked by me. I can assure you of this.

Senator COLBECK—So you have no objection to us asking the question?

Senator Carr—No. I am going to say to you there is inevitability about this. What I have come to appreciate much more firmly in government than perhaps I did in opposition, and perhaps you, I trust, in a very, very distant future will get that chance.

Senator COLBECK—Perhaps I should go back and read some of your speeches?

Senator Carr—There were 30 applications for funding; 25 for new CRCs, and some 22 in the priority areas that were identified. In the end I think we funded four CRCs. The process is incredibly competitive. It is not administered by government, in the sense that we are not in any way involved in the selection process. It is a highly and jealously independent process that is determined on the merits of the claims put to the committee. There were some CRC applications that had a presumption built into them they would be funded.

I had complaints from them that they were not successful. They failed to acknowledge the advice that had been tendered to them and the processes that were engaged in to actually determine who, in the opinion of the committee, were the best CRCs to be funded. Of the 30 applications, four were successful. That is a measure of how tough it is to actually get through.

Senator COLBECK—Thank you.

CHAIR—If I could just advise the committee, I am going to leave a bit early. I will leave the committee in the capable hands of the Deputy Chair, Senator Eggleston, and the six women from the Department of Innovation, Industry, Science and Research.

Senator COLBECK—We promise not to play up on you. How many of them were repeat fundings?

Senator Carr—Two were extensions and two were new. That is the other balance that has to be kept here. The committee has to make recommendations based on a range of factors, but they have to be able to provide genuinely new work in terms of the new committee. They have to be genuinely new partnerships. There have to be demonstrable examples of how that works. Because I have had to deal with the political fallout of this, I have asked what the criteria are, and I have had a close look at that. We have had occasions in the past with biosecurity issues, for instance. Every year there will be a separate round of concerns that arise, but the fundamental problem is that there were 30 applications of which only four are going to be successful. I can guarantee that 26 people who have put in a claim are going to be disappointed.

Senator COLBECK—I acknowledge that the competition is pretty stiff, particularly given that \$70 million has come out of the CRC program over the last three years. It is going to be tight; I accept that. However, I am specifically very interested in the biosecurity area, because there appears to be a pattern in relation to the way that the government manages this. This particular one has been knocked back. There has been defunding of the CRC for Emerging Infectious Disease. There is a stalled Beale process; under the Beale report there was a huge recommendation for funding for reform of the biosecurity process. There are major concerns, particularly in the agricultural sector, about our biosecurity process and our Prime Minister actually jumping the gun in New Zealand last week on the importation of apples. The incoming government brief to DAFF on Australia's capacity to manage a disease outbreak is 100 per cent redacted. It is obviously a sensitive issue across the board, and there seems to be a concern about the government's attention to this as an issue. That is why I raised it. It is not just about what you are doing in your portfolio; it seems to be a whole-of-government approach to this particular issue which is a major concern.

Senator Carr—I just want to reiterate that there is no prejudice against biosecurity applications. In fact, the criteria that were given to me in terms of the recommendations go to such issues as the quality of the application, national interest considerations, likelihood of success and user relevance. There are a whole series of quite stiff criteria, given just how tough it is to make an application successful. In my experience there is a presumption in some quarters that they—

Senator COLBECK—That is not a sin, is it?

Senator Carr—No, but I am just making this observation. There is often a presumption about the quality of an application which is not reflected in the opinion of the assessors. Just putting in an application does not mean someone will be successful, and if you look at the odds—four being successful out of 30 applications—then it clearly highlights just how difficult it is. I will let the officers deal with the specific applications.

Ms Morahan—In terms of the plant biosecurity CRC, they have received written feedback. They have, in fact, had face-to-face feedback with a member of the CRC committee and a member of my staff. I also met with them separately, and at their invitation I conducted an information session on the 14th round, which included what people needed to do to ensure that they had a very competitive bid. I did that in Canberra for

that CRC on Monday of this week. I have also invited all potential applicants to keep in touch with the department so that we can support them through their application development process. It is in the interests of the program to ensure that we get high-quality applications and not applications that assume that because they are working on important issues they will naturally be supported, regardless of their ability to actually deliver the outcomes.

Senator Carr—The key issue here is: does the bid cut the mustard? It is not a political process. I do not intervene in the process, but when people come to you and say, ‘They have failed to fund this,’ you have to ask yourself the question, ‘Was the bid strong enough against the competitors?’

Senator COLBECK—I accept your answer, but you can forgive me, perhaps, given the issues that I have just put on the table, for coming to a conclusion about the government’s approach to these issues given that they are of obvious concern. There are a number of decisions made across a number of portfolios that reflect them.

Senator Carr—I understand the point you make. In defence of the way this program operates, there is no political intervention. It is unreasonable to make suggestions because some other department has alleged things. In regard to this department and this program, there is no evidence—in fact, there is no way in which it can be said that there is political intervention on these applications.

Senator COLBECK—By the same token, on your own admission, the government does set its priorities.

Senator Carr—We do set priorities, that is true. That is not to say that certain bids will not be funded; that is just not the case.

Senator COLBECK—Chair, I do not have any more questions on CRCs, so if anyone else has questions on CRCs then we can go to them, but otherwise I will go on to other issues. Moving to the international science program, there is still no publicly announced decision from the government on the successor program to the International Science Linkages program. Do you have a plan for the replacement program? If so, what is it and when will it begin?

Senator Carr—That is a matter for budget consideration. I am afraid I cannot help you much more than that.

Senator COLBECK—We will move on to Inspiring Australia. What processes have you put in place for business and/or scientific organisations to apply for funding or to register their interest in participating in the Inspiring Australia program?

Ms Weston—I will just let the officers come to the table.

Ms Kelly—Would you mind repeating the question, please.

Senator COLBECK—What processes do you have in place for the business and/or scientific organisations to apply for funding to register their interest in participating in the Inspiring Australia program?

Mr Smith—The Inspiring Australia budget proposal will depend on the outcomes of the May budget. The funding is not actually allocated yet. We have a commitment to it, so we are hoping that it will be before government and it will be announced. The grant components of that will follow a similar process to what currently exists with National Science Week, with state-based committees receiving competitive grants.

Senator Carr—We have made election commitments on these matters. That is a guide, but we have to await final deliberations of the budget processes.

Senator COLBECK—Are you raising questions about your election commitments?

Senator Carr—No, I am not. On the contrary, I am making the point to you that there is an election commitment on these issues.

Senator COLBECK—You have made an election commitment, but you cannot say when the program might commence?

Senator Carr—Because the budget process, as you would be familiar with from your time in government, needs to be concluded.

Senator COLBECK—The issue is whether the program starts this year or in some future year within the budget. There is a simple answer to that. The issue is whether the program starts this year or in some future year, because if it is not funded in the budget then it is going to have to start at a later time, and that will be a budget decision at that point in time.

Mr Smith—It would begin on 1 July in this year.

Senator COLBECK—If it is funded?

Ms Kelly—We are proceeding on the basis that it will be funded and it will begin on 1 July.

Senator COLBECK—Have you designed anything for it to start or determined what the process would be to get involved pending May?

Mr Smith—There are a series of consultations underway. There will be a network of state offices—representatives from each state government as a way of helping coordinate state based science communication activities. We anticipate that the existing programs for the Prime Minister's Prizes for Science and the process behind those will continue. Particularly, we would expect the existing processes for National Science Week—which is a competitive grants program of about \$500,000 a year—to continue, depending on the budget. Other elements, particularly the coordination of state based and national science communication programs, would also be supported through Inspiring Australia.

Senator COLBECK—What about things like Primary Connections and Science By Doing education programs?

Mr Smith—It is my understanding that Science By Doing and Primary Connections are currently funded by a separate process through the Department of Education, Employment and Workplace Relations. They are not currently linked to the existing Science Connections Program; they were funded separately.

Senator COLBECK—How do they interact? Obviously there would be some communication between the other agency and this agency?

Mr Smith—Exactly. They are administered through the department of education, and as far as I know through the Australian Academy of Science—particularly the Science Connections Program. The intent with the Inspiring Australia officers network is to coordinate those programs so that there is minimal chance of overlap.

Senator COLBECK—You are not aware of whether the government is looking to cut those programs or not?

Mr Smith—Not as part of our program.

Senator COLBECK—Because it is outside your portfolio, it is outside your knowledge and someone else's fight?

Senator Carr—No, we just do not have any knowledge of—

Senator COLBECK—You are not involved in—

Senator Carr—I am not commenting on budget processes, I am sorry.

Senator COLBECK—You cannot say whether they are going to cut it or not?

Senator Carr—I am not aware of any matter in regard to that particular program.

Senator COLBECK—Okay.

Senator CAMERON—Acting Chair, can I ask that the shadow minister, Sophie Mirabella, does not make the noises and headshaking that she is doing? She should not be doing that, sitting where she is.

ACTING CHAIR—With due respect, the shadow minister is not actually anything to do with the committee, she is just an observer at the moment. I am not going to make any comment on this.

Senator Carr—We do outlaw interventions from the public gallery.

Senator CAMERON—That is right, and that is what it is.

ACTING CHAIR—She is not intervening.

Senator CAMERON—She is in the public gallery, and she should behave as the public are asked to behave.

ACTING CHAIR—I am sure she will take your comments on board, and we will complete our hearing as quickly as possible. It is very close to lunch time, and it may be necessary to adjourn a little early.

Senator COLBECK—The Senator is obviously quite sensitive today. Minister, you said in your speech at the annual Prime Minister's Prizes for Science dinner in November last year that not all opinions are of equal intellectual value in scientific debate.

Senator Carr—That is true, I did. I have heard a bit of that today. You had better lead with your chin here, Senator.

Senator COLBECK—Your predictive capacity is quite astounding. I am just going to ask some questions. You need not be so sensitive. I will ask the questions, and you can answer.

Senator Carr—You do your best.

Senator COLBECK—My simple question is what do you mean in context—

Senator Carr—I think some of the first—

Senator COLBECK—I have not even asked a question, yet.

Senator Carr—You asked what I think. I am just telling you. There are some flat earth attitudes being expressed by your party—some antediluvian attitudes expressed by your party—particularly on scientific issues.

Senator COLBECK—Have you finished? I have not even finished my question yet. Who are the individual scientists to whom you are referring who have supposedly been responsible for this quackery?

Senator Carr—Quackery?

Senator COLBECK—Yes.

Senator Carr—I think there are some elements of the coalition that have been pursuing antiscientific attitudes and an attempt to belittle scientists. There has been an effort—

Senator COLBECK—We heard Senator Cameron trying to go down that track this morning. I am asking you about scientists, I am not asking you about politicians or anyone else. I am asking you about scientists.

Senator Carr—I was referring to the political debate, and by the ignorance being peddled by members of your party.

Senator COLBECK—That is not my question. I am not asking you about political debate, I am asking about the individual scientists to whom you are referring, whose opinions are of lesser value and who are indulging in scientific quackery.

Senator Carr—We have here the shadow minister's press release on the NBN, for instance. Now, I know she is not a scientist, but she—

Senator COLBECK—Last time I looked she was not a scientist, and I am asking you about scientists.

Senator Carr—I was referring to the antiscientific attitudes that are being displayed by the coalition, their hostility to intellectual debate and their disregard for the importance of science in this country. It strikes me that there are numerous examples where your colleagues have chosen to take a very backward attitude on important matters of public policy. You have sought to promote climate change denial. You have sought to promote a range of policies which are actually aimed at building prejudice and hostility to scientists. That is what I was referring to.

Senator COLBECK—Senator Cameron was not doing that this morning when he was applying New South Wales style politics to a scientist.

ACTING CHAIR—Yes, Senator Cameron?

Senator CAMERON—That is twice now. I was fairly easy about it, but that is the second time I have been accused of doing something I did not do. What I did this morning was quote from the chief executive officer of the Bureau of Meteorology—his views. I want that clear. You should stop trying to put words in my mouth, and misrepresenting what I said.

ACTING CHAIR—We would never try to put words into your mouth or misrepresent you, I am sure.

Senator Carr—What I would suggest is that you actually read the speech. You will see that I was referring to the knuckle-dragging attitudes of the coalition on science policy. Read the speech; do not just rely on some adviser's—

Senator COLBECK—I have a copy of the speech here.

Senator Carr—Well, read it again. You have indicated before that Senator Mason is one of the few people of your ranks that actually can read, so perhaps you should consult him.

Senator COLBECK—Thank you for the reflection on senators. Your colleague, Senator Cameron, has just been complaining about our questioning. It is fascinating that you sit there in the gutter with him.

Senator CAMERON—I was complaining about your assertions, which are wrong.

ACTING CHAIR—We need to move on, because we will break in about 10 minutes. If there are questions to ask, ask them.

Senator COLBECK—Of all the PMSEIC meetings held since the government was elected in 2007, how many has the Prime Minister attended in full?

Senator Carr—I would have to take that on notice, but on my recollection it is just about all of them. The last one was on the morning when the Prime Minister was in North Queensland dealing with the consequences of the cyclone.

Senator CAMERON—While Tony was looking to get funds for the Liberal Party.

Senator Carr—I think it is without question that the Prime Minister had very important business to undertake on behalf of the country in North Queensland, dealing with the cyclone and the consequences of the natural disaster. I am surprised that you would raise that.

Senator COLBECK—I am asking about since 2007. That was a specific event, and this is a legitimate question.

Senator Carr—I would have to check the record, but my recollection is that the Prime Minister was in attendance at all PMSEIC meetings. I would be very surprised—I just want to check the record, but there were occasions—

Senator COLBECK—I am happy with that as an answer. It is nothing more than that question; if that is the answer, that you are going to give it to us on notice, then I am very happy with that as an answer. Are you also able to provide us with a record of attendance of the other ministers who are members of the council? I am happy for that to be taken on notice as well.

Ms Weston—Yes, on notice.

Senator CAMERON—Can I also ask if the information is available for the attendance of ministers of the previous government at these various forums?

ACTING CHAIR—Very cunning.

Senator Carr—That is a question on notice. We do not normally go into the files of the previous government.

ACTING CHAIR—I think they are closed to each successive government.

Senator COLBECK—They are, actually.

ACTING CHAIR—If there are no further questions we may declare this session concluded. We will resume upstairs in 2R1 at 2pm, starting with Innovation and Industry. Thank you.

Ms Weston—Acting Chair, can I confirm that outcome 2 is finished?

ACTING CHAIR—Yes, you may do so.

Proceedings suspended from 12.50 pm to 2.00 pm

CHAIR—We welcome the Department of Innovation, Industry, Science and Research's innovation and industry section for outcome 1.

Senator COLBECK—Minister, you are now quite famously quoted as saying, 'I would not say anyone's job is safe.' Could you give us a sense of the implications of the funding cuts across the department for departmental staffing?

Senator Carr—I will ask the acting secretary, who is dealing with that matter, as to the implications of the reductions that have been announced.

Ms Weston—We have started to look at that in the department. A number of other factors are coming together for us to look at. We are not in a position to say what the impact will be in full, but we are looking at it. I say that because obviously some programs have been closed—the Green Car Innovation Fund, for instance—and there will be some natural attrition, of course, and we have to work out how that will fit in with our current profile.

Senator COLBECK—It is a significant reduction in throughput and programs, obviously, so that would be expected to have a fairly major impact.

Ms Weston—As I said, we are looking at it. I am not in a position to advise the minister on that at the moment.

Senator COLBECK—So you do not know when you might have that information sorted out?

Ms Weston—We have a budget process coming up, so we probably want to look at it in the light of that as well.

Senator COLBECK—But these cuts have been announced and made, and you would quite rightly—as you are—be looking at who is needed to do what in the department. The budget is four months away.

Ms Weston—That is right, but the budget may or may not bring other measures and we need to factor that into whether we move people around and how that all fits in.

Senator COLBECK—How far down the track will it be before you have this worked out?

Ms Weston—I cannot commit to that at the moment. It is certainly something we have started work on.

Senator COLBECK—I will ask you to take that on notice and see whether you can come back within the time frame for taking questions on notice and give us some response as to what you think the impacts might be. Obviously we will have another discussion in May after the budget to pursue that further, but I would have thought—

Senator CAMERON—Ms Kelly, talking about cutbacks in the department, the coalition policy was not to replace anyone who left a department across the Public Service. Did you do any analysis of the implications it would have if a policy like that were implemented?

Ms Kelly—I am not aware that we have done any analysis on that basis.

Senator CAMERON—What is the turnover in your department per annum?

Ms Kelly—The percentage for the first half of the year to 31 December was 3.6 per cent turnover, which is projecting to a 7.2 per cent annual turnover.

Senator CAMERON—Can somebody do the calculation for me: what is 7.2 per cent in terms of headcount for the department?

Mr Byron—I do not have the exact number with me, but it would be between 225 and 250 per year.

Senator CAMERON—So, if the coalition policy had been implemented, there would be 250 fewer people in the department?

Senator Carr—Every year.

Senator CAMERON—Every year.

Senator Carr—That does not include the agencies. We would need to do a separate calculation on the turnover in the agencies.

Senator CAMERON—Could you take it on notice to get us that number? I find it quite hypocritical that we are getting questions about cutbacks in the department when there was a policy out there that would have been a significant impediment to the department carrying out its duties.

Senator Carr—We are happy to take that on notice. Also, a proposition has been advanced for a further reduction in the automotive program of \$500 million out of the ATS, which would equally have significant consequences.

Senator COLBECK—I was not necessarily expressing a concern that numbers would be cut; I was asking whether, with the significant cut in programs of over \$1 billion, there would be any reduction in the number of staff required to carry them out. I would have thought that was appropriate.

Senator CAMERON—You do not need to explain it to me.

Senator COLBECK—The inference you made about my question was that I was worried about reduction in numbers in the department. I was more concerned about responsible management of taxpayers' funds and employing the appropriate number of people to conduct the business of government with the funding that was available. So I think we are at odds with our intentions there, Senator Cameron. I think it just goes to demonstrate that government cannot tell us what their reductions in staffing might be with \$1 billion worth of cuts, and you are looking to maintain big government.

Senator Carr—What you have been told is that the department will provide you with advice as it is available. The Cleaner Car Rebate did not have any staffing implications as far as I am aware. The LPG

changes will have minimal implications for this portfolio in terms of processing of additional claims. And with regard to the Green Car Innovation Fund we have to see, because a number of contracts are still to be managed and \$130 million or so of the fund is still to be administered. The combination of those two measures will have differing effects on the staffing profile.

Senator COLBECK—You could have told me that in the first place. That is a much better answer than the one I got originally.

Senator Carr—I have just answered now.

Senator COLBECK—We have been on this for five or 10 minutes. You could have given me that answer at the outset. I am quite happy to accept that in some elements you are still working it out, particularly the Green Car Innovation Fund. But the other elements you have given me now, on which there are no implications for the department—that is fine—

Senator Carr—So you do not want anything on notice?

Senator COLBECK—Absolutely—I would like to have on notice that information as it is finalised. It would have been very easy to give me some of the information you have just given me now at the outset of the process. Can you give me a sense of the number of manufacturing jobs lost since the first quarter of 2008?

Mr Lawson—Manufacturing employment is currently 994,400 persons. That is a drop of 3,600 on the year earlier. I think you asked the question with respect to a different specific date.

Senator COLBECK—What is the reference date that you have given me there?

Mr Lawson—The November quarter of 2009 and the November quarter of 2010. The labour force stats come out mid-month.

Senator COLBECK—So it is—

Ms Weston—It is 994,400.

Senator COLBECK—At November 2010?

Mr Lawson—Yes.

Senator COLBECK—And that is a drop of 36,000 since—

Mr Lawson—It is 3,600 since the November month. The measure comes out as the mid-month of the quarter, so it comes out from November for the December quarter.

Senator COLBECK—So that is a 3,600 drop over the 12 months?

Mr Lawson—Yes.

Senator COLBECK—Okay.

Mr Lawson—The numbers go a bit up and down. It is the statistical error as well as what is actually going on in the economy.

Senator COLBECK—That is 2009. I am talking about since the first quarter of 2008. Can we go back to the relative numbers. I am talking about the first quarter of 2008, so the relative reference points would be 2008, November, and 2009, November. So, as a series, you have 2007, 2008 and 2009. You have given me the 2010 figures. I can work out the 2009 figure from that, because that is a 3,600 reduction. I am looking for the cumulative since the first quarter of 2008. So, if we are talking about dates—

Mr Lawson—I would have to take that on notice. I do not have the data with me. All of this is published in the ABS statistics. The thing to beware of, if I remember correctly, is that it is not seasonally adjusted, so you need to compare like quarter with like quarter. They also suggest, because of the sample size, that you take a four-quarter moving average. But we will give you some answers along those lines.

Senator COLBECK—Thank you for that. Minister, is the BlueScope Steel CEO, Paul O'Malley, correct when he says that Australian manufacturing is at risk of being gutted without a more supportive policy framework?

Senator Carr—I think it would be fair to say that manufacturing is under considerable pressure as a result of the changes in the dollar. The fact equally remains that manufacturing remains a very significant employer within Australia and has contributed very substantially to economic growth. It is a major source of R&D and export income. In aggregate, manufacturing remains highly productive and the opportunities for very successful businesses to operate, of course, are quite widespread. There will be particular sectors—the trade

exposed sectors—that are under particular pressure with the dollar the way it is at the moment. We are looking to ensure that the appropriate policy settings are in place to give Australian manufacturers the best possible chance of securing a prosperous future.

Senator COLBECK—So you do not agree with his assessment of the policy settings—that they are almost antimanufacturing?

Senator Carr—I certainly do not agree that this government is antimanufacturing.

Senator COLBECK—No, I am not talking about the government; I am talking about your policy.

Senator Carr—I certainly would not agree with your assertion.

Senator COLBECK—I am just asking if you agree with Mr O'Malley's assertions.

Senator Carr—I think that there are measures that we are taking, particularly in regard to the R&D tax credit, which, again, I called upon the Liberal opposition to support. I know your personal views on this question are actually quite sympathetic, but it would be helpful if the Liberal opposition took a more constructive attitude on an important measure like that which would be of enormous benefit.

Senator COLBECK—Mr O'Malley cites that as one of the policy areas that is almost antimanufacturing.

Senator Carr—No, that is not the case.

Senator COLBECK—That is his quote in yesterday's *Financial Review*.

Senator Carr—Can you repeat the assertion?

Senator COLBECK—I will quote the section, if you like:

The government needs to put policies in place to encourage manufacturing rather than running “almost an anti-manufacturing policy”, Mr O'Malley said citing the proposed carbon pollution reduction scheme and the removal of research and development incentives.

It is not my assertion. So here you have a major manufacturer—

Senator Carr—I think this government is very supportive of manufacturing and is committed to a strong manufacturing sector in this country, given that it employs 10 per cent of the workforce. I would be more than happy to discuss with Mr O'Malley his concerns as reported.

Senator COLBECK—I am sure that he would welcome the opportunity. I have one question on antidumping before we move on to a different part of the program. Minister, as long ago as 2008, the government started some COAG discussions on antidumping and received a Productivity Commission report in 2009. Can you tell us where that is at?

Senator Carr—The government is preparing its response to the Productivity Commission report.

Senator COLBECK—This is one—

Senator Carr—It is a matter before government.

Senator COLBECK—I understand that it is a matter for government, but this is one policy area—

Senator Carr—No, it is before government.

Senator COLBECK—I know that you understand this, because it has come up in a couple of reports—not less than the pulp and paper industry report, where it was considered to be a major factor. In fact, I think it is referred to in this article by the steel industry. I am also aware of some concerns of the outboard manufacturing sector that they are having a flood of equipment coming in from the United States at the moment. Do we have a time frame on that?

Senator Carr—On the government's response? No, I cannot give you any more detail other than that the matter is currently before government. Perhaps Ms Zielke can assist us with the way this department is dealing with the issues.

Ms Zielke—The report was released last year. There is work underway across the various departments at the moment on preparing a response to that for government consideration of those issues. It is expected that the response will be available later this year.

Senator COLBECK—So within this calendar year we are expecting to see some response to the Productivity Commission report?

Ms Zielke—Yes.

Senator COLBECK—I suppose it is too much to ask, Minister, whether that is going to be a policy response or just a response to the Productivity Commission.

Senator Carr—My expectation is that it will be dealt with in the context of the budget. I think there have been public statements to that effect. I cannot offer any more advice than that.

Senator MILNE—I want to ask some questions in relation to intellectual property and the proposed changes under the R&D legislation. Currently, as I understand it, if the government provides R&D assistance the intellectual property generated has to be registered in Australia, whereas the proposed changes would allow for that intellectual property to be registered by a parent company overseas, for example. First, how is this change consistent with what is happening in other jurisdictions? Is this what occurs in the UK, the US and China? What is the story on this around the world—are we out of step in our current policy or not?

Mr Pettifer—Perhaps I can give a bit of background on this. This was one of the recommendations from the review of the national innovation system that was done by Terry Cutler—that we remove the beneficial ownership test for the government to provide support for the R&D. The reason for that was that there are significant spillovers from doing the R&D, and not allowing foreign owned companies in Australia to access the concession because of that test could well mean that they are doing less R&D than they would do otherwise. There are significant spillovers from getting them to do more R&D in Australia—things like skill development, transferring of skills, access to overseas technology and finance for R&D. There is a whole suite of important things like that that stems from just doing the R&D. So the ownership of it, where it is owned, does not matter. The important thing is to get the R&D done because of the spillovers. Cutler in his report said: The Panel has adopted the principle that all R&D expenditure undertaken in Australia should be supported by the non-refundable tax credit ... The Panel does not consider the focus on IP ownership is appropriate given the global nature of R&D and the movement of global enterprises across continents dependent on where the best environment exists ...

The OECD has also done a fair bit of work on the issue of the benefits that a country gets from anchoring multinational enterprise investment in the country. Under the old scheme, companies might not have been able to—if they were foreign owned, they would not have been able to—access the tax credit or the tax concession. Now they will be able to access the tax credit and hopefully will be doing more R&D. So it is a beneficial change as far as we are concerned, recognising the global nature of the R&D environment. Overseas R&D support programs—such as in the United States, the United Kingdom, Ireland and Canada—do not discriminate, so we are in line with the practice that those countries have adopted.

Senator MILNE—That is the point I was getting to: the situation in these overseas countries. So you are saying that in the US and the OECD there is no discrimination about where the intellectual property is registered in terms of any benefits for R&D

Mr Pettifer—Yes.

Senator MILNE—So, in the event that our tax concession in Australia enables a foreign owned company to develop some intellectual property here and it becomes registered in the US, for example, with a parent company, the parent company could charge a fee to the Australian subsidiary to use the intellectual property that has been developed. We are told that the tax system will deal with that and equalise that with this transfer policy.

Mr Pettifer—Through the transfer policy rules, yes.

Senator MILNE—What confidence can I have that that is actually the case? Has there been a review of the effectiveness to date of our tax transfer policy to give us some comfort that this is the case?

Mr Pettifer—I cannot really respond on that particular issue. The transfer pricing rules are administered by the Treasury, so I think that is an issue that should be taken up with them. But as I understand it the rules are very much in line with international practice in this area. There are various codes that are adopted to ensure arm's-length pricing, and I think Australia is in line with those, but I cannot comment on it much. I think it is really something that needs to be taken up with the Treasury.

Senator MILNE—Well, it is a pretty important issue from Australia's point of view because you would want to make sure that your Australian based subsidiary is not disadvantaged in that transaction. I am surprised that in developing this policy you have not got some comfort that that is the case.

Senator Carr—I believe that I have been provided advice to that effect. Further to your question as to how we will deal with unintended consequences, what I proposed is that we establish a review process through the taxation committee of the Innovation board, which has the authority and the legal right to go to the papers, the

confidential records, that relate to the operations of the new tax credit and make an assessment to ensure that the assertions that have been put to the government and to the parliament on behalf of the proponents of this—which is what I have done—can be tested against practice.

Senator MILNE—Is there a scheduled time for that to begin?

Senator Carr—Obviously you need a couple of years for it to operate.

Senator MILNE—I understand that.

Mr Weber—Senator, the position is that the review would be provided after two years of operation of the credit. That would be in the third year, once the data came through from the second year of the activities under the credit. There was an ongoing monitoring role to be put in place as well that would start from day one so that any problems with the administration of the scheme could be identified early and therefore ironed out early on in the process without having to wait for the review after two years of operation.

Senator MILNE—Finally in this regard, which industries would you expect might benefit most from this change? It has been said that Ford is one example that would be in line for it. Are there any industry sectors or companies which you calculate would immediately benefit significantly?

Senator Carr—We can look at the companies that have been publicly supporting it, and that is a fair indication of their interest.

Senator MILNE—Yes, I understand that.

Senator Carr—Biotech and high-tech industries generally would be immediate beneficiaries. The pharmaceutical industry has made very strong representations in support of the change. I think it would assist manufacturing directly and high-tech manufacturing quite specifically.

Senator MILNE—Perhaps you could respond to the question about Ford and any others you would care to name.

Mr Pettifer—The minister has responded in general terms about the particular benefits for the pharmaceuticals industry, given the overseas owned nature of much of the industry. I am not really in a position to talk about Ford. My colleague might be. The issue for me is how this would intersect with the Automotive Transformation Scheme—that is what I am not clear about.

Mr Weber—I think the big beneficiary would ultimately be small businesses and the research sector in Australia, because small businesses would be exposed to technology that would otherwise be held in headquarters and not come to Australia. Therefore, there would be that spillover effect that is precisely what we are looking for from the reform.

Mr Pettifer—The other thing to mention is that, with the applied side of research, there are significant advantages for multinationals in locating their production activities near their research activities. This was quite a strong issue, for example, with CSL, even though they are an Australian company. Being able to anchor the research activities here through giving them access to the tax credit could help anchor some other activities that then go on to generate other economic activity.

Mr Weber—As part of the consultation process, I met with the Federal Chamber of Automotive Industries, and at that meeting were representatives from Ford, Holden and Toyota. My memory of that meeting is that they were very excited about this change; they thought it was a substantial move forward.

Senator Carr—Mr Durrant can help us with regard to the interface with the ATS.

Mr Durrant—The ATS, which recently started—on 1 January of this year—supports research and development. There is some clawback in the ATS, but, in the case of the credit, the clawback is in the design of the credit scheme.

Senator COLBECK—I want to go to the car industry programs now. Obviously there have been some major reductions to those funds announced as part of this supplementary budget process. Can you give me what measures or KPIs the government or the department is going to use to evaluate success in policy terms of the New Car Plan for a Greener Future?

Mr Durrant—I refer you to the portfolio budget statement 2010-11. On page 29 of that document is a list of the program objectives. It is associated with that.

Senator COLBECK—What page are we talking about?

Mr Durrant—Page 29 lists the program objectives. Then, if you reference page 33 of that document, the key performance indicators are indicated there. The new car plan at the higher level will be judged against those key performance indicators.

Senator COLBECK—Have we started that process? Where are we at with gathering data for measuring against those KPIs?

Mr Durrant—For example, for the Automotive Transformation Scheme in the legislation, the registrants under that scheme are to report on a yearly basis to the government on a number of those related KPIs. The gathering process has started, but it will take some time for us to have some comparables.

Senator Carr—What was the start-up date of the ATS?

Mr Durrant—That was on 1 January 2011.

Senator COLBECK—Is there a proposal to update those KPIs, given the significant changes to the program?

Mr Durrant—We have not gone down that route at this stage, but something could be considered.

Senator COLBECK—It has been considerably curtailed, as a program, in length, hasn't it?

Senator Carr—There has been a 13 per cent reduction in the overall scope of the funding that is available. These program objectives cut across all of the programs in the New Car Plan for a Greener Future, which is made up of six or seven different elements. But we have to see the changes in the context of the overall—

Senator COLBECK—I am just asking if there is a proposal to change—

Senator Carr—And this is my response to you. The New Car Plan for a Greener Future is substantially in place. There have been public statements by me and the Prime Minister in regard to the future operations of that plan. Those KPIs that applied to the whole program should not be necessary to change. But we will obviously look at these things, as we do under normal review processes.

Ms Weston—We do have a process in the 2010-11 PBS. We obviously had these performance indicators. We noted in that PBS that they were baseline data for a lot of our programs. We do have a process to update those KPIs. We have a working group looking at that. I should expect that any changes will appear in the 2011-12 PBS document.

Senator COLBECK—Moving on, Minister, can you indicate how important the Automotive Australia 2020 roadmap is and what kind of priority is being given to it in shaping government policy and the department's approach to automotive policy?

Senator Carr—It remains very important. The public record statements that I have made on this remain.

Mr Durrant—The Automotive Industry Innovation Council technology roadmap was a significant piece of work that they have undertaken over the last year. They are in the process of providing some advice to the minister on potential implementation of the roadmap. The roadmap was completed just before the last election. It was a significant piece of work by the innovation council and the industry in general. Two hundred and twenty participants from 160 organisations were involved. They came up with 32 technology opportunities that they thought Australian industry was well positioned to take forward. These opportunities are ones that the industry believes it has the capability to take forward. They are in the areas of vehicle electrification, gaseous fuels, light weighting and advanced data and communications.

Senator COLBECK—Minister, is the Federal Chamber of Automotive Industries correct when it says that the abolition of the Green Car Innovation Fund is a breach of an explicit government undertaking?

Senator Carr—These are matters we have discussed with the chamber. There is no doubt that there is great disappointment. The fact of the matter is that, in light of the natural disasters that occurred in Queensland, some very tough decisions had to be made. It is a simple matter of having to choose between worthwhile activities, which is what the government has done. We have had a series of discussions with the industry and we continue to have those discussions internationally to explain why it was necessary for the government to act in the way that it has.

Senator COLBECK—Just on the new car plan in 2008 being made conditional on companies signing letters of commitment: how many of those letters were signed and what is the government's view on the car industry—

Senator Carr—All of the NVPs signed letters. We have had a discussion with the chamber about those matters.

Senator COLBECK—The government's announcement on 27 January indicated \$401 million being cut over the life of program. How much is yet to be committed?

Senator Carr—I will let the officials deal with the administration of the program.

Ms Kennedy—To date, the government has committed \$308 million in grants executed and offers. There are a further approximately \$110 million worth of applications on hand.

Senator COLBECK—Are there any contracts signed that have not yet been announced publicly?

Ms Kennedy—Yes.

Senator COLBECK—I think that we have been through this once before. Is there more than one or does that amount to one project in that 110?

Ms Kennedy—No, there are a number of applications still to be considered.

Senator COLBECK—Of those contracts, were any signed before 27 January?

Ms Kennedy—That have yet to be announced?

Senator COLBECK—Yes.

Ms Kennedy—No, I believe that all of the offers and grants that had been executed prior to the announcement have been announced.

Senator COLBECK—So there are still a number of applications within the system but they are not finalised at this stage for announcement—ready for government announcement?

Ms Kennedy—That is correct, yes.

Senator COLBECK—Can you tell me how many applications received up to and including 27 January still had not been processed at that time?

Ms Kennedy—We have six applications on hand at the moment.

Senator COLBECK—Can you tell me the value of those applications?

Ms Kennedy—Approximately \$108 million.

Senator COLBECK—So they would all fit within the remaining funds that are available.

Ms Kennedy—That is correct.

Senator COLBECK—Minister, at estimates in May last year you indicated that the coalition's proposed cuts as at May last year, as of our response to the budget, would render existing commitments unable to be met. How does that work in the context of the cuts that you are making now?

Senator Carr—It is very different. The position that was announced on 27 January included moneys for projects that had yet to be processed. Whereas your proposals, if implemented at the time, given the profile that existed at the time, would have meant that we would not have been able to execute those existing contracts.

Senator COLBECK—How do you calculate that? You are taking out significantly more than we were proposing to at the time, in May.

Senator Carr—Since that time a whole series of projects, of which you were not aware—

Senator COLBECK—We did talk about it. We discussed it during the estimates.

Senator Carr—I stand by what I said. There have been a series of contracts entered into, or were in the process of being entered into at the time those statements were made.

Senator COLBECK—Yes, but your cuts are significantly greater now than even the ones we proposed at the time.

Senator Carr—I do not think I can add any more than what I have said.

Senator COLBECK—I am just trying to get a correlation. Your answer is your answer; that is fine. But—

Ms Kennedy—The issue that was raised last time related to the profile and to the profile that the opposition was proposing in relation to the impact on the commitments on hand at the time.

Senator COLBECK—And that was discussed at estimates back in May? Okay. Going back to October estimates, we confirmed then that it was a \$900 million program in total and that just under \$300 million had been committed. There was a statement made, I think by Mr Sexton, that as a result of those grants \$507 million remained in the fund. Taking out that \$300 million at the time from the \$900 million, there should be about \$600 million left. I am just trying to work out where the other \$100 million sits as part of that process—working back through the numbers that we were given at estimates in October.

Ms Kennedy—Prior to the closure of the fund it was a \$900 million fund. The savings overall as a result of the closure are \$400 million, resulting in an allocation of approximately \$500 million.

Senator COLBECK—Okay. I will have to check where this number of \$300 million comes from. Do you have any measures in mind to determine how efficient the fund has been in reducing CO2 emissions?

Ms Kennedy—One of the criteria for consideration goes to the reduction in greenhouse gases and fuel reductions. Therefore all applications are required to address that.

Senator COLBECK—Okay, but that is not part of the KPIs.

Ms Kennedy—Not specifically.

Senator COLBECK—How much money has been spent so far on administration and advertising for the Green Car Innovation Fund, cash for clunkers and the LPG Vehicle Scheme?

Ms Butler—We will deal with those in sections. I am not sure whether I have the information available for the LPG Vehicle Scheme, so I will have to take that on notice.

Ms Weston—Senator, with the LPG scheme you will recall that some of that program is delivered in other agencies with us. So we would probably have to chase up.

Senator COLBECK—Okay. I am happy to get that on notice if that is the case.

Ms Butler—For the Cleaner Car Rebate, just so I can be clear, are you talking about the advertising costs associated?

Senator COLBECK—Cleaner Car Rebate?

Ms Butler—Cleaner Car Rebate—is that the one you mentioned?

Ms Weston—I thought it was LPG, green car and Cleaner Car Rebate.

Senator COLBECK—Sorry, I know that we have moved on with colloquialisms and that even some of Minister Carr's colleagues get it mixed up—cash for clunkers is what you are talking about.

Ms Butler—Cleaner Car Rebate.

Senator COLBECK—I know that the minister is not happy with the term cash for clunkers.

Senator Carr—It is just that it was inaccurate, that is all.

Senator COLBECK—Even Minister Garrett did not know the real name of the program when he was talking about it in the Repts.

Senator Carr—I will let you take that up with Minister Garrett.

Senator COLBECK—I do not have to; he is on your side, not my side. Let us not have an argument about it. You have your view and I have mine. It is colloquially known as what it is colloquially known as.

Senator Carr—And it is dead and abolished, so that is the—

Senator COLBECK—It is dead. We said it should be dead and it is now dead. So let us go on.

Ms Weston—On the Cleaner Car Rebate, obviously we have had some people initially looking at how the program might be designed. I do not have those costs specifically. But there is no cost for advertising or costs for the implementation and running of the program, because the program did not get to that point.

Senator COLBECK—So you did not start any advertising or anything of that nature?

Ms Weston—No.

Senator COLBECK—Fine.

Ms Kennedy—The budget for the Green Car Innovation Fund in 2009-10 was \$100,000. That was fully expended. A similar figure was available for this year. That has not been fully expended, as a result of—

Senator COLBECK—A figure of \$7 million?

Ms Kennedy—No, \$100,000.

Ms Butler—Ms Kennedy is just reporting the advertising costs at this stage.

Senator COLBECK—Okay. So advertising costs in 2009-10 were \$100,000?

Ms Kennedy—Which were fully expended. A similar amount was available for this financial year. The level of marketing activity was substantially reduced in the first half of the year as a result in the delay in finalisation of the election, and work was commencing in relation to the preparation of broader marketing material prior to the closure, which is now being reviewed.

Senator COLBECK—So there is \$100,000 available in 2010-11, and how much has been expended?

Ms Kennedy—At this stage it is only \$5,000.

Senator COLBECK—But there will be some ongoing expenses with that?

Ms Kennedy—Yes. Obviously the benefits that the program has achieved need to be made available to demonstrate the value of the government's investment in this program.

Senator COLBECK—In May last year we talked about the operating expenses for those programs. For 2010-11 it was \$544,000—is that correct?

Ms Kennedy—Before the closure?

Senator COLBECK—For the Green Car Innovation Fund.

Ms Kennedy—That is correct.

Senator COLBECK—So \$5,000 has been expended out of that. In 2011-12, there is \$543,000; in 2012-13, there is \$843,000; and, in 2013-14, there is \$543,000, and you are still calculating what proportion of that is going to be required? What is the end date of the program now?

Ms Kennedy—Following the announcement, the program runs through to 2014-15. As to the issues in relation to the budget, those details are being worked out in the context of the 2011-12 budget, as indicated by the Prime Minister in the statement of 27 January.

Senator COLBECK—And that goes back to the initial question I asked about general employment across the agency?

Ms Weston—Yes.

Senator COLBECK—How has the figure of \$96 million that you have cut from the LPG scheme been calculated?

Mr Sexton—The \$96 million was based on what would be the outcome should the scheme be capped at 25,000 units per year, which is what the government announced.

Senator COLBECK—So it is based on 25,000 vehicles?

Mr Sexton—Capping over the three years beginning in 2011-12.

Senator COLBECK—Has the department produced any merchandise in respect of these three schemes?

Ms Weston—When you say merchandise, what do you have in mind, Senator?

Senator COLBECK—Any advertising or promotional merchandise for any of those three schemes. You have said that you have not done anything for—

Ms Weston—Not for the Cleaner Car Rebate—

Senator COLBECK—The Cleaner Car Rebate. Now you have me saying it. I am sorry, Minister—I could not help myself. What about the new car plan and the LPG Vehicle Scheme?

Ms Butler—I will start. Obviously there is material up on our website and there are fact sheets that are available on the Green Car Innovation Fund and the LPG Vehicle Scheme. If that is what you are talking about as being merchandise, there is certainly material out there that informs our customers as to the requirements for each of those particular programs.

Mr Sexton—But there is no merchandise, if you are talking about products that are promoting the individual schemes.

Senator COLBECK—You might get the minister a stress ball. It has been a pretty tough time, I reckon. He could probably do with a stress ball. We now have Steve Bracks heading off to the US to do a calm-down

session with the carmakers, Minister. He is trying to convince them not to abandon Australia. You are off to Japan, I see.

Senator Carr—And the United States.

Senator COLBECK—And the United States! Can you tell us when those trips will be made and the number of people in the delegations.

Senator Carr—Steve Bracks, who is one of our automotive ambassadors or envoys, is taking a delegation of component manufacturers. It is a regular trip and it has been scheduled for some time. It is due to occur in early April. I will leave the officers to give detail on the companies that are involved, but a series of companies are going to a number of locations in the United States. As I said, it is part of a regular pattern of visits that occur in North America, Asia and the Middle East by our auto envoys as part of the New Car Plan for a Greener Future. I will be attending and speaking with the international automotive industry in Shanghai, Nagoya and Detroit on my regular trips as part of my normal duties throughout the next few months.

Senator COLBECK—Can you give us on notice the details that I have just asked for and the specifics?

Senator Carr—Why don't we give ministerial travel arrangements in advance for other reasons? I indicate to you that I have a trip organised in relation to the—

Senator COLBECK—I can always guarantee to come back to it once we get to May.

Senator Carr—I am sorry?

Senator COLBECK—There will be an opportunity to deal with the specifics of your visits in May.

Senator Carr—Yes, no doubt there will—and how many cokes I had at the minibar and all of the other things that preoccupy the opposition these days. All I am saying to you is that these trips will occur as part of our regular duties over the next three months.

Senator COLBECK—So you are rejecting the assertion that you are trying to hose people down because you have just made significant cuts—

Senator Carr—That is a description that you are using. I have said that we are—

Senator COLBECK—It is actually not a description I am using; it is a description that somebody else is using, to use the Senator Cameron defence. It is a description that someone else is using that I am repeating.

Senator Carr—I am not aware of that and no-one has put that to me. All I am saying to you is that I have indicated that we want to discuss these issues with the international companies. I will do that in the process of my normal duties and schedule meetings with the CEOs, as I do on a regular basis. My intention is to make sure that our long-term commitment to the automotive industry is understood. No doubt I will be able to take many opportunities to publicly express the difference between the policy this government has and the policy that your party has.

Senator COLBECK—We will come to that in a moment. Can I ask how much the department spends on media monitoring.

Ms Weston—I am not sure that that is on the list of things that I have. I would have to take that on notice.

Senator COLBECK—I would be fascinated to know. It was a question that I asked of DAFF earlier in the week.

Ms Weston—I think we might have an answer to that.

Senator COLBECK—I am curious because of two newspaper articles from the *Financial Review*—and I am not even referring to the government's favourite newspaper or its second-last best friend, the *Australian*, today; I am referring to the *Financial Review*, and two articles out of yesterday's *Financial Review* that the minister has no knowledge of. I am interested to know how much the department spends on media monitoring.

Senator Carr—I am aware of the articles.

Senator COLBECK—I am pleased to hear it.

Senator Carr—You would be surprised to hear that I actually read the newspapers. It is a shocking revelation to have to make.

Senator COLBECK—So you too can read, Minister?

Senator Carr—That would be an improvement on what I have witnessed here. All I am saying to you is that the description of these trips as ‘calm-down meetings’ is not one that has been put to me by any of the participants in the industry.

Ms Weston—We have an answer to your question, Senator.

Mr Murtagh—The expenditure to date in the current financial year is \$248,776.

Senator COLBECK—So far this year?

Mr Murtagh—Yes.

Senator COLBECK—Can you tell me what it was in the previous financial year—for the full year?

Mr Murtagh—Yes: \$547,153, GST exclusive.

Senator COLBECK—Who has access to those clips?

Mr Murtagh—There were 250 licences provided and 150 of those have been allocated. Across the department, there are 137 licences. There are nine allocated to portfolio agencies, seven to Senator Carr’s office and two to Senator Sherry’s office. There were three to Minister Ferguson’s office and one to Shadow Minister Mirabella.

Senator COLBECK—So there are 137 allocated out of the 250?

Mr Murtagh—There are 137 to the department and these are additional.

Senator COLBECK—What was the total allocation?

Mr Murtagh—It was 159.

Senator COLBECK—So you have 91 up your sleeve?

Mr Murtagh—Yes.

Senator COLBECK—Have you kept any records of how many ASLs in the department would have worked on the ‘cash for clunkers’ scheme? I have forgotten the name of it.

Senator Carr—The Cleaner Car Rebate.

Senator COLBECK—It might take a while, Minister.

Ms Weston—Can you repeat the question, Senator?

Senator COLBECK—How many staff in the department would have been working on that scheme?

Ms Weston—We probably will take that on notice. I said there were some people who were working on how the scheme might look, but how much of their time was involved in that as well as other duties—we will have to do a little calculation for you, Senator.

Senator COLBECK—Okay. That program was not entered in MYEFO as a line item; it was put in the contingency reserve instead. Are any other items earmarked for spending in the portfolio also in the contingency reserve?

Ms Weston—No.

Senator COLBECK—Okay. We might go on to the Book Industry Strategy Group. Has any statement been made on behalf of the Book Industry Strategy Group in response to REDgroup Retail being placed in administration?

Mr Fearn—Not that I am aware of.

Senator COLBECK—Has there been any change to the schedule of meetings as a result of these recent events?

Mr Fearn—No.

Senator COLBECK—Any changes to the terms of reference?

Mr Fearn—No.

Senator COLBECK—Has the end date for the work been brought forward?

Mr Fearn—No.

Senator COLBECK—What is the department’s assessment of how many Australian stores will be closed and how many jobs lost as a result of REDgroup Retail being placed in administration?

Mr Fearn—We have no understanding of that. My understanding from reports in the media is that the administrator for the voluntary administration is currently doing an assessment of what he will do with that organisation.

Senator COLBECK—Have you had any conversations or communication with the administrator about it?

Mr Fearn—No.

Senator COLBECK—You do not think it is appropriate to talk to the administrator to get a sense of what is happening and communicate with him? It is a fairly significant business.

Mr Fearn—We have a member of the Book Industry Strategy Group who is involved with the REDgroup but that member is there because of their understanding of the retail sector, not because of their membership of that company.

Senator COLBECK—I am not talking about that specifically; I just want to know what communication the government is having with the administrator, given that a fairly significant business is in administration, so that they can maintain contact and have an understanding of what is happening within that process. It is not unusual for a government, or a minister or their department, to have that sort of contact.

Mr Fearn—Given that we have the chair of REDgroup on the BISG, we feel that he could provide input if necessary if the members of the BISG ask for it.

Senator COLBECK—But the management of REDgroup may have a very different view of the world to that of the administrators. Wouldn't it be pertinent to be talking to the administrators, just so you have an understanding of what is going on?

Senator Carr—These are early days. What the officers would do under these circumstances is entirely up to them. But it will not surprise me if there is an opportunity to talk through that, given that we have representatives on the industry strategy group, which I understand has a series of meetings coming up in any event—a series of workshops being developed right now. So there are plenty of opportunities to do it. These events have just occurred, and from what I understand of the situation we do not know what the final form of the company will look like as a result of those proceedings. There is every hope that something will emerge from the situation as it is at the moment—a new entity will be formed. But I think it is appropriate that an opportunity be provided for those discussions to take place, and these events were announced only late last week.

Senator COLBECK—What you do is your business, Minister, but I would have thought that there would be some interest, from your perspective even, in having someone in communication with the administrators.

Senator Carr—In my experience as minister, this department is extremely adept at gathering information about what is happening.

Senator COLBECK—Except no-one is talking to the people who are actually making the decisions.

Senator Carr—These events have only just occurred, and you have to wait until the dust settles a bit before you get accurate information in any event. We have direct links to the company through the industry strategy group, and I await with interest the information brief arriving. That is the custom and practice of the officers, particularly in this division.

Mr Fearn—In addition, it would be up to the Book Industry Strategy Group, who are actually doing the report, whether they wish to talk to the company and inform themselves about what is going on so that they can incorporate that in their report.

Senator COLBECK—I understand what you are talking about, Mr Fearn, in respect of the strategy and all that sort of stuff. I am on a slightly different wavelength to you, I think, in respect of what the government is doing to inform itself of the specifics of the circumstance. I appreciate your response in respect of where the strategy group is going and the reporting process. That is one particular issue. But as to the government being informed intimately about what is happening within the administration of that business—Senator Carr has quite rightly said there may be some outcome as a result of that process, but I would have thought there would be some communication from the government directly with the administrators, because they are the ones who are making the decisions now, not necessarily anyone inside the business. Those people might be participating in that process in conjunction with the administrators, but the administrators are effectively running the business now. That is their role.

Ms Weston—Senator, can I just clarify something. You asked about contingency reserve. I have been advised that if you look in the MYEFO 2010-11 you will find that it says that a provision for remaining election commitments which will be progressed in the 2011-12 budget has also been included in the contingency reserve. So this is a matter for Finance. It may be that they have put election commitments for 2011-12 in the contingency reserve that we are not—that would be a question for the Department of Finance. I have said no to that but I might be incorrect in respect of that.

Senator COLBECK—Thanks for the clarification; I appreciate that.

Ms Kelly—Chair, Senator Colbeck also asked a question earlier about manufacturing industry employment figures back to 2008 which we can now provide some further information on. The comparative information on numbers employed for the November quarter 2008 is \$1,024,700; for the November quarter 2009, \$998,000; and for the November quarter 2010, \$994,400.

Senator COLBECK—Thanks for that. You do not have the November 2007 number?

Ms Kelly—I do not, sorry.

Mr Lawson—I do: it is \$1,050,700.

Senator COLBECK—That gives me a series. I just need go back to the Green Car Innovation Fund for a second. I need to get the number of the contracts that have been signed under the fund where details have not been announced publicly. What is the total value of those?

Ms Kennedy—Two offers have been made but contracts have yet to be signed. It is about \$5.7 or \$5.8 million.

Senator COLBECK—That is the aggregate of the two?

Ms Kennedy—Yes.

Senator PRATT—I have some questions that relate to the work of the steel and rail advocates. I am also interested in the views of the department. Late last year the Premier of Western Australia was forced to table in state parliament provisions from, I think, a state agreement act or a state development act of some sort stating that, in relation to the Oakajee port development, the infrastructure provider agreed with the state to use reasonable endeavours to secure the involvement of private or state owned Chinese companies in the project in the following areas: the provision of rail cars, the provision of fabricated structural steel, the provision of engineering and construction services and the provision of debt financing to meet the requirements of this project. What kind of bias exists here against the capacity for Australian and, in particular, Western Australian companies, particularly in the work of the rail and steel advocates?

Mr Lawson—There are a number of issues to deal with there. The first is that the project is not finalised. The Oakajee project is not finalised yet, so it is not yet clear what precise projects might make an application on the Enhanced Project By-law Scheme. However, officers of my department have been speaking to the project proponents and have made it clear that opportunities must be provided to, and be seen to be provided to, Australian industry for those projects if the benefits of the Enhanced Project By-law Scheme are to apply to that project.

Senator PRATT—Would a clause of this type preclude access under those enhanced by-law schemes?

Mr Lawson—I did not hear you. A clause that said it had to go overseas would not be appropriate. A clause that allowed exploration of overseas opportunities is not inconsistent. But our emphasis is on a two-stage process of applications under the Enhanced Project By-law Scheme to make sure that an ORP plan is put forward and has to be approved. That requires full, fair and reasonable opportunities to Australian industries. Then the plan has to be implemented before the benefits of the tariff concessions are provided. Recent changes to the scheme mean that it is now a public scheme. Whether an application has been made is public, and that provides a capacity for anybody who thinks the right thing is not happening to let us in AusIndustry know. In my view, that keeps us honest and the project proponents honest.

Senator PRATT—So, if an agreement says that the infrastructure provider and the state use reasonable endeavours, but that relates only to foreign owned companies and there is no statement about local participation in that, how would that meet the free and fair access test?

Mr Lawson—We would have concerns.

Senator PRATT—You would have concerns?

Mr Lawson—Yes. We do not need to look at what other documents are made there. Under the rules of our program, we need to look at the ORP plan and the implementation of the plan that is put to us. We pay attention to any other comments that are around, but it certainly cannot make some preferential opportunities available to overseas companies at the expense of Australian companies. It is not consistent.

Ms Kelly—Perhaps I can just add that we put this issue to the chief executive officer of OPR, John Langoulant, in a meeting in February. He did give an assurance that Australian companies would be provided with reasonable opportunities to tender for these supply articles for the project.

Senator PRATT—Does a reasonable opportunity mean equal opportunity?

Mr Lawson—It means a full, fair and reasonable opportunity. There is a definition that is not quite in my memory banks, I'm afraid, but it is very clear that Australian industry has to be given equal opportunities to any other party and full opportunities over the whole range of the program. That means through both the construction and the ongoing support phase, and through the supply chain, and not just at the prime level but also flowing through to smaller and medium enterprises who might be suppliers in that process.

Senator PRATT—I know that it is not an issue for this department, but I do note that there is some \$300 million in federal government infrastructure funding forecast for this project. Thank you for outlining that to me. I was not sure whether the steel and rail car advocates have specific views about this also, but—

Mr Lawson—The rail advocate's work thus far has been on rail rolling stock rather than on rail infrastructure-type activities. It has not engaged so far in that project. Also, we do not have a freight rolling stock production in Australia anymore, so it is mostly passenger rolling stock. In terms of the steel, I would have to check on whether there was some specific work on that particular project. The steel advocate certainly did quite a bit of work in Western Australia.

Senator COLBECK—I would like to ask initially some questions in relation to the COAG decision to go to a six-star rating for mandatory energy efficiency and how that decision was reached in the context of the cost-benefit analysis that was done in the RIS, which indicated that that would have a negative cost benefit to the economy of \$440 million.

Dr Green—There was a cost-benefit analysis done for the introduction of the six-star ratings. It showed overall a marginal cost-benefit analysis for introducing that measure. It was positive for increasing the energy efficiency regulations for commercial buildings.

Senator COLBECK—Can you just say that again. It was marginal for the—

Dr Green—It was marginal overall. It showed positive cost-benefit analysis for increasing the regulation of energy efficiency in commercial buildings. Across the whole of Australia it was marginal for residential. It was positive in some areas and it was, as you point out, slightly negative in other areas. Overall the building minister has decided to go ahead with the measure to increase the energy efficiency requirements to six star.

Senator COLBECK—How was that balanced against the cost of housing affordability? I know this is a fine balance but there is discussion—in fact in the COAG documents there is discussion of going to seven, eight and beyond. But the figures clearly show that once you get beyond five and move into six the cost benefits become increasingly more negative. People can make the decision to expend additionally on their homes if they want to. But one of the real issues we have in the country at the moment, particularly in a residential sense, is the cost of housing. The real question is how that is balanced off.

Dr Green—It is balanced off through the cost-benefit analysis process through the regulatory impact statements. There is a strategy under the National Strategy on Energy Efficiency to look at the framework for progressive implementation of energy efficiency requirements in the building sector. Energy efficiency requirements were first introduced in 2003. They were increased to five-star equivalent in 2006. They were increased in 2010 to six stars. There is currently work going on as to the way forward from here. There is also work going on on a post-evaluation of the effectiveness of those measures. We agree that as you increase the requirements the cost-benefit analysis becomes more challenging in terms of its cost-effectiveness.

Senator COLBECK—There is no question about that. Your data shows that and so does other research that I have seen that has been commissioned by other organisations that push it in that area. It is all very well to have this perception of doing the right thing, but most people do not understand the economics of this. They think it is a good idea to be as energy efficient as possible, and I do not have any qualms about that, but it is a matter of where you place the settings in an overall economic sense. The figures clearly show that once you get past five it starts to become very marginal.

Dr Green—And I think the regulatory impact statement that you referred to shows that. Six stars is the current requirement. There is also work going on on the way forward from here, and there is also work going on on an evaluation of effectiveness.

Senator COLBECK—So rather than just the star rating, what work is being done on other energy efficiency policy options?

Dr Green—There is a comprehensive range of measures that are outlined in the National Strategy on Energy Efficiency. You should take those up with the climate change department, which has responsibility for that policy.

Senator COLBECK—I will do some work on that but that ends up getting driven back down to here. If the decisions are not made at this level—I mean, you are effectively given the responsibility for implementing those decisions, aren't you? That is correct, effectively?

Dr Green—All of the regulatory measures for the Building Code are subject to COAG regulatory processes, including a cost-benefit analysis that is reviewed by the Office of Best Practice Regulation. As I said, at the moment the regulatory impact statement, which is on the public record, for the decision for six stars described it as showing overall a fairly marginal cost-benefit analysis. The decision was made to go ahead with six-star implementation. That is where it currently is. There is work going on to evaluate the effectiveness of the energy efficiency requirements that have been progressively implemented in the Building Code since 2003. And there is also work going on on the appropriate strategy going forward from here for energy efficiency regulations in the Building Code.

Senator COLBECK—Do you have any specific figures on the impacts on residential buildings costs?

Dr Green—I do not have those in front of me here.

Senator COLBECK—I was not going to pressure you to give all that stuff to me now but I am looking to get a sense of what your numbers might be for the progressions that are being considered in that process. Do you have any costings or figures that you have done to give a sense, particularly in residential construction, of the costs of the increments in those star ratings?

Dr Green—The costs for the decision for six star are outlined in the regulatory impact statement for that, which is on the public record.

Senator COLBECK—Yes, I have seen that.

Mr Ashe—The analysis of the six-star provisions and the costs was provided in the regulatory impact statement.

Senator COLBECK—Yes, I have got that.

Mr Ashe—The Australian Building Codes Board has not undertaken any analysis of what it would cost to move beyond six stars.

Senator COLBECK—Would you expect that that work would be done prior to any decision being made to take that step?

Mr Ashe—As outlined by Dr Green, that issue is being addressed by the Department of Climate Change and Energy Efficiency in the development of the framework.

Dr Green—All of the regulatory decisions by the codes board are undertaken through cost-benefit analysis. If there were a further policy initiative to go further on energy efficiency, that too at that time would be subject to rigorous cost-benefit analysis.

Senator COLBECK—I appreciate that but I make the point that we are in really marginal territory already by having moved from five to six, according to your own RIS and the evidence you have given us today. There has been some comment in the media recently about potential changes in relation to codes for cyclone areas. Can you give me a sense of what has prompted that discussion? Obviously Yasi is a major event, but could you give me a sense of what your perspective might be on that particular issue?

Mr Balch—Senator, I think some of the information coming from that is the work that the cyclone testing station at James Cook University is doing in the investigation of the impact on buildings from Cyclone Yasi. We commissioned them the day the cyclone hit. They have had a team of 12 investigators in the region investigating the impact on buildings. They have finished that investigation. They are now putting together their report, which will be presented to the ABCB at the end of March. In doing their initial investigation they

have put up technical bulletins and some media releases on their website that talk about some of their early findings. I think some of the speculation may be coming out of those early technical reports and findings.

Senator COLBECK—Okay. I have also seen some media comment from an architect particularly based around Brisbane in relation to the floods. Are you doing any work on the aftermath of the floods?

Mr Balch—Yes, we are. We had commenced a project on the floods mid last year to look at the adequacy—

Senator COLBECK—On flooding rather than these floods.

Mr Balch—On flooding generally. That project obviously will now need to be informed by the findings of the Queensland flood commission of inquiry. So that project and the timing of that project actually meshes quite well with the commission's findings. We are looking for, I think, an interim report in August from the commission, and hopefully having a standard and possibly a handbook that the community can use early next year, maybe in the regulations by 2013.

Senator COLBECK—I want to go to the concept of a national construction code. How is that seen as a priority against harmonisation of state and territory jurisdictional issues? Obviously, there is an issue around the construction code, and I understand and support that. But one of the real issues for the construction industry is state jurisdictional issues. If you take the recent extreme weather events, you see the real benefits of having some harmonisation and people being able to move across states freely. I just want to get a sense of what you are looking at as far as prioritisation is concerned.

Dr Green—Harmonisation across the states of various building codes and regulations is a key priority of the Commonwealth's involvement in the building regulation area. We have the national construction code, which is, as a first step, bringing plumbing into the Building Code framework. It also has ambition beyond that to include electricity and telecommunications. Also, under the Seamless National Economy reforms, there are reforms around trade certification and recognition of trades across state boundaries. Those are two important dimensions. But the Commonwealth objective in the building codes includes as a key priority the creation of, to the extent possible, nationally consistent building regulations. It is a constant work in progress, recognising, of course, that, in all the circumstances that prevail across the land, particular pressures arise and that we have to continually work to push that message.

Senator COLBECK—Yes, and recognising that there are specific regional differences, and that is reflected in recent events as well. We will talk again.

CHAIR—We will move on to the small business section of the Department of Innovation, Industry, Science and Research. We welcome Minister Nick Sherry and the small business section.

Senator RYAN—Good afternoon, Senator Sherry. Can I turn to an issue we covered at the last estimates committee meeting in October last year. It was with respect to a *Financial Review* article that alleged a meeting to crack down on sham contractors—that was the word they used—with the CFMEU, the AMWU, the AWU, the TWU and the CEPU. Several ministers, including you, met three times, allegedly, according to the *Financial Review*, before the election. You said that there were no such meetings.

Senator Sherry—It involved me?

Senator RYAN—So you were at no meetings that involved those groups?

Senator Sherry—My recollection is that I was not at any of those meetings.

Senator RYAN—Were you at a meeting with some or all of those unions represented, either on your own or with other ministers?

Senator Sherry—It is not my practice to indicate who I meet with and who I have appointments with. I have a range of meetings with unions, employer organisations and associations, regulators et cetera.

Senator RYAN—Was there a forum organised by either the unions or you with either some or all of those unions mentioned—I hope I got all of their letters right; you can easily lose track—that met either one or more times before the federal election to discuss contracting issues?

Senator Sherry—Not that I can recall—not that I was involved in.

Senator RYAN—I am sure you have seen the article in the *Financial Review* following up on this on 15 November 2010. I will read part of it into the record:

A separate forum for unions to meet ministers including Mr Evans, Mr Shorten and Small Business Minister Nick Sherry on sham contracting will continue in this parliamentary term after meeting three times just before the last election.

Senator Sherry denied the existence of the union forum in a Senate estimates hearing last month, but later conceded that it did, and that he had attended one of the meetings.

Is that an accurate report?

Senator Sherry—I do not believe that is an accurate report.

Senator RYAN—And this is why I want to explore—

Senator Sherry—There is some confusion here, I think. Yes, certainly, I meet with unions from time to time and I have done for all of my political career.

Senator CAMERON—And so you should.

Senator Sherry—Yes, exactly. But I think it is important that we understand in what form these meetings took place. I have had individual meetings with unions, as I say, for all of my political career—

Senator RYAN—Have you had a meeting—

Senator CAMERON—I even met with John Howard when I was a union official.

Senator RYAN—I am sure he recalls the experience fondly, Senator Cameron!

Senator CAMERON—He does.

Senator RYAN—Senator Sherry, what I am trying to get at here is this: is there an official forum where you meet with unions and where sham contracting or contracting issues are discussed?

Senator Sherry—The previous minister, Minister Emerson, had such a forum. Have I been involved with the forum that Minister Emerson established? No, I have not.

Senator RYAN—Have you established an alternative forum to discuss these issues?

Senator Sherry—No.

Senator RYAN—Have you had meetings with groups of unions—more than one; I accept that you can meet individuals—where contracting issues have been discussed?

Senator Sherry—Yes, I would accept that.

Senator RYAN—Has that forum been organised by the department or by your office?

Senator Sherry—In terms of meeting with unions, of course, my office organises it, because they are my administrative and policy support staff. Staff of mine would be involved in any meetings with anyone—unions, business organisations or whatever—for obvious reasons.

Senator RYAN—I appreciate that. Has such a meeting occurred more than once? Is there a regularity to such meetings? Is there a schedule?

Senator Sherry—No.

Senator RYAN—So you might have met with, say, two or three of those unions once, and you may have discussed contracting issues?

Senator Sherry—As I have said, I do not go into the detail of discussions of—

Senator RYAN—I am not asking exactly who.

Senator Sherry—Well, you are. You are asking about an issue—

Senator RYAN—I was asking without mentioning names—

Senator Sherry—Can I finish?

Senator RYAN—Don't mischaracterise the question.

Senator Sherry—I believe that you are. As I said, I meet with a wide range of organisations—unions, employer organisations, associations and individual businesses—and individuals. It is not my practice to disclose what I discuss with them. As I said, I have met with unions from time to time. Have issues around contracting arrangements been discussed? Yes, they have.

Senator RYAN—So there is no group that you have established, formal or informal, that is a forum and that has met on more than one occasion—

Senator Sherry—Correct.

Senator RYAN—for you to discuss contracting issues or where you have discussed contracting issues.

Senator Sherry—Correct. There is nothing that I have established.

Senator RYAN—So you completely reject the assertion in the *Financial Review* that ‘he later conceded that it did and that he had attended one of the meetings’?

Senator Sherry—No. What I said was that Minister Emerson—the former minister in this area—did establish a group. Did I establish any group? No.

Senator RYAN—Okay. I agree. My question was—

Senator Sherry—Have I had meetings with unions about contract issues? Yes.

Senator RYAN—How many meetings have you had with unions about contract issues?

Senator Sherry—Oh, gosh—

Senator RYAN—Are we talking five? Ten? Twenty?

Senator Sherry—Certainly one meeting to discuss contracting issues. I acknowledged that to the *Financial Review*—one meeting.

Senator RYAN—There would have been a previous question about this forum. Sorry, I noticed you just got passed a note. Are we on my current question or was that—

Senator Sherry—In terms of the precise number of meetings I have had where these issues have been discussed, I could not give you a precise number. I have attended one meeting. It would be more than one. Would it be more than half a dozen? No. It would be in that range—a couple of discussions with individual unions and groups of unions that discussed a range of issues, including this matter, and one meeting that is referred to in the *Financial Review* where this was a specific topic of the meeting.

Senator RYAN—So there was one meeting that occurred before the election?

Senator Sherry—Yes. I have had meetings with trade unions on a whole range of issues since we have been in government and well before, so obviously before the election.

Senator RYAN—I appreciate that, but can I clarify this point. When I asked you about the *Financial Review* article—and I will read the question again—

Senator Sherry—Sorry, which article—the first one or the second?

Senator RYAN—The original, the first one. I will read what I said so that I am not taking anything out of context:

I am sure you are familiar with some of the newspapers’ coverage on this issue, particularly an article in the *Financial Review* in September that referred to the Labor government setting up a process for the unions to discuss a potential crackdown on sham contracting, which indicated that you were involved in three meetings with a group of unions—including the CFMEU, the AMWU, the AWU, the TWU and the CEPU—before the election.

Senator Sherry—Yes. And the exception I took was that I was not at three meetings—not formally constituted meetings for that purpose. There was one meeting that I can recall that relates to this matter. I have acknowledged that, and that is referred to in the follow-up article the next day—

Senator RYAN—If I can interrupt here, Senator Sherry—

Senator Sherry—Let me finish.

Senator RYAN—This is an important point.

Senator Sherry—Can I finish my answer, Chair.

CHAIR—I think Senator Sherry needs to finish.

Senator RYAN—He has had a long answer and this is an important point. We are going to what was said at the last—

CHAIR—That is completely Senator Sherry’s prerogative, I am afraid.

Senator RYAN—It is not completely Senator Sherry’s prerogative, Chair.

CHAIR—It has not been that long. I am going to let him finish.

Senator Sherry—I do not think I have been unduly long.

CHAIR—No, I do not think so either.

Senator Sherry—I was going to conclude by saying this. Have there been other individual meetings one on one with unions where this has been raised as an issue? Yes, I can certainly recall it, but not in any organised forum-type sense by other ministers.

Senator RYAN—So you are admitting the second article in the *Financial Review*, which says that you conceded that one meeting happened. If I can just continue reading the record from the last Senate estimates—you asserted in answer to the question I just read out, ‘Wrong.’ *Hansard* reflects that when I said, ‘There were no such meetings?’ you said, ‘No.’

Senator Sherry—Your interpretation was incorrect. You were referring to some sort of formal organisation group, and that was what my response was in respect of.

Senator RYAN—The article says ‘three meetings with a group of unions, including’—it does not say solely—the CFMEU, the AMWU, the AWU, the TWU and the CEPU, before the election’. You said, ‘Wrong.’ I said, ‘There were no such meetings?’ and you said, ‘No.’ I said:

Were there any meetings with you and a selection of those unions?

You said:

I meet with a considerable range of business—small, large—union officials et cetera but the import of that report is just wrong.

Senator Sherry—Yes.

Senator RYAN—So you are saying that the import of the report that you had three meetings is the problem but one was okay.

Senator Sherry—That was incorrect. The import that I had had three meetings as outlined in the article was wrong.

Senator RYAN—And I asked you, ‘There were no such meetings?’ and you said, ‘No.’ That was not plural; that was not ‘Were there three or four?’ That was, ‘There were no such meetings.’

Senator Sherry—I think I have well outlined the circumstances of the meetings I have had and their context.

Senator RYAN—You have not. You started this by saying you were not going to outline the detail of your meetings.

Senator Sherry—I have not outlined the details. If you were to ask me for a list of the dates, the organisations that were there and the issues that were discussed, I would not provide it, for very obvious reasons. No minister would provide that. What I have acknowledged is this. Have I had a meeting or meetings with individual unions or unions about a whole range of issues? Yes. Has this issue been raised at some of those meetings? Yes. The record stands for itself.

Senator RYAN—The record stands for itself. You are saying today—

Senator Sherry—If you want to waste the time of the Senate estimates—

Senator RYAN—No, Senator Sherry—

Senator Sherry—Hang on. Chair—

CHAIR—Senator Sherry is trying to finish his answer.

Senator Sherry—We are getting a bit repetitive here. If the senator has any more questions, fine. But I think he has canvassed them and I have given my response.

Senator RYAN—Senator Sherry, you do not get to decide what questions I ask—particularly when it comes down to the fact that at the last Senate estimates you at the very least were obfuscating. I said, ‘There were no such meetings?’ and you said, ‘No.’

Senator Sherry—I just do not accept your contention.

Senator RYAN—I am sure you do not. You do not want to admit that. Yet there is an article in the *Financial Review* here that actually says

Senator Sherry denied the existence of the union forum in a Senate estimates hearing last month, but later conceded that it did, and that he had attended one of the meetings.

But you did not say that to the Senate estimates committee a couple of weeks beforehand.

Senator Sherry—But the claim that you were referring to referred to three meetings.

Senator RYAN—We could go to an English grammar lesson but ‘there were no such meetings’ does not pass any test. That completely fails any test of honesty before Senate estimates.

Senator Sherry—I think the confusion that you have, which I do not accept, is the status of the meetings, who organised them, the formality of them—I think that is where the confusion has arisen.

Senator RYAN—Mastery of obfuscation, Senator Sherry.

Senator Sherry—I just do not agree with you.

Senator RYAN—I am sure you do not. You could not admit this in public. Can I also ask: at your meetings with the unions—

Senator Sherry—If I had given incorrect information—and I have done so not on this occasion but occasionally over the past 20 years of my political career—I would correct the record.

Senator RYAN—Senator Sherry, obfuscating and parsing words the way you are doing hides completely the fact that you admit to the *Financial Review* when they spring you but you will not admit to Senate estimates. The system breaks down.

Senator Sherry—As I have said, the *Financial Review*’s reference to me attending three meetings was just wrong.

Senator RYAN—And I said, ‘There were no such meetings?’ and you said, ‘No.’

Senator Sherry—As I have said, Senator, in response to your earlier questioning, there are meetings from time to time with organisations, including unions. Have these issues been raised? Yes, they have, but not in the context that the *Financial Review* was referring to.

Senator RYAN—We might be running through the night again at estimates, Senator Sherry, if we all have to ask questions the only way you will answer them. Can I move to another issue about these meetings.

CHAIR—I want to finish about the meetings.

Senator RYAN—Did your meetings with these unions include discussions about small business concerns about the imposition of being a pay clerk for the government Paid Parental Leave scheme?

Senator Sherry—The parental leave scheme?

Senator RYAN—You are going to these—you have had these meetings.

Senator Sherry—Have I had discussions with a range of organisations about the parental leave scheme? Yes.

Senator RYAN—Have you had discussions with the trade unions?

Senator Sherry—I have had a discussion with many organisations and individuals about that, particularly since I have been Minister for Small Business.

Senator RYAN—I would hope so. Have you had discussions with trade unions or the ACTU or the state trades hall councils about it?

Senator Sherry—I am not going to go to the details of who I meet with.

Senator RYAN—I am not asking for detail. I am not asking for what anyone has said. I am saying, ‘Has this been discussed?’ You are the Minister for Small Business.

Senator Sherry—I have acknowledged that it has been discussed with a whole range of people that I have met.

Senator RYAN—Have you met and discussed with small business.

Senator Sherry—Yes—publicly.

Senator RYAN—You will answer yes to that but you will not tell us about unions, will you?

Senator Sherry—Because it is on the public record. I have been at public forums when this issue has been raised. That is on the public record—

Senator RYAN—Have you had private meetings with small business organisations?

Senator Sherry—but in terms of—

Senator CAMERON—Chair, a point of order: the senator is valiantly trying to answer the questions that are being put. But it seems to me that Senator Ryan is becoming more agitated as the answers do not meet his

requirements. He should show the senator some respect, stop interrupting the senator and let him answer the question.

Senator RYAN—And the fact that you sit there with a straight face for the camera means that you get a free drink afterwards.

Senator Sherry—Have I discussed the issue of the parental leave policy with a range of organisations? Yes, I have—obviously. A whole range of organisations, individuals and businesses have raised the issue with me.

Senator RYAN—You have discussed it publicly with small businesses and you have said yes. You will not tell us whether you have met with small businesses or organisations, nor will you tell us—

Senator Sherry—I will acknowledge that I have met with small businesses and small business organisations.

Senator RYAN—I have not finished the question. It is about the Paid Parental Leave scheme. You will not tell us that?

Senator Sherry—Yes, I will. It has been raised with them.

Senator RYAN—Okay. Will you answer the same question with respect to unions? Have you met with unions and discussed the Paid Parental Leave scheme?

Senator Sherry—I am just trying to recall whether, in my meetings with unions, this issue has been raised. I do not want the confusion to arise that seems to have arisen from your earlier questioning. I am just trying to recollect accurately—I meet with many different organisations and individuals, and I want to be as accurate as possible—whether it has been raised by trade unions that I have met with since. To the best of my recollection, I do not recall unions raising parental leave, other than their general support for the scheme.

Senator RYAN—So no raising of the issue or concerns with alternative approaches that might—

Senator Sherry—No, to the best of my recollection—I think because the policy was signed off prior to the election and before I became small business minister.

Senator RYAN—I appreciate that, but as you would be aware—

Senator Sherry—So it is less likely, I have to say—

Senator RYAN—I have done you the courtesy of not interjecting, following Senator Cameron's amusing point of order. Can I continue the question that I was asking: does that answer—that is, to the best of your recollection not having done so—also apply to meetings with the ACTU or the state trades hall councils or their equivalents on this—

Senator Sherry—On this issue?

Senator RYAN—Yes.

Senator Sherry—Yes, to the best of my recollection. As I have said, the policy was determined before the election—before I became small business minister. The policy has been supported by those organisations, to the best of my recollection, so they would have no reason to raise it with me. That is the best of my recollection in respect of those organisations. I am certainly aware that the administrative arrangements, particularly, have been an issue of contention for some small business organisations. That is publicly on the record and they have certainly raised that with me.

Senator RYAN—But unions, to the best of your recollection, have not—

Senator Sherry—To the best of my recollection, no.

Senator RYAN—Have they raised the issue of the bill currently in the House of Representatives?

Senator Sherry—Who has?

Senator RYAN—Have the organised labour groups—unions, state trades hall councils and the ACTU—raised any issues relating to the bill currently in the House of Representatives to change paid parental leave?

Senator Sherry—As I have said, to the best of my recollection those organisations have not. I will double check, but that is to the best of my recollection. Certainly small business organisations have—there is no doubt about that.

Senator RYAN—Otherwise you will take it on notice and inform us?

Senator Sherry—Yes.

Senator RYAN—When you have had these meetings that you have referred to with unions and other stakeholders, are any minutes of these meetings compiled by your staff or by departmental officials? Is there a record of these meetings for official purposes other than a diary entry?

Senator Sherry—I will check. In terms of my period in small business, I do not believe there are minutes or records other than by the department.

Senator RYAN—Or your office?

Senator Sherry—On occasions my staff would take notes of any meeting, obviously for follow-up purposes,. It would vary from meeting to meeting.

Senator RYAN—I appreciate that. That is entirely reasonable. So you will take on notice whether, since you have been minister—I accept that—there are any officials from the department taking minutes or somehow otherwise recording the content of a meeting that is more than a diary entry?

Senator Sherry—There is one that I can recall and that is the small business forum that I conducted in Hobart a couple of weeks ago. There were departmental officials there and there were notes taken of the issues raised there.

Senator RYAN—Minister, following the representations made by small business, have you made any representations within the government with respect to the burdens on small business of the government's plan to force them to be the pay clerk for the government's PPL scheme?

Senator Sherry—Can you repeat that last part?

Senator RYAN—Have you, following representations by small business, made any representations within government reflecting their concerns about the administrative burden they will face with the transition on 1 July?

Senator Sherry—The policy was determined before I became the minister. The policy has been well outlined.

Senator RYAN—Have you made any representations on behalf of small business within the government?

Senator Sherry—As I have said, the policy has been determined and the legislation has been prepared—

Senator RYAN—That is not the question that I am asking, Senator Sherry.

CHAIR—If you would let him finish, he might get to that.

Senator RYAN—He is restating what he said a second ago. We are running out of time.

CHAIR—Just be a bit patient and let him finish.

Senator Sherry—I do not believe that I have been over lengthy in my answers, despite this badgering and the interruptions from the senator. As to the issues that I discuss as minister with my colleagues within government, I do not disclose those in this forum. I discuss many issues of the day.

Senator RYAN—Can I quickly turn to the abolition of the Small Business Ministerial Council. Were you consulted about the abolition of that council—not the new one; the abolition of the old one?

Senator Sherry—Mr Hawke, I think, did a review. Did Mr Hawke discuss the matter with me directly? No. He may have done so with my predecessor.

Senator RYAN—The decision to abolish the council was taken by COAG, which is a matter for the Prime Minister.

Senator Sherry—Correct.

Senator RYAN—Were you consulted by the Prime Minister with respect to the abolition of the Small Business Ministerial Council?

Senator Sherry—You well know that I will not be going to matters of discussion between ministers. What I can say is that it is certainly my intention that small business ministers from the states and, obviously, the Commonwealth will meet from time to time—

Senator RYAN—Have you set a date yet for a meeting?

Senator Sherry—We did, actually, but we could not meet—we actually sent out an agenda and a date, which we can obtain for you. I have asked for 2 May, but we did in fact set a date earlier—it was late last year, I think. We had to cancel it because of the change of government in Victoria and the new ministers. We decided to defer it in those circumstances.

Senator CAMERON—I am surprised that there would be concern raised about the small business minister meeting unions. The issue I want to raise is sham contracting in small business. Are you aware of this as a problem in small business?

Senator Sherry—I am certainly aware that it is an issue—a controversial issue—and that, from time to time, there are attempts to avoid the law in respect of employer-employee relationships, hence the terminology ‘sham contracting’.

Senator CAMERON—Are you aware of a court case in South Australia where two young female schoolchildren were deemed to be independent contractors by a bakery in South Australia, and that is now before the courts?

Senator Sherry—I am not aware of it.

Senator CAMERON—Are you aware that ABCC is conducting an inquiry into sham contracting?

Senator Sherry—Yes, I am aware that they have made an announcement on that.

Senator CAMERON—Will your department be making any submissions to that inquiry? They have said that they want a whole-of-government approach.

Mr Schwager—We are aware of that inquiry. We are working with our colleagues in the Department of Education, Employment and Workplace Relations. We have not yet determined to make a submission as such. As you say, they are looking for a whole-of-government approach. We are working and consult with our colleagues in DEEWR on issues relating to independent contractors.

Senator CAMERON—Has the department made any assessment of the magnitude of sham contracting in the small business sector?

Mr Schwager—No, we have not.

Senator CAMERON—Have you made any attempt to find out how prevalent sham contracting is in small business?

Mr Schwager—The responsibility for looking after or at least pursuing sham contracting very much rests with the Fair Work Ombudsman.

Senator CAMERON—I am not asking about pursuing them. You are the department that looks after small business. There is a problem whereby children are being treated illegally in the area of small business. There is a problem whereby taxation is being avoided in the area of small business. I am simply asking whether the department has looked at this issue seriously. Have you done any research or any analysis of the amount of sham contracting in the small business area in Australia?

Mr Schwager—We have not looked at the specifics of trying to quantify how much sham contracting is happening.

Senator CAMERON—Why not?

Mr Schwager—Because our role has been looking at the Independent Contractors Act and working with genuine independent contractors. Obviously people who are in a sham contract are actually in an employment relationship, not in a contracting relationship. Really that is why—

Senator CAMERON—So you are saying that if they are in a sham contract they are in an employment relationship?

Mr Schwager—The implication is that the sham contract—that it is not a genuine contracting relationship. And that is a difficult issue that needs to be looked at by the Fair Work Ombudsman.

Senator CAMERON—But you are the department that looks after small business. There is money being lost to government revenue. There are schoolchildren being exploited. Can you take on notice to respond as to exactly what you have done in relation to looking at this matter within the department over the last three years?

Mr Schwager—I will take that on notice and give you an answer.

Senator CAMERON—Do you believe you should be looking at research in this area?

Mr Schwager—Senator, we actually do a lot of work to advertise to independent contractors their responsibilities. For example, we provide a checklist, if you like, on our website so that employers and independent contractors can work out whether in fact they are in an inappropriate employee relationship or an independent contracting relationship. We do a lot of information campaigning. In fact we have actually

undertaken quite a bit of work to provide handbooks on independent contracting which are being developed in consultation with both the ACTU and employer groups. So we do a lot of—

Senator CAMERON—Sorry, I am running out of time; the chair is going to finish me up. Can you, then, do a stocktake of the issues that you say you are looking at in relation to sham contracting and provide me details of exactly what you are doing to diminish sham contracting, to ensure that there is no sham contracting in the small business area—a stocktake of everything you have done over, say, the last two years on that issue?

Mr Schwager—We will take that on notice and come back to you.

CHAIR—I thank the Department of Innovation, Industry, Science and Research for their assistance. We will break for afternoon tea.

Proceedings suspended from 4.04 pm to 4.16 pm

RESOURCES, ENERGY AND TOURISM PORTFOLIO**In Attendance**

Senator Sherry, Minister for Small Business, Minister Assisting on Deregulation and Public Sector Superannuation and Minister Assisting the Minister for Tourism

Department of Resources, Energy and Tourism**Executive**

Mr Drew Clarke, Secretary

Mr Martin Hoffman, Deputy Secretary

Enabling Services

Ms Jo-Ann Rose, Chief Financial Officer, Corporate Services

Mr Robert Towner, General Manager, Corporate Services

Ms Nicola Morris, Chief Legal Counsel, Corporate Services

Resources Division

Ms Tania Constable, Head of Resources Division

Mr Chris Stamford, General Manager, Minerals Branch

Mr Michael Sheldrick, General Manager, Fuels and Uranium Branch

Mr Martin Squire, General Manager, Offshore Resources Branch

Mr Demus King, Acting General Manager, International, Resources Development and Taxation Branch

Mr Bruce Wilson, General Manager, Policy Transition Group

Mr Peter Livingston, Acting General Manager, Offshore Petroleum Regulatory Reform

Mr Patrick Davoren, Manager, Radioactive Waste Section, Fuels and Uranium Branch

Energy and Environment Division

Mr Brendan Morling, Head of Division

Dr Gino Grassia, General Manager, Energy Security Branch

Dr Chris Locke, General Manager, National Energy Market Branch

Mr Paul Johnson, General Manager, Industrial Energy Efficiency Branch

Mr Andrew Lewis, Manager, Energy Efficiency Compliance and Reporting

Mr Rick Miles, Manager, International Climate Change Branch

Mr Rick Belt, Manager, Renewable Energy

Clean Energy Division

Ms Margaret Sewell, Head of Division and CEO, Australian Centre for Renewable Energy

Mr John Karas, Acting General Manager, Low Emissions Coal and CO2 Storage Branch

Ms Sarah Clough, Deputy CEO, Australian Centre for Renewable Energy

Mr Geoff Stone, General Manager, Energy Futures Branch

Mr Mark Weaver, Manager, CCS Major Projects

Mr Peter van Rens, Manager, CCS Response Team

Mr Peter Slobodian, Manager, Renewable Programs

Ms Sarah Leeming, Manager, Renewable Investments

Ms Catherine Zerger, Manager, Geothermal Energy

Ms Alison Dell, Manager, Technology Policy

Mr Gary James, Manager, Solar Flagships

Ms Helen Bennett, Solar Flagships

Tourism Division

Ms Jane Madden, Head of Tourism Division

Ms Kathy Harman, General Manager, Industry Development Branch

Ms Helen Cox, General Manager, Market Competitiveness Branch

Mr Wayne Calder, General Manager, Tourism Research Australia

Ms Angela Robinson, Acting General Manager, National Tourism Policy Branch

AGENCIES**Geoscience Australia**

Dr Chris Pigram, Chief Executive Officer

Dr Clinton Foster, Chief, Petroleum and Marine Division

Dr James Johnson, Deputy Chief Executive Officer and Chief, Onshore Energy and Minerals Division

Dr Andy Barnicoat, Acting Chief, Geospatial and Earth Monitoring Division

Ms Nicole Pearson, General Manager, Corporate Branch

Mr Geoff McMurray, Chief Financial Officer

Tourism Australia

Mr Andrew McEvoy, Managing Director

Ms Rachel Crowley, General Manager, Corporate Communications

Mr Grant Le Loux, Executive General Manager, Corporate

CHAIR—I declare open this public hearing of the Senate Economics Legislation Committee. The Senate has referred to the committee the particulars of proposed additional expenditure for 2010-11 and related documents for the portfolios of Innovation, Industry, Science and Research; Resources, Energy and Tourism; and Treasury. Under standing order 26, the committee must take all evidence in public session. This includes answers to questions on notice. Officers and senators are familiar with the rules of the Senate governing estimates hearings. If you need assistance the secretariat has copies of the rules. I particularly draw the attention of witnesses to an order of the Senate of 13 May 2009 specifying the process by which a claim of public interest immunity should be raised, which I now incorporate into *Hansard*.

The extract read as follows—

Public interest immunity claims

That the Senate—

- (a) notes that ministers and officers have continued to refuse to provide information to Senate committees without properly raising claims of public interest immunity as required by past resolutions of the Senate;
- (b) reaffirms the principles of past resolutions of the Senate by this order, to provide ministers and officers with guidance as to the proper process for raising public interest immunity claims and to consolidate those past resolutions of the Senate;
- (c) orders that the following operate as an order of continuing effect:
 - (1) If:
 - (a) a Senate committee, or a senator in the course of proceedings of a committee, requests information or a document from a Commonwealth department or agency; and
 - (b) an officer of the department or agency to whom the request is directed believes that it may not be in the public interest to disclose the information or document to the committee, the officer shall state to the committee the ground on which the officer believes that it may not be in the public interest to disclose the information or document to the committee, and specify the harm to the public interest that could result from the disclosure of the information or document.
 - (2) If, after receiving the officer's statement under paragraph (1), the committee or the senator requests the officer to refer the question of the disclosure of the information or document to a responsible minister, the officer shall refer that question to the minister.
 - (3) If a minister, on a reference by an officer under paragraph (2), concludes that it would not be in the public interest to disclose the information or document to the committee, the minister shall provide to the committee a statement of the ground for that conclusion, specifying the harm to the public interest that could result from the disclosure of the information or document.
 - (4) A minister, in a statement under paragraph (3), shall indicate whether the harm to the public interest that could result from the disclosure of the information or document to the committee could result only from the publication of the information or document by the committee, or could result, equally or in part, from the disclosure of the information or document to the committee as in camera evidence.
 - (5) If, after considering a statement by a minister provided under paragraph (3), the committee concludes that the statement does not sufficiently justify the withholding of the information or document from the committee, the committee shall report the matter to the Senate.
 - (6) A decision by a committee not to report a matter to the Senate under paragraph (5) does not prevent a senator from raising the matter in the Senate in accordance with other procedures of the Senate.
 - (7) A statement that information or a document is not published, or is confidential, or consists of advice to, or internal deliberations of, government, in the absence of specification of the harm to the public interest that could result from the disclosure of the information or document, is not a statement that meets the requirements of paragraph (1) or (4).
 - (8) If a minister concludes that a statement under paragraph (3) should more appropriately be made by the head of an agency, by reason of the independence of that agency from ministerial direction or control, the minister shall inform the committee of that conclusion and the reason for that conclusion, and shall refer the matter to the head of the agency, who shall then be required to provide a statement in accordance with paragraph (3).

(Extract, Senate Standing Orders, pp 124-125)

CHAIR—The committee will begin consideration of the Resources, Energy and Tourism portfolio with resources and energy issues for the department.

Senator BUSHBY—How much funding has Australia committed to the Global Carbon Capture and Storage Institute to date?

Ms Sewell—I am sorry, Senator; could you clarify whether you mean how much the total commitment is or how much has actually been handed to the institute.

Senator BUSHBY—First the total commitment would be very useful—how much has actually been committed and how much has actually been paid by Australia to that institute?

Ms Sewell—The total commitment is at \$305 million.

Senator BUSHBY—And that is based on \$100 million a year?

Ms Sewell—Yes. The original funding commitment was \$100 million for four years. There have been two movements of funds out of the total original commitment.

Senator BUSHBY—Two movements—and that adds up to \$300 million?

Ms Sewell—The money that has been moved from the original commitment totals \$95 million.

Senator BUSHBY—So that is how much has actually been paid to the institute?

Ms Sewell—No, I am sorry; the amount that has actually been paid to the institute is \$200 million.

Senator BUSHBY—But the \$95 million was the size of one of the commitments?

Ms Sewell—The \$95 million has been taken from the original commitment as savings by the government.

Senator BUSHBY—Okay, sorry—I was going to get to that. So the original commitment was \$300 million?

Ms Sewell—It was \$400 million.

Senator BUSHBY—Sorry, \$400 million. I am just trying to get the time lines involved with this as well. So you say \$300 million has been committed. That is over four years now after the \$95 million has been taken off?

Ms Sewell—The government decision to take \$50 million from the global institute as part of the flood relief funding was accompanied by an announcement that the original term of the funding agreement would be extended over the length of the forward estimates period.

Senator BUSHBY—So it has been pushed out.

Ms Sewell—It has now gone out to 2014-15 with an additional \$5 million taken out into the period after the forward estimates.

Senator BUSHBY—So that all adds up to \$400 million but just over a longer period. Is that right?

Ms Sewell—No, sorry. Let me start again: the original commitment was \$400 million. The government has taken \$95 million from that as savings, leaving a total of \$305 million.

Senator BUSHBY—So that is not a delayed payment; that is a reduction?

Ms Sewell—That has gone, yes.

Senator BUSHBY—And that takes it down to \$305 million.

Ms Sewell—Yes.

Senator BUSHBY—And then some of that \$305 million has been pushed out into later years as well.

Ms Sewell—Yes.

Senator BUSHBY—I understand. Apologies for being a bit slow on that. Now, \$200 million has actually been paid?

Ms Sewell—Yes.

Senator BUSHBY—So that has gone into the bank account, so to speak, of the Global Carbon Capture Storage Institute?

Ms Sewell—Yes.

Senator BUSHBY—What proportion of the institute's funding does Australia's commitment represent?

Ms Sewell—Currently Australia's commitment represents the great majority of funding that the institute receives. The US government has made a small funding commitment—

Senator BUSHBY—Of about half a million?

Ms Sewell—Yes

Senator BUSHBY—Have any other nations put in?

Ms Sewell—A number of countries have made in-kind contributions but the US is the only country that has made an actual cash contribution.

Mr Clarke—Senator, that answer that Ms Sewell has given has to be put in context in that neither the Australian government nor the institute has asked other countries to make financial contributions at this stage. That was never part of the initial establishment period of the institute, which it is still in.

Senator BUSHBY—Nonetheless, that in itself is a question: why haven't we?

Mr Clarke—Certainly.

Senator BUSHBY—But the reality is that the institute looks at projects that could be anywhere in the world. So in that sense Australia is funding projects that meet appropriate requirements through the CCSI as it currently stands almost unilaterally.

Mr Clarke—I would not express it that way. Allow me to put it to you in a different context. First, the reason why the initial establishment period was fully funded by the Australian government was to enable the institute to hit the ground running, so to speak, and not have to go through a protracted period of negotiating funding agreements or other arrangements with the various interested parties. So it was an explicit decision that this matter was urgent enough that the Australian government was willing to take on 100 per cent of the cost during the establishment period. I would not characterise the support of the institute as funding projects per se. It is a subtle point but I think it is an important point. Where the institute provides funding into a project it is in order to access information from that project that will in turn be distributed to the global CCS community. The amounts that it is contributing are quite small relative to the cost of these projects and it is more in the nature of—

Senator BUSHBY—Buying access to them.

Ms Sewell—buying into the access to the information.

Senator BUSHBY—Okay. On that, then, how much funding has the institute actually allocated to date on projects.

Ms Sewell—The institute has announced funding for eight projects, and that totals \$26 million.

Senator BUSHBY—So they have received \$200 million from us, another half million from the US and \$20 million worth of projects?

Ms Sewell—Yes.

Senator BUSHBY—So essentially they have \$180 million—less expenses and admin costs, which I will get to in further questions—available for funding for further development projects?

Ms Sewell—As of the end of January the total expenditure by the institute was \$49 million.

Senator BUSHBY—So they have spent \$29 million on matters other than funding development projects.

Ms Sewell—Yes.

Senator BUSHBY—What does that \$29 million comprise?

Ms Sewell—That is total expenditure, so it covers the administrative costs of running the institute and a range of other work that they have been doing to advance CCS. It picks up everything from capacity-building workshops in developing countries through to international seminars that they have organised to bring together some of the countries that are leading on CCS to work towards globally acceptable definitions on a range of issues around advancing CCS.

Senator BUSHBY—Do you have access to details of how that \$29 million is spent?

Ms Sewell—Yes. The institute is required to provide us with annual work program and with two six-monthly progress reports a year.

Senator BUSHBY—Are you able to provide that on notice to this committee?

Ms Sewell—I think I would have to take that on notice.

Senator BUSHBY—I am happy for that to be provided later but I would be very interested in seeing that information. One of the things that I presume some of that \$29 million has been spent on is administration. How many board meetings of the institute have taken place since its creation?

Ms Sewell—I would have to take that on notice.

Senator BUSHBY—How regularly do they have their meetings?

Ms Sewell—I think they have meetings roughly once a month. A number of those have been by teleconference.

Senator BUSHBY—Would you be able take on notice, then, in what format—whether it is telephone, in person or otherwise—each of those meetings was held and, if in person, where they were held?

Ms Sewell—Yes.

Senator BUSHBY—To the extent that the board members actually travel to a meeting, is it true that they travel first class.

Ms Sewell—I am sorry, Senator, I would have to take that on notice.

Senator BUSHBY—Thank you. Can you also tell me how many people have attended each of those meetings?

Ms Sewell—How many board members and staff?

Senator BUSHBY—How many people attend those meetings who would have been financed by the institute to attend those meetings.

Ms Sewell—Yes.

Senator BUSHBY—Do you have any information that could indicate what the estimated cost of each of these board meetings is—or any of them?

Ms Sewell—No, I do not believe so.

Senator BUSHBY—In that case, could you take on notice how much each of the board meetings has cost the institute in total, including travel, accommodation and other ancillary expenses?

Ms Sewell—Yes.

Senator BUSHBY—Thank you. Is it correct that board members at their first meeting or any subsequent meeting voted to increase their fees by 50 per cent.

Ms Sewell—Sorry, Senator, we do not sit on the board. We do not have access to board minutes—that is not part of the obligation we put on the institute under the funding agreement—so I am not aware of decisions taken at board meetings.

Senator BUSHBY—Are you saying the department is not aware of whether the board voted themselves a 50 per cent pay rise?

Ms Sewell—That is what I am saying.

Senator BUSHBY—Is that something you think the department should be interested in—the degree to which the board members—

CHAIR—Senator Bushby, you cannot ask the witness to give her opinion on a matter like that.

Senator BUSHBY—Okay. Has the department in its involvement in the setting up of the institute provided any guidelines in terms of remuneration and how that should be approached?

Mr Clarke—We just need to get on the record in the context of the discussion that the institute is an Australian Corporations Law company as a not for profit, so it is not a government owned company, but we have established of course that it is—

Senator BUSHBY—So the shareholder is the not relevant minister?

Mr Clarke—Sorry—it is not a government entity in the CAC act or FMA act sense.

Senator BUSHBY—But the shareholders would be the Australian government or the relevant minister?

Mr Clarke—No.

Ms Sewell—No. The Australian government is a legal member of the institute, as are roughly 280 other governments, NGOs and industry associations. We have one vote in relation to the annual general meeting, as does every other member.

Senator BUSHBY—That is very generous since we funded essentially the whole thing, at least up front.

Mr Clarke—The key feature—the Australian government is on the one hand one of many, 280, members but on the other hand is basically the almost sole funder during the establishment period. As an initiative of the Australian government to create it, we had a large say in the design and structuring of the institute, its legal form and the objects of the company at the start. So our control, if you like, was through that mechanism and through the funding agreement—

Senator BUSHBY—We had a large say in setting it up, but we also put in a significant amount of taxpayer funds.

Mr Clarke—Correct.

Senator BUSHBY—In terms of how it was designed and set up, what role did the government play in ensuring that taxpayers' funds that were being allocated were going to be appropriately spent and that there were appropriate controls over how that spending occurred, given that we sound like we have only one out of 280 votes or whatever the number was that you said? We appear to have no interest in or ability to access records of decisions made by the institute that involve the spending of Australian taxpayers' funds.

Mr Clarke—No, that is not what is being said.

Senator BUSHBY—Correct me, then, and tell me where we have some ability to actually influence or oversee how Australian taxpayers' funds are actually spent.

Mr Clarke—The Australian government has created a Corporations Law not-for-profit company and has deliberately structured that to have as broad a base of membership as possible. The institute has been very successful in establishing a broad based membership. The government chose to be the sole funder during the establishment period. The principal control over the taxpayers' funds is through the funding agreement that the department administers with the institute, where we sign off on the work program and the deliverables that we are getting for the government's money.

Senator BUSHBY—So, in that process, do you have any ability to examine remuneration of the board members and decisions that they make?

Mr Clarke—I am not aware that we have examined that particular expenditure.

Senator BUSHBY—Is there scope within that funding agreement?

Mr Clarke—I do not know.

Senator BUSHBY—Can you take that on notice, please?

Mr Clarke—Certainly.

Senator MILNE—I want to go to the Low Emission Technology Demonstration Fund. I did ask that officers be here for that. I refer to the HRL project—that has now become Dual Gas, but the company is still owned by HRL. Can you tell me whether any money has been paid to HRL out of the \$100 million grant they received under the Low Emission Technology Demonstration Fund?

Mr Stone—No, there has not been any money spent under the DF grant.

Senator MILNE—What conditions were precedent for HRL in the deed in relation to the grant money being paid, particularly in relation to a time frame to get the project up and running?

Mr Stone—The conditions precedent are part of the LETDF deed. The deed is a contractual arrangement between HRL and the Commonwealth and the details of that deed are commercial-in-confidence.

Senator MILNE—Can you tell me whether it is necessary to meet the preconditions before any of the grant money can be paid to HRL?

Mr Stone—Correct.

Senator MILNE—Is there a deadline for the preconditions to be met?

Mr Stone—No.

Senator MILNE—So it is open ended?

Mr Stone—We are in discussion with the company on a regular basis in terms of those conditions precedent.

Mr Clarke—When the decision is announced that this is the preferred applicant—so when we enter into the negotiation of the deed and we specify the conditions precedent—there is always a date by which we seek to have the CPs satisfied. But it is not unusual for the company to come back to us and ask for an extension of that time. When that happens, we have to be satisfied that there is a reasonable prospect of the deal being closed, so to speak, and the project being successful. A judgement call is made on each of those requests for extension.

Senator MILNE—So has HRL been back and asked for an extension?

Mr Stone—Yes. We are in discussion with HRL in terms of meeting the conditions precedent. Effectively, that means that the extension is in.

Senator MILNE—How many extensions have they had already?

Mr Stone—I would have to take that on notice.

Senator MILNE—I did particularly ask you to come prepared to answer these questions, so why can you not tell me? It is a pretty standard question. If there is a time frame in the precedent of the deed within which they have to actually do something and they have not done it and they have to get an extension then surely you can tell me. This fund is all closed and we should know now how many times they have applied for extensions and how many times they have been given one.

Mr Stone—It would be at least three and potentially four, but we would have to check that information for you.

Senator MILNE—I understand that in the grant application it says that, in order to be eligible for the grant, funded projects must commence within three months of signing the deed. Obviously, they did not commence the project within three months of signing the deed—that is, by 9 August 2008. That would have been three months, so more than three or four extensions should have been required in that time since 9 August 2008.

Mr Stone—Effectively, the deed does not come into effect until the conditions precedent are met, so that three months does not take effect until they meet the conditions. It is not unusual with these LETDF projects—as we found, for example, with solar systems and international power as well—that they face a number of challenges in getting started. It is not unusual for those conditions precedent to take some time to meet.

Senator MILNE—So there is no expiry date or sunset clause for the deed?

Mr Clarke—It depends upon the circumstances. We have terminated one LETDF project—we reached the view that there was no reasonable prospect of it meeting the CPs and it was terminated. That is a normal part of the administration of these grants. The judgment is that, as Mr Stone has said, HRL is not yet in that position. Obviously, there are commercial sensitivities around where we think they actually are, but self-evidently they are not yet in that position.

Senator MILNE—So they have requested several extensions and they have been given several extensions, but there is still no prospect of them starting at this point. Is that correct?

Mr Stone—That is correct, at this stage. The project is proceeding, but, as you may be aware from the submission to the Victorian EPA, the project has undertaken a number of activities in terms of moving the project forward. They have site planning permits, they have had their works approval application submitted to the EPA, they have selected a site, they have signed an EPC contract, their feed study is underway and they have secured coal and gas contracts. So there is work proceeding towards meeting the conditions precedent and actually commencing the project.

Senator MILNE—But there is no time frame on meeting those conditions precedent, so this could go on ad infinitum?

Mr Clarke—No. As I said, it is not an open ended process. The status of these projects is reviewed periodically and the judgment that has to be made is whether they have a reasonable prospect of reaching financial close, which is normally the most important milestone. If they do not, or if they seek variations that we think are inconsistent with the original policy intent or parameters of the program then the offer will be withdrawn before ever getting to an execution of the deed.

Senator MILNE—I am assuming from what you are saying that, three or four times at least, it has been reviewed and three or four times the decision has been made not to withdraw the offer?

Mr Clarke—Correct.

Senator MILNE—And when was the most recent extension—when was the most recent review where that decision was made?

Mr Stone—I will just consult my colleagues.

Senator MILNE—Okay. You mentioned financial closure as obviously a critical issue here. Can you tell me what the current estimate of the cost of the project is and how that has varied from the original project costs?

Mr Stone—Just to respond to your previous question on the extension: I do not have an exact date, but it was late last year. In terms of the project costs, the original—

Senator MILNE—Just before you go on, when you review whether or not the offer will be withdrawn in view of the conditions precedent to the deed, who makes the decision about the review?

Mr Stone—I am the program delegate for the LETDF program. Ultimately, decisions in terms of termination would be made by the minister.

Senator MILNE—So you make a recommendation to the minister and it is ministerial decision; is that what you are saying?

Mr Clarke—Only on termination is the minister the decision maker; the delegation regarding the case for extension rests with the program delegate, Mr Stone.

Senator MILNE—Okay, that is clear. Has it even been put to the minister that we terminate?

Mr Stone—Not that I am aware of, no.

Senator MILNE—So I am assuming that you have made the decision, with your delegated authority, to keep extending the time period. What is the basis for your granting that extension?

Mr Stone—We would take into account the prospect, as Mr Clarke said, of the project eventually reaching a point where it can commence, based on the information that the company provides.

Senator MILNE—To that end, I asked you about the cost of the project—the original and the current projected cost of the project.

Mr Stone—The original cost of the project was \$750 million and I understand that the latest cost is \$1.1 billion.

Senator MILNE—So, from \$750 million to \$1.1 billion and we still think there is a prospect of this proceeding. The guidelines for grant applicants indicate that applicants must demonstrate their capacity to finance their project. Did HRL fulfil that requirement? Has it been able to demonstrate that it has the capacity to finance the project?

Mr Stone—That is still under discussion with the company.

Senator MILNE—The applicants have to demonstrate that. In reviewing the project, surely that is a critical component of whether they can raise the money.

Mr Clarke—Senator, the sequence of events on this—and I emphasise for the record that the circumstances we are talking about with HRL are not unique; this applies to many projects of this scale and nature—is that when the applicant makes a submission, and in this case as in all of the large ones there is an expert panel that assesses it, the first hurdle in terms of financing is that the applicant has to have a credible pathway to financial close. Many proposals fail that first test and do not get ranked or do not get made an offer. So for the offer to have been made to HRL and the other projects in the LETDF program they must first have demonstrated a credible pathway to financial close. But the money will not be in the bank at the time of project assessment. When the Commonwealth makes its offer it then says ‘You now have to show us that you have actually got the money, reach financial close, and you will not see any of our money until you satisfy us of that’. And that is when it is not unusual for the time line to start pushing out.

Senator MILNE—I understand that but \$100 million has been granted—

Mr Clarke—Offered, subject to conditions.

Senator MILNE—Okay, it has been offered subject to conditions. But that is \$100 million that is not available for anything else because it is pending being spent on this project.

Mr Clarke—That is correct.

Senator MILNE—So there is \$100 million opportunity cost for tying this up with HRL. So I am asking about it now. A number of circumstances have changed since the HRL application, including the withdrawal of the joint venture partner. In this last review, was the proponent actually able to demonstrate to you that they now have a capacity to finance the project in light of their changed circumstances? In other words, do they have a credible pathway to the money without a joint venture partner?

Mr Clarke—There is a point here where we have to respect the commercial-in-confidence nature of the company, which is clearly negotiating with a range of other interests. I think the conclusion you can properly draw is that the fact that Mr Stone has not recommended to the minister withdrawal of the offer is an indication that he believes there is a reasonable prospect of this project reaching financial close. But I think it would be inappropriate for us to go into the detailed nature of what the company is telling us, out of commercial confidentiality considerations.

Senator MILNE—I take from your response that the department has made a judgement that there is a reasonable path in view of whatever they have spoken to the proponent about. So, on that basis I am assuming that the proponents have provided the department with detailed costings of the HRL project. If they have, will you be able to table those costings?

Mr Clarke—On the first part of your question, yes, they certainly do talk to us about the details of the project. We have an obvious intense interest in that. On the second part, I believe that the answer is no; we would certainly need their agreement to table those. We can ask but I would be surprised, given that it is a commercial negotiation, if that were acceptable to them.

Senator MILNE—All right. As I understand it, last year HRL signed a contract with China National Electric Equipment Corporation, which is a Chinese state electricity company, to construct the plant. Is the government aware of whether this agreement includes the finance for building the project, as the previous agreement with Harbin did?

Mr Stone—I think that that matter would fall into the same category, Senator—that it would be commercial in confidence.

Senator MILNE—So I am assuming that the government is taking the view that HRL has finance to complete the project, apart from the \$100 million of government money that it potentially—

Mr Clarke—No, we are taking the view that at this point in time it has a reasonable prospect of reaching that position and that it would be inappropriate to withdraw the offer while it was still in commercial negotiations that had a reasonable prospect of success.

Senator MILNE—Is the department aware of any agreement or contract entered into by HRL that would replace the withdrawal of Harbin and their commitment to build the project?

Mr Stone—That would, again, be a commercial-in-confidence matter.

Senator MILNE—Is the department aware of any technology transfer agreement that was made in the original MOU between HRL and Harbin, and are you aware of any other technology transfer agreements that HRL has entered into?

Mr Stone—Again, I do not believe we could comment on that, on the grounds that it would be commercial in confidence.

Senator MILNE—All right. Given that the carbon dioxide emission intensity of HRL is greater than one of the options presented in the government's discussion paper on an emissions performance standard, how does the department expect HRL to be impacted by an emissions performance standard?

Ms Sewell—Senator, can I draw your attention to the fact that the HRL project has received funding under the Victorian government's Energy Technology Innovation Strategy to look at options for CO₂ capture.

Senator MILNE—So?

Ms Sewell—So I think that the length of time that has passed since the original grant funding was announced; the ongoing negotiations on the project, which Mr Stone has alluded to; the fact that the Victorian government is a joint funder of the first stage of the project—the Dual Gas project, which is the one we are negotiating with them through the LETDF deed—and the fact that the Victorian government has now announced that it has provided funding to move to another form of the project, perhaps gives you some insight to the complexity of the negotiations that are under way.

Mr Clarke—But, Senator, I understand the broad point you are making, because of course, as we understand, this is a brown coal gasification project and as originally conceived the demonstration value of this—its original LETDF policy intent—was to demonstrate the drying and gasification of lignite in the Latrobe Valley. The project proponents still have to reach financial close before any of the Australian government's funding will be realised. If the rules under which this power station is built were to change, then they would have to deal with that. We will not sign the deed and make the commitment of the money unless they have reached closure, and they will have to deal with carbon pricing, emissions standards—whatever the environmental controls of the day are. That is just part of the project.

Senator MILNE—I understand that, but it would be a tad embarrassing to the government if you were giving \$100 million to a company that does not meet whatever emission performance standard the government actually set in place.

Mr Clarke—We have not done that.

Senator MILNE—You have not paid the grant yet, anyway. So HRL plans to run on both natural gas and syngas produced from gasified brown coal. What are the respective emission performances in tonnes per megawatt hour of the electricity produced from natural gas and that from gasified coal?

Mr Stone—I have only an average figure for the overall project, which is in the range of 0.73 to 0.78 tonnes of CO₂ per megawatt hour.

Senator MILNE—What was the last figure?

Mr Stone—The average greenhouse gas emissions intensity is expected to be in the range of 0.73 to 0.78 tonnes of CO₂ per megawatt hour. That information is contained in a report by SKM, which was commissioned by the Dual Gas project as part of its approvals process through the Victorian Environment Protection Authority.

Senator MILNE—In the grant application, the company has been asked to answer the question: will the project technology or process be commercially available by the period 2020 to 2030 and have the potential to lower Australia's energy sector's greenhouse gas emissions signature by at least two per cent per annum from 2030 at a reasonable uptake rate? Can you tell me whether HRL gave an undertaking that that technology will contribute to a two per cent per annum reduction in Australia's energy sector's greenhouse gas rate?

Mr Clarke—I remember well the analysis of this project against that criterion. The way that you have precisely framed the question is not consistent with the guideline. It was not about the company giving the undertaking; it was about the technology having the potential.

Senator MILNE—The technology—yes, that is right. That is what I read.

Mr Clarke—The consideration around that point swung on how significant it would be—

Senator MILNE—If it worked.

Mr Clarke—to demonstrate the effective gasification of the Latrobe Valley lignite resources, with or without capture and storage as a subsequent stage. The judgment of the panel at the time was that that would be a very important project and had the potential to meet that two per cent hurdle.

Senator MILNE—And that is the selection panel for the project that you are referring to?

Mr Clarke—Yes.

Senator SIEWERT—Can I ask about the approval for BP oil exploration in the Great Australian Bight. I also want to ask about PTTEP. I apologise—can I take a step back and ask a more general question first. It does, however, relate to BP. It is on the outcomes and recommendations from the USA's inquiry into the *Deepwater Horizon* spill. As you know, there are a great many detailed findings and recommendations—particularly findings. I am wondering how that has generally been incorporated into the department's decision making, specifically as it relates to the BP grant.

Mr Clarke—You are referring to the most recent report of the President's commission?

Senator SIEWERT—Yes. I am sorry not to be precise.

Mr Clarke—Because there are, of course, multiple reviews.

Senator SIEWERT—Yes, I do mean precisely that.

Ms Constable—A number of recommendations were made in the US commission inquiry. We have certainly looked at those recommendations very carefully and compared them against the Montara commission

of inquiry in Australia. I am pleased to say that there is a lot of crossover that is being incorporated into Australian thinking and certainly what we are doing in the Australian government. They have been incorporated into the draft government response. When the final government response is considered in the next couple of months, I am sure that those two inquiries will be reconciled.

Senator SIEWERT—So you mean the government's draft response to the BP—

Ms Constable—No, to the Montara commission of inquiry.

Senator SIEWERT—I beg your pardon. As it applied to the decision that was made—the BP decision—I am thinking particularly of the quite strong comments that were made around the fact that the technology for deep-sea drilling had raced ahead but the thinking on how you deal with it had not. There were a number of comments in the report around that, as you will be aware. It seems to me that they have not caught up with that yet in the nearly 12 months since that accident happened. I am just wondering how that was taken into account when you were looking at the additional conditions that were applied to BP—because I actually do not think the conditions adequately deal with it. That is my opinion.

Mr Squire—The specific condition that was applied to the offer of the permits to BP included: 'Prior to the commencement of drilling activities, the permit team must specify and have approved by the designated authority or his delegate hydrocarbon spill mitigation techniques and risk mitigation processes that it will deploy throughout the drill and maintain for the active life of the well.' That was a specific response in terms of spill containment and deployment technology.

Senator SIEWERT—How is the designated agency getting up to speed with the requirements for deepwater containment? How are you learning those lessons? The regulatory process in the US was not up to speed in terms of dealing with assessing that sort of thing. My reading of the inquiry report is that all the processes failed—not just the company's but also the regulatory process. So what lessons have been learned in Australia from that in terms of how the designated authorities make decisions?

Ms Constable—A whole range of lessons have come out of the Montara incident and also the Macondo incident in the United States. The regulatory agencies around Australia and industry have certainly started to discuss the learnings coming from both incidents. We are also holding in Australia an international conference that will draw together industry, regulatory people from around the world—and certainly from Australia—and technical specialists to discuss the learnings that have come from both incidents. That international conference will be held in August alongside the APIA health and safety conference on oil and gas. It will be held between 8 and 11 August.

Senator SIEWERT—I take it from that that there is still a learning process going on.

Ms Constable—There is.

Senator SIEWERT—We are talking now, as I understand it, about three times deeper than deepwater. That is correct, isn't it, in terms of potential exploration areas?

Ms Constable—This is not new. There are a number of deepwater wells that have been drilled around the world and certainly in Australia. It is fair to say that deepwater drilling is occurring around the world and in Australia right now.

Senator SIEWERT—Yes, and I am also aware of the findings—and I have already been there—that the technology has raced ahead and the regulatory process and how you manage it have not kept up with that. So I ask again: are we confident that you can actually put in place processes whereby, if another spill ever happened, it could be dealt with in a better way than the BP one was?

Mr Squire—The award of exploration permits give the permittee effectively the exclusive right to apply for further approvals. So, although the award of the permit is a significant decision, BP will be required to submit themselves to further approvals—most likely, for example, an environmental referral under the Environment Protection and Biodiversity Conservation Act. They will also need to seek approval for their environment plan under the Offshore Petroleum and Greenhouse Gas Storage Act. They will be required to seek approval for their well operations management plan, which also includes approval for an oil spill contingency plan. So the award of a permit does not give the permittee a right to drill; it provides them with an exclusive right to apply for that opportunity.

Senator SIEWERT—I have heard that lots of times before. How many applications to drill have ever been refused from the company that has been granted an exploration permit? I am not talking about those that have

not been taken up; I am asking how many have been refused once a company has been granted an exploration permit. You can take that on notice if you cannot answer it.

Mr Squire—Just so I understand specifically the question you are asking—you are after the number of wells for which approval has been refused to be granted?

Senator SIEWERT—Where they already had an exploration permit or a licence to explore in that particular acreage, yes.

Mr Squire—Sure, Senator, I appreciate it. I will have to take that on notice.

Senator SIEWERT—I appreciate that. I realise you probably do not carry that information around on the top of your head. In terms of the conference and the process that comes from there, what will happen beyond that? Is it the plan that you will then establish best practice standards for the industry?

Ms Constable—A number of things will occur. What we learn from the conference as it relates to cultural and leadership issues and any new learnings that have occurred on technical matters will be taken on board by the government of Australia, the states and also the industry to determine how they will be incorporated into our operations in Australia.

Senator SIEWERT—Thank you.

Mr Clarke—Senator, your question that Mr Squire took on notice is of course a direct question to which there is a factual answer but there is a context that I would like to give. The Montara incident of itself was, I believe, a game-changing incident in terms of the regulation of offshore activities in Australia. When Macondo came on top of it—which was a world-scale incident, as we understand—we are now talking about a different sense of understanding about the risks and regulation of these activities. The government's final response on Montara, which will incorporate what we can learn from Macondo, is such that I am very confident that the regime that will apply to future permits for actual drilling, especially in deep water but not only in deep water—Montara, of course, was a shallow-water operation—will have an entirely different feel about them to what was the case 18 months ago.

Senator SIEWERT— I am not suggesting that there has not been a change. I have seen it myself. But, particularly in deepwater areas, there may be some issues that we can never overcome because it is so also. Also a number of things are involved—I do not need to teach you to suck eggs, but there was the regulatory side of things and there was the company responsibility side of things. Many of the things that came out of the US inquiry around what the companies did are very similar to the way that PTTEP also behaved. In other words, some lack of corporate rigourousness—you know it as well as I do.

Mr Clarke—I agree. There were striking similarities between the two incidents.

Senator SIEWERT—Exactly. In some instances you could think you are reading about the same incident. So there are two things here. I have been asking about the regulatory process and I want to get to get to PTT in a minute. My next question was going to be—that led nicely into it—how you can be confident that, for example, BP's corporate responsibility and approach has significantly changed from that that was evident in the Deepwater Horizon incident?

Mr Clarke—First, as Mr Squire has indicated, what has been awarded to BP is an exclusive licence to apply to drill; it is not a permit to start drilling. So the actual question on drilling is still to come. The special conditions that have been imposed on that deepwater Great Australian Bight operation—similar conditions have been imposed on PTTEP's future operations. We believe that the conditions focused on those two companies reflect the experience we have of those two companies in recent times and are an appropriate response, on one part. On the other part, the attention to the overall regulatory regime—the reform and strengthening of it—is the overall response. So how can we be confident? We believe that we are following best practice in applying it and we have future decision points on which we will need to be fully informed and satisfied before those operations commence.

Senator SIEWERT—I want to ask a couple more questions about BP and then a couple on PTTEP. On the acreage that they have been granted under this new licence, am I correct in understanding that it was one that was held before by, I think, Woodside—or were similar areas held by Woodside in around the late 1990s and early 2000s?

Mr Squire—That is correct. There previously was an area under title in the Great Australian Bight.

Senator SIEWERT—And in that same area Woodside did do some preliminary working—am I correct in that also?

Mr Squire—That is correct. There was a well drilled in the Great Australian Bight by Woodside called Gnarlyknots.

Senator SIEWERT—And Woodside decided not to proceed for what reason?

Mr Squire—The well was drilled but my recollection is that it did not get to the target reservoir.

Senator SIEWERT—So they did not go down far enough—is that the point?

Mr Squire—That is correct.

Senator SIEWERT—Did they pull out because they considered it uneconomic—it was too deep?

Mr Squire—The economics of deepwater drilling are challenging. Daily rig rates can be anything in excess of \$750,000 or \$1 million plus per day. Delays in or extensive drilling time can challenge the economics for companies.

Senator SIEWERT—So was that area re-released as a standard practice or was a decision made to put it back when Woodside forfeited it? I apologise if I have used the wrong word. Has it always been since then back out there as acreage or has it been re-released again?

Mr Squire—No, Senator, the payments themselves expired and the acreage in a sense disappeared. Quite often where areas are re-released, if I can use that expression, it is quite often as a result of new information that Geoscience Australia, for example, has acquired—pre-competitive geoscience—something fundamental that has changed in terms of the market or the economics, or improvements in technology. Those sorts of issues may lead to areas that have previously been under title being re-released at a later stage.

Senator SIEWERT—So in this case for this acreage, which of the above was it?

Mr Squire—It was support by new information that had been acquired by Geoscience Australia.

Senator SIEWERT—And that is that it is more prospective than they thought?

Mr Squire—Correct.

Senator SIEWERT—Thank you. I want to turn quickly to PTTEP. Part of the conditions there is a rigorous monitoring program for 18 months?

Ms Constable—That is correct.

Senator SIEWERT—It will be monitored each month—is that correct?

Ms Constable—Who will be undertaking the monitoring? And I understand that the monitoring plan is still being developed—is that correct?

Mr Clarke—For clarity on the record, we are talking about the monitoring that will follow the minister's consideration of the show cause notice and the action plan?

Senator SIEWERT—Yes. The action plan has been released. Some commitments were made by the government—requirements, I should say, that they put on the company that were going to require monitoring. So I am asking about who is going to be doing the monitoring—

Mr Clarke—The department will be responsible for the monitoring, reporting to the minister, but I am sure we will contract in expertise to assist us with that monitoring task.

Senator SIEWERT—Has the monitoring plan been developed?

Mr Clarke—Yes.

Senator SIEWERT—So it is ready to go? You will then be looking for somebody to do that monitoring?

Mr Clarke—Yes. We are talking to the potential experts about their assistance to us in that process.

Senator SIEWERT—Will that information then be publicly released?

Mr Clarke—You are familiar, obviously, with the minister's announcement about the shape of it?

Senator SIEWERT—Yes.

Mr Clarke—The commitment of the government to do the monitoring, and the undertaking of the company to cooperate in that, is captured in a deed of agreement. That deed has been finally executed in the last 48 hours and we will be publishing that deed on our website. That is the formal document that scopes the undertakings of the company and the role of the government in the monitoring. As to whether or not the results of the actual monitoring will be published, I am not sure that a decision has been made on that. I do not know. I would have to take that one a notice.

Senator SIEWERT—If you could, that would be appreciated.

Ms Constable—May I just add to what Mr Clarke was just saying about the website. The deed of agreement, the action plan associated with it and the monitoring program are now public and on the department's website.

Mr Clarke—As of today.

Ms Constable—Yes.

Senator SIEWERT—The deed is there now, is it?

Ms Constable—That is correct.

Senator SIEWERT—The last time I looked—

Mr Clarke—Literally the final execution of this with the various signatories took place over the last 48 hours. So hopefully it is up there right now, if not tomorrow.

Senator SIEWERT—I will go and find it. Thank you for that. My other question was about trigger points. What happens if PTTEP are not meeting their undertakings through the actual plan? Do we go 18 months and they have not met it?

Mr Clarke—No.

Senator SIEWERT—What are the triggers?

Ms Constable—If there are significant problems they will be identified during the course of the monitoring program, which could take the form of discussions with the department, with the DA—designated authority—concerned or, indeed, by the company that will continuously audit the company over the 18-month period. At any point where there is a failure or significant failure to meet the obligations within the action plan then that will come back to the department, which will then provide advice to the minister for consideration about how he might handle that matter.

Mr Squire—The minister made it very clear in his ministerial statement that he retained the right to issue a show-cause notice to PTTEP if he was not satisfied with the implementation of the action plan.

Senator SIEWERT—I did see that in the ministerial statement. My question was around what the triggers are for him making that decision to show cause.

Mr Clarke—The input to that process will be the monthly reports, and you will recall that there is a quarterly regime. There is quite an intensive regime. So it will be that very close monitoring and advice to the minister on the progress horizon.

Senator EGGLESTON—What has been the advice to Treasury or to your department on the selection of a basis for the government's revenue forecasts in terms of the mandatory renewable energy targets?

Mr Clarke—You are talking about the 20 per cent—the large- and small-scale areas?

Senator EGGLESTON—Yes.

Mr Clarke—That program and legislation is administered by the Department of Climate Change and Energy Efficiency, so I am unable to advise you on that.

Senator EGGLESTON—On the question of the carbon tax that is under discussion, can you give us any information about what the likely quantum of the carbon tax might be if one is to be adopted, how it will be set and what mechanisms will be set up to manage its adjustment?

Mr Clarke—I am not able to provide any information that elaborates beyond recent statements by the Minister for Climate Change and Energy Efficiency.

Senator EGGLESTON—That is a little disappointing for this committee. Are you able to provide us with any information about what reduction in demand, if any, has been modelled as a target for the introduction of a carbon tax? What reduction in usage of carbon would we be looking at?

Mr Clarke—Reduction in energy?

Senator EGGLESTON—Yes.

Mr Clarke—It is a very interesting question. To frame it another way—and I will ask my colleague to respond: how elastic is demand in response to an increase in price in that area?

Senator EGGLESTON—Elasticity is the question, yes.

Mr Morling—I do not have any specific estimates on elasticity of demand. If you are talking about modelling the impact of imposing a carbon price mechanism and what that might mean for the demand of electricity, that is really a question for the Department of Climate Change and Energy Efficiency and/or Treasury. If you are asking about what estimates of elasticity are currently out there then we are happy to take that on notice and have a look at that.

Senator EGGLESTON—Do you have any modelling on consumer demand?

Mr Morling—No.

Mr Clarke—What would we draw on for you, Senator, if you would allow us to take that on notice, is the modelling done, for example, by the International Energy Agency in their World Energy Outlooks, where they include scenarios with carbon prices and they make assumptions about elasticity of demand response. We would be happy to provide that data to you on notice.

Senator EGGLESTON—That would be very helpful. Coming to alternative fuels, has there been any estimate made of the impact on, for example, the liquid petroleum gas industry of the introduction of a new excise regime and the wind-back of the LPG conversion assistance plan scheme?

Ms Constable—We are certainly looking at alternative fuels right at the moment. There has been some work that has been undertaken on the effect of the new tax on LPG. That is more of a matter for the Treasury portfolio, which has responsibility for excise.

Senator BUSHBY—Was this undertaken by the department or by Treasury? Surely you must have been involved in that.

Ms Constable—That has been undertaken by the Treasury portfolio.

Senator BUSHBY—In terms of the impact on the industry of the excise?

Ms Constable—The impact on the industry?

Senator BUSHBY—Yes, on the LPG industry. Is that work undertaken by Treasury or by you?

Ms Constable—There have been various studies that have been undertaken by the industry itself. The department has not undertaken a study as such, but the responsibility for excise falls with Treasury. There have certainly been discussions between both, but the department has not undertaken its own study.

Senator BUSHBY—Clearly the responsibility of excise falls with Treasury, but presumably it would be proper for them to consult the department as to the potential impacts on areas of responsibility that fall under this department. I take it they have consulted.

Ms Constable—They certainly have consulted.

Senator BUSHBY—Have you provided to Treasury your views about what impact that may have on the LPG industry as part of that consultation process?

Ms Constable—We have had discussions on that and they are ongoing. Of course, the Treasury portfolio has put out a discussion paper around alternative fuels and a decision on that has been deferred—or the excise on that has been deferred—until 1 December 2011. But the department is not responsible per se for those arrangements.

Senator BUSHBY—I understand they are not responsible. As part of that consultation process, did you provide Treasury with advice that included your view of the potential impacts on the LPG industry from the introduction of that excise?

Ms Constable—We have provided some advice, yes.

Senator BUSHBY—Are you able to provide the dates on which you provided that advice?

Ms Constable—No.

Senator BUSHBY—Will you take that on notice?

Senator Sherry—We will take that on notice. I think it is very unlikely—

Senator BUSHBY—So it is not a denial—you are not saying you will not provide it; you are saying that you cannot provide it today and will take it on notice?

Senator Sherry—I will take it on notice.

Senator EGGLESTON—Can we ask if your advice included modelling at different levels? One would presume it did.

Ms Constable—No, we are not modellers in the department. That modelling capacity is provided by the Treasury portfolio. We provide information as it relates to the industry itself and that can involve a whole range of things, but we do not undertake modelling.

Senator EGGLESTON—Very well. Since you deal with the industry itself, what are your views or what advice have you given on the impact on the domestic ethanol industry of the introduction of a new excise regime, given significant changes to the treatment of domestic versus imported ethanol?

Ms Constable—We have provided advice to the minister on that issue. But information provided to the minister happens in the normal course of our daily work and I cannot provide that information to you.

Senator EGGLESTON—We are interested in it, though, as a group of senators representing the public.

Senator Sherry—I understand your interest; it is perfectly understandable. This was a policy of the previous government. It was announced by Mr Costello six years ago and given an operative date, and the impacts included in the forward estimates. Mr Costello is no longer in the parliament but you are perfectly at liberty to ask previous ministers who would have discussed this. I am sure they would have had advice on it.

Senator BUSHBY—Did Mr Costello proceed with it?

Senator Sherry—He announced it. He said—

Senator BUSHBY—He announced it but did he then take further consultation? Why is it not already in place if he announced it?

Senator Sherry—Because of the operative date—and I do not have that in front of me—he announced it some years hence. Officers may be able to help.

Senator BUSHBY—Was a decision made by—

Senator Sherry—He did not change that decision at all. The announcement was that included in the forward estimates period both for the former government and for this government.

Mr Clarke—The original policy position was five annual steps of phasing in from 1 July 2011 to 1 July 2015.

Senator BUSHBY—And when was it originally announced?

Mr Clarke—Quite some years ago.

Senator Sherry—It was six years ago in the budget—

CHAIR—It was 2003, I understand.

Senator Sherry—I am not sure it was that long ago. But I am sure we could find it, because I recall seeing a copy of the press release last year.

Ms Constable—The original announcement was alongside the 2004 Energy White Paper.

Senator EGGLESTON—Even given the fact that it was the policy of the previous government, I suppose one can ask: will you be maintaining that policy and will you have the same targets?

Mr Clarke—That is what the Treasury consultation paper is about. Again, to put this in the broader context about alternative fuels, which is a far broader policy question—

Senator EGGLESTON—Yes, we agree.

Mr Clarke—and the role of everything from ethanol to LPG and all of the areas between—that is the broader policy question in which this is a current question. That broader policy question is explicitly part of the Energy White Paper process that we are currently working on.

Senator EGGLESTON—I agree there is a broader alternative energy policy and issue, but we were just specifically interested in the ethanol issue and the domestic ethanol industry. But I understand what you are saying and I will leave the matter there, because obviously you cannot provide us with details of advice to the Treasury at this stage.

Senator BUSHBY—I take as read what you tell me about the Howard government, which I was not part of. But the fact is we are here and now and are looking at what is the right decision to make now, not what was decided in 2003 or whatever date it may have been. So I am still interested in the extent to which you have provided advice to the minister. I understand that you cannot tell us what that advice was, but can you tell us whether that advice was provided in writing?

Ms Constable—Yes.

Senator BUSHBY—Would you be able to provide the dates of that advice?

Mr Clarke—We will take that on notice.

Senator BUSHBY—Thank you. Apart from the dates, which I understand have changed, and the dates of introduction, has anything else changed between the policy that was announced under the coalition government and what the current proposal is?

Mr Clarke—I think we would have to take that on notice.

Mr Sheldrick—The original announcement was in the 2003-04 budget. In the 2010-11 budget there was an adjustment to the treatment of domestic ethanol compared to imported ethanol. The original proposal would have seen the domestic ethanol lose its advantages more quickly than the imported. The changes in the 2011 budget have extended that period so that parity between the two now does not occur until, I think 2010.

Senator BUSHBY—That is why I mentioned the dates. I acknowledged there was a change in that. I was wondering whether there were any other policy changes?

Mr Clarke—Within the alternative fuel package?

Senator BUSHBY—Particularly with respect to ethanol—between what the minister has pointed out was announced by the previous coalition government and the proposal that is currently being consulted.

Mr Clarke—I understand the question but I think we need to take that one on notice.

Senator EGGLESTON—I have a question relating to the fact that with the resources boom we are experiencing there seems to be universal consensus that labour shortages will become very critical in the resources industry and others. Does the government have a view about this? And what would the government suggest be done to address the forthcoming project labour shortages in the resources industry?

Ms Constable—Certainly the government has been very concerned about the resources boom and the impact on the economy. A lot of work has been undertaken on this issue, most notably the National Resource Sector Employment Taskforce that was chaired by the Hon. Gary Gray, who at the time was in charge of northern Australia. He conducted this task force and a report has been finalised. The government is currently considering the recommendations within that report and is due to report very shortly.

Senator EGGLESTON—You do not have a reporting date for that or a publication date?

Ms Constable—I do not have a date, but it is very shortly.

Senator EGGLESTON—And you cannot tell us whether he is talking about bringing in tradesmen from other countries, expediting the recognition of foreign qualifications, short-term visas and that sort of thing?

Senator Sherry—No. The response to the report will be released shortly. But I should say that there are other initiatives. I will give you one example: Skills for Sustainable Growth announced in the budget. So there are broader programs and initiatives which certainly impact both directly on resources sector employment and indirectly, through the resources sector, on the broader economy.

Senator EGGLESTON—Yes, I agree with that. I think you would have to agree that it is a major issue facing this country, though, and we do need to find a solution.

Senator Sherry—Well there is no doubt. This an economy that did not have a recession, unlike other advanced economies. What are we—five per cent unemployment? I was in Ireland over the break, where I think it is 14 per cent.

Senator BUSHBY—Are you going to raise Peter Costello in that context as well? You have already raised him once. He did a very good job of getting us into good shape to avoid that.

Senator Sherry—I do not want to take the time of everybody and go through the decisive actions we took. I think you have heard from me on that on many occasions. There is no doubt that skills shortages are emerging, not just in resources. It does impact on other sectors of the economy. But we have just got to wait until the release of that report.

Senator EGGLESTON—I just wanted acknowledgement that it was a very major problem that we are facing, and I am pleased to hear that the government is addressing it. Going back to some questions Senator Bushby asked in relation to the Global Carbon Capture and Storage Institute; in addition to the questions Senator Bushby asked about where the board travels to and what the class of travel is, could you provide information about accommodation—hotel names and costs—for all of these trips and for all of the other

people's travel that the institute pays for? And can we also have some information on the cost of allowances, meals et cetera that it paid for the travelling party on these trips?

Senator Sherry—As was indicated previously, given that we did not have the previous question, we would have to take all those on notice and we will get the answers.

Senator EGGLESTON—There are just a couple of other ones on notice, too, in relation to the same question. Does the department's standard funding agreement include access to the minutes and the remuneration of the personnel involved with the CCSI and the board itself?

Senator Sherry—We will take on notice whether or not that question is explicitly in the scope of the funding agreement.

Senator EGGLESTON—Can you also table in due course the department's standard funding agreement and, in addition, the funding agreements for the institute?

Mr Clarke—This is clearly a question to take on notice, but can I clarify the intent of the first part of your question. When you say 'standard funding agreement', I am not sure what you mean.

Senator EGGLESTON—You must have a standard agreement with—

Mr Clarke—The boilerplate for contracts and grants?

Senator EGGLESTON—No, for travel.

Mr Clarke—I see.

Senator EGGLESTON—And I presume also for other bodies.

Mr Clarke—We would not have a standard agreement on that. Where the department contracts an entity, company or individual to work for it, there is often a provision that we meet their travel costs and there is some arrangement about that. Is that the sort of area you are interested in?

Senator EGGLESTON—That is right. I would have thought that there would be a basic arrangement or set of conditions that were offered to groups that you fund.

Mr Clarke—I think I understand the point of your question: what is our normal arrangement where we are paying—

Senator EGGLESTON—I am looking to see if there are any differences between that standard agreement and the agreement struck with the CCSI.

Senator LUDLAM—Can you tell us where the energy and security white paper is at?

Mr Clarke—Can I clarify? There is energy and security and the energy white paper. Where do you want to start?

Senator LUDLAM—Let's start with the white paper.

Mr Clarke—As to the energy white paper process, understanding the committee's and, indeed, many stakeholders' interest in progress on the white paper, we have just been finalising a fact sheet—about a four-pager—that explains the process. I am hoping that will be published on our website today, tomorrow or in the next few days. But I am happy to take you through that now.

Senator LUDLAM—Maybe just give us a very brief capsule description of it and then we will just keep an eye on the website.

Mr Clarke—The headline in this process update that we are releasing publicly is 'Reaffirming the commitment to the production of the white paper', forecasting that a draft of the white paper will be released within the next 12 months for public comment with a view to the document being finalised during 2012. There is a specification of the work streams that are feeding into it: the headline national energy security assessment, which relates to the second part of your question; an independent review of investment activity in the Australian electricity generation sector; a review of the development of Australia's gas resources; a policy analysis of alternative fuels; the response to the report of the Prime Minister's Task Group on Energy Efficiency; and work underway in the Australian Centre for Renewable Energy about renewable energy development. So those work streams are all underway now and will feed into this draft white paper.

Senator LUDLAM—You are giving yourself at this stage another 12 months to actually produce the draft?

Mr Clarke—Correct. The context for that is the view that the minister has stated publicly and has reaffirmed in this fact sheet that certainty around climate change policy is pretty much a precondition for

having a robust, long-lived energy white paper. Therefore, the climate change policy debate needs to run its course before you can get to the end stages of the white paper process.

Senator LUDLAM—The other factor that obviously weighs heavily is the balance of imports and exports of fuel.

Mr Clarke—Yes.

Senator LUDLAM—Particularly at the moment, I think, the whole planet is watching the world oil price and wondering where it is going to go. Does the government agree with the IEA's view that conventional oil actually peaked in 2006? That is quite a turnabout for that agency.

Mr Clarke—We note the IEA's work, but I am not sure that your characterisation of their statements is my understanding of it. Are we talking about the World Energy Outlook 2010 and their peak oil—

Senator LUDLAM—Yes. Last November they said, 'We believe conventional oil peaked at about 3½ million barrels per hour in 2006' and they are expecting unconventional fuels to pick up the slack.

Mr Clarke—I do not know that I would like to commit to saying the government agrees with the IEA's analysis, but we note and respect the IEA's analysis. We are not disputing it.

Senator LUDLAM—Generally, when the minister is asked his view on energy security in particular—setting the climate argument aside for the moment and talking just about liquid fuels—he tends to segue immediately into 'That is why we need more drilling in the Great Australian Bight' or wherever he is promoting at any given time. Is there a recognition in government or in the work in progress on the white paper that we are not going to be able to drill ourselves out of oil vulnerability—that we actually need some quite substantial changes in the way that we transport ourselves around, for example?

Senator Sherry—Just before the secretary responds, I think your characterisation of Mr Ferguson's segue is somewhat simplified—very simplified. I do not believe that, if you examine his public comments and speeches et cetera, he would segue, as you term it, in the somewhat exclusive manner that you have referred to.

Mr Clarke—To put it into context, let me give you my take on the IEA's analysis, which you are starting with as the context for this really important debate. The IEA's 2010 analysis I thought was important conceptually in the way they reframed the peak oil debate and put it in the context that there will logically be a peak of oil production and consumption this century and it will decline. Most observers would expect and indeed welcome it for obvious reasons. What will determine that peak is not limitation on production; it will be a peak of demand, which will turn on the price—the other side of this loop. So peak oil is peak demand, because the oil can be produced but at a price at which consumers will choose alternatives or reduce consumption. That is the market at work.

That is the headline description, for me, of the IEA. They postulate scenarios under which that might occur in the near term or medium term, depending largely on climate policy as a key determinant. The 450 ppm scenario was the one in which the peak demand happened before 2020. In the current policy scenario it kind of flatlines from 2020 out for some decades, as I recall. So that is the broader policy context. When you talk about energy security, that term to me means the reliability of supply and the cost of supply to domestic consumers. That is a related point but not the same. There is no question that what happens in the oil and gas industry domestically has an impact on domestic oil security.

Senator LUDLAM—I accept that distinction. We had a good exchange earlier in the week with the department of climate change on this issue and with some other departments as well. I am specifically asking more about liquid fuels and the balance of payment situation that we are ploughing into, which the minister has acknowledged on a couple of occasions, and the fact that we do not appear to be remotely ready for an oil price shock like we saw the beginnings of in 2008. I am just wondering, beyond promoting more extensive drilling—and the minister does tend to lead with those arguments, even though I acknowledge it is not all that he says—about the draft white paper to be produced in 12 months' time. Is there any planning going on around transitioning out of hydrocarbons or out of fossil fuels, at least in the transport sector?

Mr Clarke—Again, I am sorry to take you back to the premise rather than leaping straight to the response. I do not accept or it is not obvious to me why your proposition that we are not ready to take it is so special or exclusive to Australia. The global oil price phenomenon is a global phenomenon.

Senator LUDLAM—That is a fair point. I do not think anybody is particularly ready. But for example the Queensland state government has been doing oil vulnerability assessments of what the state could or should be doing for quite some time. No other state or territory has bothered to do that.

Mr Clarke—Let me now respond to the second part of your question.

Senator LUDLAM—Just let me put the third part: what is the Commonwealth doing in regard to that?

Mr Clarke—What we are doing is the second National Energy Security Assessment, NESA. That is one of things that is touched on in that Energy White Paper process as inputs to it. This is a formal process to assess the current status of energy security in Australia and our understanding of it—a projection of what it will look like in the future. That is oil, gas, electricity—overwhelmingly is the issue. So we are most assuredly analysing this very closely to understand it. But I draw the distinction between the technical economic definition of energy security, which is the availability of the product to the consumers that need it at a price they can afford, versus the more strategic issue of when will oil price be so high that alternatives will get a large share of it. They are related but not the same issue.

Senator LUDLAM—I understand the distinction you are drawing. That study that you were speaking of specifically there—does that have a publication schedule?

Mr Clarke—The intent is that that will be a public document by the middle of this year as a public input to the Energy White Paper process.

Senator LUDLAM—Thank you for that. My final question to consider is this. Analysing when the price may spike is different to being prepared for it when it does. Having a view on when that peak of production is and we need to deal with less every year rather than more is different to actually being prepared. So I draw your attention again to what Queensland has been up to, which is very different. They are just accepting that sooner or later we will be priced out of cheap oil and moving on with what the transition looks like. Is any of that sort of transition planning going on at a Commonwealth level?

Mr Clarke—This is really, in my language, the alternative fuel policy area—is that right?

Senator LUDLAM—There is quite a bit more to it than that. It is alternative agriculture policy, it is alternative waste policy, it is alternative transport and public transport—it is fairly deep and wide.

Mr Clarke—From an energy policy perspective, the alternative fuel element of that broader economic debate is most definitely part of the Energy White Paper process that we are doing. It is also touched on briefly in the fact sheet that we are releasing this week.

Senator LUDLAM—I look forward to seeing the fact sheet, and maybe if I could encourage even the publication of an interim interim white paper around mid-year when that other assessment has been—

Mr Clarke—The intent is that the products listed—the ones I ran down the headlines of—are progressively released to inform public debate on that matter.

Senator LUDLAM—Thank you; that is all helpful. I might just put this question on notice. The Australian Coal Association has made a billion-dollar commitment to the COAL21 fund for carbon capture and storage. I am keen to find out how much of that, if any, has actually been spent—not committed to but spent on the various commitments that the Coal Association has made. My understanding is that that was a 10-year commitment, and they are lagging quite seriously in the spending. Could you take that on notice?

Mr Clarke—Certainly.

Senator LUDLAM—I am also interested to know whether the Commonwealth has any idea—because there is nothing on the public record that I am aware of—about the greenhouse gas consequences of the Greater Sunrise project in the Territory. There does not appear to be anything on the public record at all.

Mr Clarke—You are talking about what are the forecast emissions from the production of that gas?

Senator LUDLAM—That is right. There does not appear to be anything in the EIS, so if you could take that on notice, please.

Mr Clarke—Certainly.

Senator LUDLAM—Finally, this is a question that I also put to your Environment colleagues. The gas industry says that using natural gas is four to nine tonnes better than using coal. They rest their entire case on a Worley Parsons study in 2008 which was conducted for, I believe, Woodside—and nobody has seen it. All

right, that is not true; the Environment bureaucrats have seen it but it has not been put into the public domain. Has the department got it and could you table it for us?

Mr Clarke—We do have it. Whether there is any reason why it is not on public record I would have to take on notice.

Senator LUDLAM—If you could take that on notice—firstly, whether the department agrees with the contentions in that study; and, secondly, whether that could finally be put into the public domain.

Mr Clarke—Senator, in taking that on notice can I frame the response. You are asking whether we think that that range of four to nine tonnes—and we understand that this is about Australian LNG displacing coal in a Chinese power station—

Senator LUDLAM—That is the model, yes.

Mr Clarke—That is the range. So you are asking whether we think that range is realistic and whether we can—

Senator LUDLAM—Substantiate it.

Mr Clarke—Can we substantiate it and publish it? I am happy to take that on notice.

CHAIR—I thank the resources and energy officials for their assistance. We will move to Geoscience Australia.

Geoscience Australia

Senator COLBECK—I have some very quick questions about some research that was conducted in Bass Strait recently. There have been some allegations around impact on scallops. Just to get my hierarchy straight, it was funded by the Commonwealth through Geoscience Australia. It was approved by Tasmania through their auspices. It was conducted by the Victorian government. So they are effectively the three entities that were involved in that process?

Dr Pigram—I think that is correct, Senator.

Senator COLBECK—What research are you aware of on the public record—or are you aware of, I suppose—in relation to the potential impacts on scallops of seismic testing?

Mr Squire—Senator, there is a study on the public record that was undertaken by Exxon Mobil back in 2003-04, from memory, which was a study of the potential impact of seismic operations on the mortality of scallops.

Senator COLBECK—So 2003?

Mr Squire—I will take the question on notice in terms of the exact date of that study, but that is my recollection.

Senator COLBECK—And what is your recollection of the results of that study?

Mr Squire—The conclusions from that study indicated that there was no increased mortality impact on scallops as the result of seismic operations.

Senator COLBECK—Over what time frame was the study taken? Was it taken in the immediate time frame around the seismic testing or was there any longer tail to the research?

Mr Squire—I will take that question on notice if that is okay. I do not recall all of the details of the study.

Senator COLBECK—I am more than happy to read a report. If you can, perhaps as part of that question, direct me to a website or somewhere where I might be able to pick up that report.

Mr Squire—Certainly. There has been a more recent study as well as a result of the issues experienced towards the end of last year, and we will certainly look to see whether we can provide that to you as well.

Senator COLBECK—But my understanding is that that was taken, again, over a short time frame. I think it was somewhere around six weeks before, during and after the seismic testing. And from the information I have been given, the allegations of impact did not manifest themselves within that the time. I am aware of that report that indicates not much impact, but from the information I have been given the impact has manifested itself over a longer period of time. Is that—

Mr Squire—I will take those elements on notice.

Senator COLBECK—Can you give me an indication of what discussions you have had with the industry in and around that process? Obviously there has been an agreement or there has been some project work done around it, but what conversations have you had since?

Mr Squire—I am sorry—

Senator COLBECK—You have not had any meetings or discussions with the scallop industry since the seismic testing or since the completion of the study?

Mr Squire—I have not had any discussions with the Tasmanian scallop industry on this issue.

Senator COLBECK—And you are not aware of anyone in Geoscience Australia that has?

Dr Pigram—Geoscience Australia is not having those discussions.

Senator COLBECK—You have not had any claims or correspondence or anything of that nature in relation to this to get a sense of what the effects might be?

Dr Pigram—Not that I am aware of, but I am happy to take it on notice and check for you.

Senator COLBECK—If you would, please. Perhaps you are about to—I don't know.

Mr Clarke—Forewarned!

Senator COLBECK—Pending that information, I think I will leave it there. That gives me a toe in the water, so to speak, and we can perhaps have some further conversations down the track.

CHAIR—Thank you, Dr Pigram and Geoscience Australia, for coming in today. We will move to the Department of Resources, Energy and Tourism. The Tourism Division and Tourism Australia will be heard together.

[5.51 pm]

Department of Resources, Energy and Tourism

Tourism Australia

CHAIR—I welcome department representatives and Tourism Australia. We will start with the department. Do you have an opening statement that you would like to make?

Mr Clarke—No, chair, we do not.

CHAIR—And Tourism Australia?

Mr McEvoy—No, chair.

Senator EGGLESTON—First of all, Mr McEvoy, are you aware of any proposal by the government to resume Tourism Australia within the department?

Mr McEvoy—No, I am not aware of it.

Senator EGGLESTON—So that is not a proposal under consideration?

Mr Clarke—For the record, neither is the department aware of it.

Senator Sherry—Neither is the minister.

Senator EGGLESTON—What is the date of the most recent statement of expectations Tourism Australia has received from the minister?

Ms Madden—The statement of expectations was provided to TA on 3 February 2010. It is available on the website. As noted in the paragraph, it continues in its current form from time of receipt until otherwise amended.

Senator EGGLESTON—Can you quickly highlight the main points of that?

Ms Madden—Certainly. As the document states quite explicitly, it is a statement of expectations for Tourism Australia from the Minister for Tourism. It provides detail on the role of Tourism Australia consistent with the objects of the Tourism Australia Act. It outlines expectations and priorities. I am happy to provide a copy of this to the committee. It also highlights the relationship with the minister and reporting requirements, communication with the department and consultation with state and territory tourism organisations. It also has a brief reference to the responsibilities and expectations of the minister with regard to financial management.

Senator EGGLESTON—Thank you very much. Can you table that for the information of the committee. What is the date of the most recent statement of intent sent from Tourism Australia to the minister? That was the statement of expectation; this is the statement of intent.

Ms Madden—TA responded with a statement of intent to the minister on 6 April 2010.

Senator EGGLESTON—Thank you. Are we able to have a copy of that?

Ms Madden—Yes, I believe that is also available on the website.

Senator EGGLESTON—That is very easy.

Ms Madden—And we can provide a copy to the committee.

Senator EGGLESTON—I would like to ask you some questions about your current organisational structure. Firstly, have the titles or responsibilities of any of the executive team changed in the last three months?

Mr McEvoy—No, not in the last three months.

Senator EGGLESTON—If we were to make it the last six months, would it be a different answer?

Mr McEvoy—No, it would not.

Senator EGGLESTON—Has there been any change over the last year?

Mr McEvoy—We announced some structural change on 4 February going forward, which takes full effect on 1 July.

Senator EGGLESTON—Do you want to outline those changes briefly?

Mr McEvoy—I can. It is aligning our structure to the national long-term tourism strategy and the tourism industry potential—the future growth of the industry. As to the titles across management, obviously there is a board reporting to the minister, me as managing director and then five key areas of focus: corporate services and board secretariat, consumer marketing, destination development, marketing operations and corporate affairs and strategy. That is the structure going forward.

Senator EGGLESTON—I suppose that was really done to make your operation more effective, focused and efficient?

Mr McEvoy—Correct.

Senator EGGLESTON—Do you think it will? Is it too early to tell?

Mr McEvoy—It is too early to tell. We announced it on 4 February and now we are working through it. It is very much intended to line up with the strategy for the next decade to improve capability and, to your point, make it more efficient and effective.

Senator EGGLESTON—Were there any corporate cost savings initiatives implemented by Tourism Australia over 2010-11 or 2009-10? If there were, what was the value of each cost saving and the total cost of all of the initiatives each year? Can you put that together for us?

Mr McEvoy—I will answer it in part; then we might take it on notice with the detail. As all good organisations should, we certainly look at how we can save money in some areas to bolster the areas that make the most difference, particularly in terms of tourism marketing. We have certainly done a bit of that in this year. But, if you do not mind, I will take it on notice and we can perhaps provide some more detail.

Senator EGGLESTON—Thank you—with the additional question of whether the cost saving is ongoing or temporary. Can you break it up like that.

Mr McEvoy—Yes.

Senator EGGLESTON—Next, what is the total cost of all wages for Tourism Australia employees? Can Tourism Australia provide a five-year comparison of staffing numbers and staffing costs from 2006-07 to 2010-11, taking out Tourism Research Australia employees in the earlier years to allow for a like-on-like comparison? You might like to take that on notice unless you can give a quick answer.

Senator Sherry—Yes, we will take it on notice. I think most, if not all, of what you have outlined would be in past annual reports, but we will take it on notice. We will need a bit of time to compile the data.

Senator EGGLESTON—I understand that. The next question relates to the number of premises leased by Tourism Australia. Could you give us a list of premises—this will presumably be on notice too—the total rental cost per annum for each premises, the address of each premises leased by Tourism Australia and, where

Tourism Australia joins another agency or department in a premises, what, if any, contribution is paid by Tourism Australia to the operating costs of that premises?

Senator Sherry—We will take that on notice. I assume that is international as well as domestic, Australia?

Senator EGGLESTON—Yes. Related to that, what are the land and buildings owned by Tourism Australia valued at at this point in time—do we know?

Mr Le Loux—We do not own any buildings ourselves.

Senator EGGLESTON—You do not own anything at all?

Mr Le Loux—No land or buildings, no.

Senator EGGLESTON—That means that the premise upon which that question is asked is completely wrong—you do not own any land or buildings whatsoever. Of the expenditure in program 1 for industry development, what proportion would be spent either in Australia or in Australian dollars? Do you need to take that on notice?

Senator Sherry—Yes, we will take that on notice.

Senator EGGLESTON—The funding for program 1.1 has reduced this year by \$1.7 million, or about 12 per cent. What is Tourism Australia no longer doing that it was doing last year—what caused that reduction?

Mr Le Loux—That reflects the residual transfer of funding to the department regarding Tourism Research Australia.

Senator EGGLESTON—According to your statements, it seems that the funding is going up again in the coming year. How is that explained?

Mr McEvoy—By ‘the coming year’ do you mean the next fiscal year, 2011-12?

Senator EGGLESTON—Yes, I do. If you can operate on a smaller budget this year with efficiencies, why, in effect, are those savings not ongoing?

Mr McEvoy—It could be things like timing. Some events we run, for example, every two years. But let us take that on notice.

Mr Clarke—The other factor that is probably reflected in those numbers is that there was a \$9 million bring-forward, and in that budget we are looking at the correction of that back to the steady state. But we will spell it out in the answer on notice.

Senator EGGLESTON—Thank you. Of those research activities that remain active within Tourism Australia, such as consumer behaviour and other such forms of research, has Tourism Australia’s procurement of, or expenditure on, research been reduced in 2010-11? Are you doing less research than you did previously?

Mr McEvoy—We will take it on notice.

Senator EGGLESTON—Is there a reason for hesitating on that?

Mr McEvoy—Not really. I do not think we are doing any less, to be honest. I just want to make sure that I do not mislead you, so I will take it on notice.

Senator EGGLESTON—All right. Is it correct that a \$195 registration fee is being charged for tourism industry participants to attend the Australian Tourism Directions Conference, which seems to be quite high for a participation fee, particularly where Tourism Australia is seeking to define ‘a long-term vision for the Australian tourism industry’—

Mr McEvoy—That was the fee for last year. I would argue the alternative to that: I would say that that is a fairly low fee for a high-quality tourism conference. The satisfaction rating for that conference, just for your information, was 99 per cent—so the 300-plus people who showed up believed they got value for their money.

Senator EGGLESTON—That means three did not, though, so—

Senator Sherry—I have been to a lot of conferences over a long period of time as a minister, and that is probably as good a satisfaction rating as you could ever get for a conference.

Senator EGGLESTON—I do agree; that sounds remarkably good. But was that fee the result of government budget cuts for the current year?

Mr McEvoy—No. To be honest, I think the fee was to make sure that operators who came had some skin in the game—they value it more when there is at least something. And it was a bit of cost recovery. And, as I

said, it was a highly valued conference. It will become an annual conference and is sought after by the industry.

Senator EGGLESTON—Very good. I have some questions relating to program 4, Tourism related initiatives and management. What has been the cost of the work done so far on the proposal to resume Tourism Australia within the department?

Mr Clarke—There is no proposal to change the governance structure with TA as a statutory body.

Senator Sherry—We answered that first up.

Senator EGGLESTON—All right. Is the Minister for Tourism a member of the regional Australia cabinet subcommittee?

Mr Clarke—Yes, he is.

Senator EGGLESTON—In 2009-10 and 2011-11 to date, what was the total contribution of industry sources to each Tourism Australia campaign or trade event?

Mr McEvoy—We will take that on notice.

Senator EGGLESTON—And could you please list the amount contributed by each industry source?

Mr McEvoy—Sorry; can I clarify what you mean by ‘each industry source’?

Senator EGGLESTON—The question talks about industry sources’ contribution to each Tourism Australia campaign or trade event. Presumably it means tourism industry participants.

Senator Sherry—But do you want the names of the actual companies?

Senator EGGLESTON—No—the question asks for the amount of money they contributed; it does specify the companies concerned. If you can do that, that would be helpful information.

Mr McEvoy—Okay; thanks.

Senator EGGLESTON—A draft paper on options for a future tourism grants program was provided to the Minister for Tourism prior to the election. Can you tell us what the recommendations were, and is it possible to table the report?

Ms Madden—The tourism grants program, taking into account the briefing provided to the minister, was reflected in the announcement made by Minister Ferguson on 7 February this year, when a new round of TQUAL Grants funding opened. It is a redesign of the previous government’s Australian tourism development program and it aligns the work on competitive grants more clearly with the National Long-Term Tourism Strategy. There is a raft of material about the grants program—information that I am happy to table and that is available on the website.

Senator EGGLESTON—That would be very helpful. Regarding the Business Events Strategy Implementation Group, could you provide us with the following information. What is the budget provided for the operation of the group, what secretarial services are provided to the group, who are the members of the group, what are the 19 recommendations that the group has been asked to implement, and could you please list them for the purposes of the committee?

Mr McEvoy—There is a lot of detail there. We could talk broadly about it but it might be better to take it on notice and give some detail.

Senator EGGLESTON—Do you want to make some general, broad comments initially?

Ms Madden—The Business Events Strategy Implementation Group was established to implement and develop some recommendations that were delivered to the Minister for Tourism on 28 October 2008. It provided an initial progress report to the minister on 12 March 2010 summarising some of the recent developments then in the business events industry and the activities in particular of Tourism Australia’s Business Events Australia unit. Then it continued to progress its work throughout the course of last year, with a second and final report delivered to the minister early this year. There has been associated with this the development of a business events fact sheet, so we have better tracking by Tourism Research Australia of business events statistics. That fact sheet, which is available, highlights that there has been a significant recent improvement in the activities of the business events sector. Again, we are happy to table that information for you.

Mr McEvoy—Just adding to that, in the year ending 2010, conference and convention arrivals are up 19 per cent and overall business arrivals are up 15 per cent. That sector has bounced back. There are a lot of great

projects that have come out of that group, including a combined effort to get association business. We are working with 16 bureaus across Australia and we are doing the same project work in corporate meetings and incentives. So it has been a very good process, we have had a lot of very good outcomes and they are being followed through.

Senator EGGLESTON—That sounds very good indeed. Are you bringing in international groups or conventions for various bodies?

Mr McEvoy—Yes. As a good example, an incentive group from Amway in China bought 8,000 people into Australia—2,000 a week over four weeks. It generated, on its own, \$42 million in the economy. So things like that are coming back after the global financial crisis. Companies are looking to reward their staff or their contractors and bringing them to Australia is very much in the forefront. So there is good growth in the international business. We are very active in partnership with the capital city and state convention bureaus.

Senator EGGLESTON—That is very good indeed. Congratulations on that. With respect to the international engagements of the Minister for Tourism, can you tell us how many countries the minister has visited over the last three years in his role as Minister for Tourism?

Senator Sherry—We would have to take that on notice unless someone has the details readily at hand.

Mr Clarke—We will need to clarify the technicality that, of course, the minister wears two hats—the Minister for Resources and Energy and the Minister for Tourism. When he travels overseas, more often than not he takes appointments and engagements in both of those roles. So, with that qualification, we may have some of the data available.

Senator EGGLESTON—That would be very helpful if you could do that, together with, if possible, a list of all of the meetings that the various ministers have had in their roles in the tourism portfolio outside Australia.

Senator Sherry—Did you say ministers?

Senator EGGLESTON—They list both you and Minister Ferguson.

Senator Sherry—I can tell you that I have only had two meetings and that was on a private visit—it was not funded by the government. I did have two meetings in London that were specifically related to tourism at the Tourism Australia office in London. I can get you the details of that. But that was a private visit—it was nothing to do with the Australian government.

Senator EGGLESTON—Given that it was a private visit, I think that it is probably not relevant. Thank you very much, however, for that information. Now to staff allocated to program 4, excluding those at Tourism Research Australia. What is (a) the total number; (b) the number of full-time, part-time and casual; (c) the number and range of salary bands available, including for senior executive service officers, and the total cost of staffing expenses for 2010-11?

Mr McEvoy—That question is for Tourism Australia?

Senator EGGLESTON—No, it is for Tourism Research Australia.

Mr Clarke—TRA is a branch within Ms Madden's division. We are happy to provide you with that information on notice.

Senator EGGLESTON—Thank you. Again relating to Tourism Research Australia, what is the split between the Commonwealth appropriation and external revenue from STOs and other external revenue projected from the years 2010-11 to 2013-14? Is it possible to be given that on notice?

Mr Clarke—I am sure we could take that on notice. We would be able to give you a projection of those external revenues.

Senator EGGLESTON—Thank you. I have similar questions on the staff of Tourism Research Australia: the total number of staff; the number of full-time, part-time and casual; the number of and range of salary bands available, including senior executive service; and the total cost of staffing expenses for 2010-11.

Mr Clarke—We will take that on notice.

Senator EGGLESTON—What proportion of the program support funding for program 4 is allocated to the establishment or implementation of the National Long-Term Tourism Strategy—again, for each of the years from 2010-11 to 2013-14? I would imagine that should be on notice as well.

Mr McEvoy—I am just struggling to understand program 4. It sounds like this question is being asked about TRA.

Senator EGGLESTON—It is under tourism related initiatives and management. Is that a familiar—

Mr Clarke—Apologies, Senator—we have clarified that. The language ‘program 4’ means that you are asking how much of the department, as opposed to the agency, is working on the National Long-Term Tourism Strategy. We would be happy to provide you with that information on notice.

Senator EGGLESTON—How will the government’s \$6 million election commitment for the National Long-Term Tourism Strategy be allocated in each financial year and for each working group?

Ms Madden—The proposals with regard to the expenditure of that \$6 million increase in funding for tourism are being determined. Tourism ministers will be meeting on 14 and 15 April. One of the key agenda items they have in front of them is the two-year forward work program and associated budget. We have had a range of discussions with senior officials from all of the states and territories, TA and the department, and there are a number of proposals being developed with regard to that expenditure to meet the deliverables and expected outcomes from the National Long-Term Tourism Strategy, but I will be able to give you further details once ministers have considered and discussed that in Darwin at their ministerial meeting.

Senator EGGLESTON—I understand there was an additional \$40 million allocated to the TQUAL grants program as part of the government’s election commitments. Firstly, how will this \$40 million be allocated in each financial year—will it be, for example, \$10 million a year? That might be answerable immediately, I suppose, rather than on notice.

Ms Madden—Yes, it is the TQUAL grants program, which I elaborated on a bit earlier. We have provided information on that. That \$40 million is over four years, with two types of funding available. As to the Strategic Tourism Investment Grants and tourism quality projects, as I mentioned, the latter program is now up for allocation and it is expected that the \$40 million will be spent over four years—\$10 million per annum in those two categories.

Senator EGGLESTON—Will there be an annual funding round?

Ms Madden—That is the understanding that I have.

Senator EGGLESTON—Has any of the \$40 million been allocated to meet specific election commitments or will the entire pool be distributed on application by the department?

Ms Madden—No money has been allocated to meet any regional or election commitments. As I mentioned, the \$40 million will be over four years through these two types of funding programs—the first of which is now available and open for application.

Senator EGGLESTON—Is it possible to say what part of the \$40 million will be distributed as grants and what part will be allocated to administration and advertising expenses?

Ms Harman—All of the money is grant money. Of course in actually administering a grant program there may be some items that will be able to be used to take forward the program that will be more of an administrative nature. But I cannot actually give you a figure on that at this point in time. To some extent that will depend on the types of projects that come forward.

Senator EGGLESTON—Thank you very much for that answer. The first key performance indicator for program 4 is:

Extent to which tourism interests are considered and reflected in the broader context of Australian Government policy development and implementation, including in relation to labour ...

That is in the portfolio budget statement at page 37. To what extent were tourism interests considered and reflected as part of the government’s award modernisation process?

Ms Madden—I am not sure what document you are referring to, but the portfolio additional estimates has as the first KPI something different to the item that you have just read out.

Senator EGGLESTON—It says the KPI for program 4.

Ms Rose—Following some feedback from the ANAO regarding our performance indicators in our portfolio budget statements we did a complete review of our key performance indicators and they were published in our portfolio additional estimates statements. We have actually done a complete update of our KPIs and now have a different set for each program, including program 4.

Senator EGGLESTON—Thank you very much. So we need to have a look at them.

Ms Rose—Would you like a copy of the additional estimates statements tabled?

Senator EGGLESTON—If you would, that would be very helpful. Related to that, to what extent were tourism interests considered and reflected as part of the government's decision to increase the employer funded superannuation guarantee from nine per cent to 12 per cent?

Ms Madden—Can I note that some of the issues you are raising, including with regard to award modernisation and superannuation, are issues that are being discussed under the labour and skills working group of the National Long-Term Tourism Strategy. I am aware that there has been ongoing consultation with some of the industry members of that working group, such as Restaurant and Catering Australia and the Australian Hotels Association with regard to both those issues you have mentioned, and that their views in relation to those aspects have been taken into account by the government in framing their policy approaches. As I said initially, this is something that is being worked on under the long-term tourism strategy but the primary responsibility for those matters, including the award modernisation, rests with the employment and workplace relations minister and department.

Senator Sherry—And superannuation rests with Treasury. With another hat on, I will be in the Treasury estimates on the superannuation retirement incomes areas.

Senator EGGLESTON—Thank you very much.

Senator Sherry—But that is not a question for today.

Senator EGGLESTON—No, I understand the point you are making. Tourism Australia program 1.2, Strengthening the travel distribution system—there are some details of the total program expenses in a table that I have here. Of the expenditure in program 1.2, what proportion would be spent in Australia or in Australian dollars?

Mr McEvoy—We will take it on notice.

Senator EGGLESTON—Given that the funding for this program has been reduced by \$2.1 million, or about 12 per cent, this year, what is Tourism Australia no longer doing this year that it was doing last year to have recorded that reduction in expenditure?

Mr McEvoy—We run an event called Dreamtime which is a business event showcase for our country. It happens every two years. In that year it did not occur, which is part of the reason for the reduction. There was also some loss of industry revenue for another big trade show we run called the Australian Tourism Exchange. As you would recall, that was the year of the global financial crisis, so fewer operators were able to participate. Those are the two reasons for the reduction.

Senator EGGLESTON—Thank you very much. You are continuing to run the Australian Tourism Exchange, I take it.

Mr McEvoy—Yes, that is on in Sydney on 2-8 April. It is back bigger and better than ever. People are much more confident. We have more than 700 Australian sellers and more than 600 international companies coming, and there is even a waitlist of operators—so very good and positive signs for the industry.

Senator EGGLESTON—That is very good. I have been to that several times and it is a very good presentation that you put on. Could you please provide a list of each trade event which Tourism Australia organised, coordinated or participated in in the years 2009 and to date in 2010-11? I suppose these questions should really be taken on notice if there are too many of them. What was the name of each event, where was each event held and what was the financial cost to Tourism Australia for each event or what was the profit returned to Tourism Australia for each event?

Mr McEvoy—Just to clarify the years: you want 2010-11—

Senator EGGLESTON—The years 2009-10 and 2010-11.

Mr McEvoy—Thanks. It was provided on 28 October 2010 but I am happy to provide it again. I actually have it here.

Senator EGGLESTON—Thank you. Do you wish to table that?

Senator Sherry—Sorry, just to recollect—you asked something about the profit? I do not think that is there. Could you just refresh—

Senator EGGLESTON—What was the financial cost, meaning loss, or profit returned to Tourism Australia for each event?

Mr McEvoy—Thanks. I will take it on notice in total so I can give it to all as one.

Senator EGGLESTON—Very good. As of 1 July 2010, what is the number of travel agents in Australia involved in the Aussie Specialist Program?

Mr McEvoy—The Aussie Specialist Program is an international program. It is not something we run in Australia. There are, I think, somewhere around 25,000 international travel agents who are registered to participate. Something like more than 13,000 or 14,000 have actually gone through the training and the modules. In Australia the travel distribution system is very important, but consumers are also much closer to the product and are more likely to book. We do not have to train the local travel agents on the Australian product—they know it well—whereas globally when we create consumer interest we need to make sure that we have those agents well able to sell, so we run the training program internationally.

Senator EGGLESTON—What countries are they in?

Mr McEvoy—Pretty much every country we are in, all across the world. I think there would be more than 20 countries which have Aussie Specialist agents.

Senator EGGLESTON—Which country has the highest number?

Mr McEvoy—The US has almost 2,000 Aussie Specialist agents. In fact it was interesting with the Oprah Winfrey project that in anticipation of capitalising on that we had more than 300 agents go through their eight-hour module in a week just so that they could be a part of it. So it is a very strong program there, a very strong program in the UK and a very strong program through Europe and Asia.

Senator EGGLESTON—Excellent. It sounds like a very useful program that you are running. As to the key performance indicator for program 1.2, what is the percentage of stakeholders indicating that Tourism Australia assists their business, and can you provide a five-year history of this KPI as achieved by Tourism Australia?

Mr McEvoy—We will take it on notice. We do an annual stakeholder survey from which we can provide that information. We do not have it here, so we will provide that on notice.

Senator EGGLESTON—If you would, thank you very much. More generally, how is our tourist industry going? Have we found increasing numbers of inbound tourists?

Mr McEvoy—Yes, last year was a good year. We had 5.4 per cent growth in inbound tourism, remembering that in the previous year it was zero—no growth, no decline. In 2009, world tourism dropped by four per cent and Australia held its own. For last year we do not have the world numbers, I don't think, but certainly Australia's performance was solid—5.4 per cent growth. There were some real stand-outs there in China, which was up about 22 per cent or 24 per cent. Japan had a good return—up 12 per cent. There were really strong markets like Malaysia, Singapore and Indonesia. A markets that is still a bit sluggish is the UK. France was very good for us, Germany was a bit flat and the US was a bit flat. New Zealand continues to grow off very big numbers. We had good growth last year. There are more than 1.2 million trips taken out of New Zealand. All in all, it was a good return to form, I guess you could say, from an inbound perspective. Interestingly, domestic tourism also had some growth last year. They were small numbers, indeed, but I think it was one per cent up in terms of numbers and two per cent up in terms of dollars spent. So, from an industry perspective, there was good inbound growth and a return to growth in domestic, so 2010 was a much better year than the previous year.

Senator EGGLESTON—What about outbound tourism? I know that in the north-west of Western Australia, for example, the competition from cheap airfares and cheap hotels in Bali had quite a strong effect on tourist centres like Broome and Exmouth—and, I gather, also on those in North Queensland. I am just wondering what the current situation is with respect to that sort of competition.

Ms Madden—The result for the calendar year to 2010 was up 13.2 per cent in growth in travel from Australia to 7.1 million, which was significant growth—higher than the inbound that Andrew has outlined. But this was actually slightly lower than the amount projected by the Tourism Forecasting Committee, which was 15 per cent. So it was significant growth, reflecting some of those factors that you have outlined, but it was actually a bit less than had been anticipated by the Tourism Forecasting Committee.

Senator EGGLESTON—That is very interesting. What is the projection for this year?

Ms Madden—The projection for this year is an increase of 7.7 per cent to 7.8 million departures—so continuing growth.

Senator EGGLESTON—What are your projections for the domestic tourism industry in the northern areas of Australia, which seemed to be particularly hard-hit by the cheapness of the Asian destinations last year?

Senator Sherry—I think as a general proposition there is no doubt that, in some areas of regional Australia—for example, in my home state, Hobart has been good, but not some areas regionally that are more dependent on domestic tourism. It has been more difficult. There is no doubt about that very generalised picture.

Mr McEvoy—The senator is right. I think low-cost carriers are certainly taking more Australians outbound—generally, with Australia's strong economy, they are confident about going outbound. Also, capital city Australia is doing very well in tourism terms and regional Australia is not doing so well. That is a generalisation. In terms of Australia's north-west, it is still a strong industry, as you know, up there. I was just looking at the numbers. Close to \$600 million is spent annually, and it is largely domestic—78 per cent domestic. I can understand why it is of strong interest to you.

Senator EGGLESTON—Yes, it is, in fact. The hotels up there did find that they had a quiet winter last year, though, because so many people went to Bali in particular. The competition was pretty difficult to handle, I think. I heard during the week some comment by the CEO of Qantas that Qantas's international business was declining somewhat. Do you have any comments to make on that and whether international carriers—I suppose low-cost carriers—are threatening the viability of Qantas internationally?

Mr McEvoy—I do not think I would comment on Qantas—I think Alan Joyce is very capable of doing that. I notice that they posted a pretty good half-year profit, though, so that was terrific.

Senator EGGLESTON—I did not see that.

Mr McEvoy—It is great to have a strong local carrier. I think that, by and large, Australia's aviation capacity inbound grew last year. Qantas is a great carrier for us, as is Virgin, but also these Middle Eastern and Chinese carriers are adding a lot of new capacity into Australia, which is good for tourism. So I guess it is a balance. You want profitable growth and you want to see Qantas do really well, Virgin do really well and these international carriers do well as well. I think the yields are coming back in that market. But, again, I would not comment for Qantas and Alan Joyce. He does a very good job of that himself. But, yes, certainly we are seeing some aviation capacity growth, which is good for tourism.

Senator PRATT—I wanted to follow up on Senator Eggleston's questions about the tourism market in Western Australia, particularly noting the kind of emphasis that has come in recent times, through Oprah Winfrey, from growing the American market. I suppose that represents particular challenges for a market like Western Australia to get much benefit from because of the long distances that tourists from the US need to travel. Often it is a big ask to add an extra four-hour journey to a state like WA and then back again. And then you do not even manage to get up to the places like the Kimberley or even down to the south-west. I am interested in the approaches that the department and Tourism Australia are taking to help regional Australia and states like WA to market themselves internationally and where their niche is, I suppose, in trying to collect some tourism dollars.

Mr McEvoy—On the first point, Tourism Western Australia and Western Australia actually did pretty well out of the Oprah shows. They shared some interesting figures with us. They did a lot of campaign work around the shows and they have become the second most visited state tourism website in the US off the back of that. So that is terrific. An operator called Bruce Ellison, who has Faraway Bay up in the Kimberley, saw a 700 per cent increase in inquiries online off the back of Oprah. So I think there were some benefits that they saw.

Senator PRATT—I am pleased to hear you say that, because there were some critiques of it.

Mr McEvoy—Yes, I saw a lot of the media. I agree there were some critiques. But probably the opposite has been true.

Senator PRATT—Good.

Mr McEvoy—The other bit of information that Western Australia shared with us is that the value of packages booked by Americans has increased. Normally on average an American going to the west would spend about \$6,000. The retailers and travel agencies say that it is more like \$9,000 off the back of the Oprah inquiries. So there is a lot of good news there for Western Australia and they featured quite well in various parts.

Senator PRATT—Yes, I enjoyed them.

Mr McEvoy—Yes. The other thing for Western Australia is that it has a lot of strong natural advantages, actually. It is closer to Asia and Europe than any other capital city destination, perhaps apart from Darwin. So we work very closely with them in key markets around the world. They have a market portfolio strategy which we know about and we share information. There is a lot of work, not just with Western Australia but with all states and territories, to figure out how we can line our efforts up much better, and that goes to your point about what strengths they want to accentuate, what markets they most want to be in and how we can help lead the way on that. I think it is a very mature and good relationship. I personally think that Western Australia has some real competitive strengths with airline capacity, a no-curfew airport and their proximity to Asia, London and Europe—and also their proximity to South Africa and India over time. So there are real strengths there. It is a beautiful destination and we will work with them, as we work with all states and territories, to accentuate what is the best.

CHAIR—I am glad you got in your ad in for Western Australia!

Ms Madden—Just to add to what Andrew has said, the National Long-Term Tourism Strategy, as its name implies, is a national strategy and it has actually been endorsed by all state and territory ministers, including the minister from Western Australia. Perhaps I can just elaborate: Western Australia and the CEO of the Western Australian tourism department are planning a very active role and leading some of the working groups under the strategy trying to ensure that all jurisdictions and areas of Australia benefit with tourism policy.

CHAIR—I thank Tourism Australia and the department, Senator Sherry and the secretary. That concludes the Department of Resources, Energy and Tourism component.

Proceedings suspended from 6.39 pm to 8.01 pm

TREASURY PORTFOLIO**In Attendance**

Senator Wong, Minister for Finance and Deregulation

Senator Sherry, Minister Assisting on Deregulation and Public Sector Superannuation

The Treasury**Markets Group**

Mr Jim Murphy, Executive Director Markets Group

Mr Greg Divall, General Manager Standard Business Reporting

Mr Geoff Miller, General Manager, Corporations and Financial Services Division

Ms Vicki Wilkinson, Principal Adviser, Corporations and Financial Services Division

Mr James Chisholm, Principal Adviser, Corporations and Financial Services Division

Mr Andrew Sellars Senior Adviser, Corporations and Financial Services Division

Mr Mark Sewell, Manager, Corporate Reporting and Accountability Unit

Mr Tim Beale, Manager, Governance and Insolvency Unit

Mr Christian Mikula, Manager, Investor Protection and Credit Unit

Ms Alix Gallo, Manager, Market Integrity Unit

Mr Richard Sandlant, Manager, Financial Services Taskforce Unit

Mr Brad Archer, Principal Adviser, Infrastructure

Mr Paul McBride, Principal Adviser, Housing and Cities

Mr Brenton Thomas, Principal Adviser, Infrastructure

Mr Andrew Deitz, Manager, Competition Law and Policy Unit

Mr John Lonsdale, General Manager, Financial System Division

Mr Jonathan Rollings, Principal Adviser, Superannuation

Mr Justin Douglas, Principal Adviser, Banking

Ms Kanwaljit Kaur, Manager, Insurance Markets Unit

Mr Jerome Davidson, Senior Adviser, Insurance Markets Unit

Mr Simon Writer, Advisory Panel Contact, Commonwealth Consumer Affairs Advisory Council

Mr Frank Di Giorgio, Principal Adviser, Foreign Investment and Trade Policy Division

Productivity Commission

Dr Michael Kirby, Head of Office

Dr Jenny Gordon, Principal Adviser Research

Mr Terry O'Brien, First Assistant Commissioner, Canberra

Ms Lisa Gropp, Acting First Assistant Commissioner, Melbourne

Australian Securities and Investment Commission (ASIC)

Mr Tony D'Aloisio, Chairman

Ms Belinda Gibson, Deputy Chairman

Mr Greg Medcraft, Commissioner

Australian Competition and Consumer Commission (ACCC)

Mr Graeme Samuel, Chairman, Australian Competition and Consumer Commission

Mr Brian Cassidy, Chief Executive Officer, Regulation

Mr Mark Pearson, Deputy Chief Executive Officer, Competition and Consumer

Ms Raybe de Gruchy, Deputy Chief Executive Officer, Competition and Consumer

Ms Jo Schumann, Executive General Manager, Corporate

Mr Marcus Bezzi, Executive General Manager, Enforcement and Compliance Division

Mr Scott Gregson, Group General Manager, Enforcement Operations

Mr Nigel Ridgway, Group General Manager, Compliance Operations

Mr Michael Cosgrave, Group General Manager, Communications

Mr Tim Grimwade, Executive General Manager, Mergers and Acquisitions Group

Ms Michelle Groves, Chief Executive Officer, Australian Energy Regulatory

Mr Richard Chadwick, General Manager, Adjudication

Mr Sebastian Roberts, General Manager, Water

Mr Adrian Brocklehurst, Chief Executive Officer

Ms Lisa Anne Ayres, Director, Office of the CEO

Ms Lisa Campbell, Project Officer Office of the CEO

Ms Lynne Haultain, General Manager, Strategic Communications

Ms Sharon Clancy, Assistant Director, Office of the CEO

Ms Alison Noad, Project Officer, Strategic Communications

Ms Leonora Nicoll, Director, Strategic Communications

Australian Bureau of Statistics (ABS)

Mr Trevor Sutton, Acting Australian Statistician

Mr Peter Harper, Deputy Australian Statistician, Population,

Mr Denis Farrell, Acting Deputy Australian Statistician, Chief Operating Officer

Mr Michael Davies, First Assistant Statistician, Population, Labour, Industry and Environment Statistics Group

Mr Michael Belcher, Chief Financial Officer

Mr Paul Lowe, Assistant Statistician, Population Census Branch

Mr Michael Meagher, Director International Relations and Planning, Office of the Statistician

Revenue Group

Mr Paul McCullough, Acting Executive Director Revenue Group

Ms Brenda Berkeley, General Manager, Indirect Tax Division

Mr Phil Bignell, Senior Adviser, Indirect Tax Division

Ms Christine Barron, General Manager, Tax System Division

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

Mr Michael Wilcock, General Manager, Personal and Retirement Income Division

Ms Maryanne Mrakovic, General Manager, Tax Analysis Division

Mr Colin Brown, Manager, Costing and Quantitative Analysis Unit

Mr Phil Gallagher, Manager, Retirement and intergenerational Modelling Unit

Mr Paul Tilley, Chief Adviser, Tax System Division

Mr Trevor Thomas, Principal Adviser Superannuation, Personal and Retirement Income Division

Australian Tax Office (ATO)

Mr Michael D'Ascenzo, Commissioner of Taxation

Mr David Butler, Second Commissioner

Ms Jennie Granger, Second Commissioner

Mr Bruce Quigley, Second Commissioner

Mr Paul Duffus, Chief Operating Officer

Mr Neil Olesen, Deputy Commissioner, Superannuation

Mr Mark Konza, Deputy Commissioner, Large Business and International

Macroeconomic Group

Dr Ken Henry, Secretary, The Treasury

Dr David Gruen, Executive Director Macroeconomic Group (Domestic)

Dr Steve Morling, General Manager, Domestic Economy Division

Mr Simon Duggan, Principal Adviser, Domestic Economy Division

Mr Tony McDonald, General Manager, Macroeconomic Policy Division

Mr Roger Brake, Chief Adviser, International

Mr Patrick Colmer, General Manager, International Finance and Development Division

Mr Mike Kooymans, Manager, International Monetary Fund Unit

Mr Michael Anderson, Manager, Pacific Assistance Unit

Ms Vanessa Laphorne, Manager, Development Banks Unit

Mr David Crawford, Manager, G20 Unit, International and G20 Division

Fiscal Group

Mr Nigel Ray, Executive Director, Fiscal Group

Ms Luise McCulloch, Acting General Manager, Industry, Environment and Defence Division

Ms Meghan Quinn, General Manager, Macroeconomic Modelling Division

Ms Pete Furnell, General Manager, Social Policy Division

Mr Peter Robinson, Principal Adviser, Social Policy Division

Mr Chris Foster, Principal Adviser, Social Policy Division

Mr Damien White, Principal Adviser, Social Policy Division

Ms Sue Vroombout, General Manager, Commonwealth-State Relations Division

Ms Jan Harris, General Manager, Budget Policy Division

Ms Elizabeth Clegg, Manager, Assets and Liabilities, Analysis Unit

Ms Angela Baum, Manager, Budget Priorities and Reporting Unit

Mr Russ Campbell, Principal Adviser, Budget Policy Division

Commonwealth Grants Commission (CGC)

Mr John Spasojevic, Secretary Commonwealth Grants Commission

Mr Phillip Parkins, Director Corporate Services.

Australian Office of Financial Management (AOFM)

Mr Robert Nicholl, Chief Executive, Australian Office of Financial Management

Mr Michael Bath, Director, Financial Risk

Mr Pat Raccosta, Chief Finance Officer

Mr Andrew Johnson, Head of Reporting

Australian Prudential Regulation Authority (APRA)

Dr John Laker, Chairman, Australian Prudential Regulation Authority

Mr Ross Jones, Deputy Chair

Mr Ian Laughlin, APRA Member

Mr Wayne Byres, Executive General Manager, Diversified Institutions Division

Mr Keith Chapman, Executive General Manager, Supervisory Support Division

CHAIR—I declare open this public hearing of the Senate Economics Legislation Committee. The Senate has referred to the committee the particulars of proposed additional expenditure for 2010-11 and related documents for the innovation, industry, science and research, resources, energy and tourism and Treasury portfolios. Under standing order 26, the committee must take all evidence in public session. This includes answers to questions on notice. Officers and senators are familiar with the rules of the Senate governing estimates hearings. If you need assistance, the secretariat has copies of the rules. I particularly draw the attention of witnesses to an order of the Senate of 13 May 2009 specifying the process by which a claim of public interest immunity should be raised and which I now incorporate in *Hansard*.

The extract read as follows—

Public interest immunity claims

That the Senate—

- (a) notes that ministers and officers have continued to refuse to provide information to Senate committees without properly raising claims of public interest immunity as required by past resolutions of the Senate;
- (b) reaffirms the principles of past resolutions of the Senate by this order, to provide ministers and officers with guidance as to the proper process for raising public interest immunity claims and to consolidate those past resolutions of the Senate;
- (c) orders that the following operate as an order of continuing effect:
 - (1) If:
 - (a) a Senate committee, or a senator in the course of proceedings of a committee, requests information or a document from a Commonwealth department or agency; and
 - (b) an officer of the department or agency to whom the request is directed believes that it may not be in the public interest to disclose the information or document to the committee, the officer shall state to the committee the ground on which the officer believes that it may not be in the public interest to disclose the information or document to the committee, and specify the harm to the public interest that could result from the disclosure of the information or document.
 - (2) If, after receiving the officer's statement under paragraph (1), the committee or the senator requests the officer to refer the question of the disclosure of the information or document to a responsible minister, the officer shall refer that question to the minister.
 - (3) If a minister, on a reference by an officer under paragraph (2), concludes that it would not be in the public interest to disclose the information or document to the committee, the minister shall provide to the committee a statement of the ground for that conclusion, specifying the harm to the public interest that could result from the disclosure of the information or document.
 - (4) A minister, in a statement under paragraph (3), shall indicate whether the harm to the public interest that could result from the disclosure of the information or document to the committee could result only from the publication of the information or document by the committee, or could result, equally or in part, from the disclosure of the information or document to the committee as in camera evidence.
 - (5) If, after considering a statement by a minister provided under paragraph (3), the committee concludes that the statement does not sufficiently justify the withholding of the information or document from the committee, the committee shall report the matter to the Senate.

- (6) A decision by a committee not to report a matter to the Senate under paragraph (5) does not prevent a senator from raising the matter in the Senate in accordance with other procedures of the Senate.
- (7) A statement that information or a document is not published, or is confidential, or consists of advice to, or internal deliberations of, government, in the absence of specification of the harm to the public interest that could result from the disclosure of the information or document, is not a statement that meets the requirements of paragraph (1) or (4).
- (8) If a minister concludes that a statement under paragraph (3) should more appropriately be made by the head of an agency, by reason of the independence of that agency from ministerial direction or control, the minister shall inform the committee of that conclusion and the reason for that conclusion, and shall refer the matter to the head of the agency, who shall then be required to provide a statement in accordance with paragraph (3).

(Extract, Senate Standing Orders, pp 124-125)

CHAIR—Officers called upon for the first time to answer a question should state their name and position for the *Hansard* record and witnesses should speak clearly into the microphone. Please make sure all mobile phones are turned off or switched to silent. The committee will begin consideration of the Treasury portfolio with the Markets Group of the Department of the Treasury and will then follow the order as set out in the circulated program. I welcome Senator Wong representing the Treasurer and officers of the department. Minister or officers, would you like to make an opening statement?

Senator Wong—Not from me, thanks.

Mr Murphy—No, thank you, Senator.

CHAIR—Thank you. We will go straight to questions. Senator Cormann.

Senator CORMANN—Thank you, Madam Chair. Mr Murphy, I refer you to the release of Treasury advice on the FOI which raises the prospect that banks are likely to:

...recover the legitimate costs associated with establishing a mortgage through other means (eg higher interest rate, higher establishment fees etc).

In an article in the *Financial Review* today by David Crowe and John Keogh, the Treasurer is said to stand by the plan in relation to exit fees. He is quoted as saying—and this is what I want to ask a series of questions about:

Regulators would crack down on any banks that sought to lift other fees to make up for lost revenue.

Who would do that, how and on what basis?

Mr Murphy—That would come under the changes to the regulatory framework, which was introduced and passed by this government in relation to unfair contracts and under the Australian consumer law. So largely ASIC or the ACCC would take action where it was seen there were unconscionable fees or charges arising by banking institutions or other institutions.

Senator CORMANN—You say it would be in relation to unconscionable fees. That power—the power to take action where an exit fee is unconscionable—has existed with ASIC for some time now, has it not?

Mr Murphy—Yes.

Senator CORMANN—As far as you are aware, how often has that power been exercised?

Mr Murphy—Well, that is one of the reasons the government strengthened the law in this area. There is some difficulty in determining what are unconscionable fees. But I think the question is starting on the wrong premise. In terms of exit fees, there was considerable consideration in Treasury—and I think you would have seen this in the document that was released under FOI—as to the arguments for and against exit fees. I might say that the documents that have been released under FOI and that have been referred to by the shadow Treasurer refer to internal working documents that we use to determine a policy position which we will put to the government. I just want to put it on the record that the policy position put to the Treasurer was that exit fees should be banned. That advice was given to the Treasurer in various conversations and discussions we had with him. That actually formed one of the elements of the banking package that was put to the cabinet.

Senator CORMANN—Let me go back to the issue that I am interested in in this context, and that is the likelihood that regulators would indeed, as the Treasurer is asserting, crack down on any banks that sought to lift other fees to make up for lost revenue. Does the government have a regulatory power to prevent banks from increasing interest rates or other fees that have not been banned?

Mr Murphy—They have general powers to be able to move where there are unfair terms in contracts and unconscionable pricing. It is a matter for the banks to determine how they wish to adjust their pricing arrangements, for instance, in mortgages. I think what you have seen recently—and we can give you statistics

on this—is that ING, NAB and, last year, ANZ respectively have banned exit fees and reduced fees across the board in terms of their mortgages. So I do not think this argument, which is saying, ‘Well, if you ban exit fees’—

Senator CORMANN—They have also increased interest rates faster than the Reserve Bank.

Mr Murphy—Yes. But this argument to say that by banning exit fees institutions will just move to another part of the transaction and put an additional fee on there, I think, has not been proven to be the case.

Senator CORMANN—I go back to wording in your advice. Would it be seen as unconscionable if a bank sought to, and I quote again the way you put it, ‘recover the legitimate costs associated with establishing a mortgage by increasing interest rates and other fees’? If a bank were to increase the other fees and interest rates to recover legitimate costs associated with establishing a mortgage, would that be seen as unconscionable?

Mr Murphy—Well, it is determined by the word ‘legitimate’ you have used. It is legitimate costs.

Senator CORMANN—Indeed.

Mr Murphy—Yes. One of the reasons that the government moved to ban exit fees was, in effect, some prohibitive fees which were being charged for exit from certain mortgage contracts.

Senator BUSHBY—Well, ASIC’s approach to exit fees is progressing.

Mr Murphy—I am sorry?

Senator BUSHBY—There is ASIC’s approach to exit fees, whereby they were going to outlaw unconscionable exit fees. They are going to address that. There is the statement they put out in November last year outlining what would constitute unconscionable fees.

Mr Murphy—Yes. But in terms of the banking package and these policy initiatives, which were directed at achieving a sustainable banking and competitive market, it was our view in Treasury that you needed certain or strident actions—put it that way—by the government to set the climate or the environment in which competition could be fostered. One of these things was exit fees. Another one was action in relation to price signalling.

Senator CORMANN—Actually, the Treasury view was:

Banks are likely to move to recover the legitimate costs associated with establishing a mortgage through other means (eg higher interest rate, higher establishment fees etc).

Of course, if they do, because I am using your language here, it does not fall into the category of unconscionable fees. So I cannot see how any regulator has any power to crack down on any bank that sought to lift fees or interest rates in these circumstances. Nothing that you have said to us tonight actually gives me any comfort that what the Treasurer has said in the *Financial Review* today is actually accurate.

Mr Lonsdale—I will just add something that might clarify some of the statements. The passage that you have quoted a couple of times now talking about legitimate fees in the paper refers to a very broad-ranging set of fees—exit fees—that would include break costs under fixed mortgages and discharge fees. Now, that is not part of the government’s policy. The government’s policy as announced is to remove early termination fees that do not include break fees and they do not include discharge fees, which are legitimate costs that banks would try to recoup.

Senator CORMANN—Sure. But into the future banks, as they have been known to do in the past, could increase interest rates faster than the Reserve Bank increases the official cash rate because they say that legitimate costs are increasing. Who knows how anyone can scrutinise this properly. If banks in the future increase a whole series of other fees to make up for the loss of revenue here, and you cannot prove that it is unconscionable, there is nothing you can do about it unless we ban every single fee or chase every single fee like a rabbit down a rabbit hole. As soon as one fee goes, another one pops up. This is not actually solving the problem, is it?

Senator Wong—I think Mr Murphy alluded to strengthening the regulators’ capacity to deal with fees or charges which are unconscionable. It might be worthwhile for the committee to be apprised of those amendments, because that may deal with the policy issue to which you are referring.

Mr Murphy—I want to introduce Mr Simon Writer, who individually was handling those matters.

Mr Writer—There are two sets of provisions which are relevant. There are the ones that you have spoken about in terms of the unconscionable fees under the credit legislation. Secondly, there is the unfair contract

terms legislation, which has been applied through the ASIC Act to financial services, which includes banking, obviously. That permits the challenge of fees which are contingent on the occurrence or non-occurrence of an event, which could include a very wide range of potential fees.

Senator CORMANN—How long has that been in place?

Mr Writer—It has been in place since 1 July last year.

Senator CORMANN—So how often has it been applied?

Mr Writer—You would need to ask the ACCC and ASIC about their enforcement actions.

Senator CORMANN—If all of these things can be done so easily, as the Treasurer wants to make us believe in the *Financial Review* today, why has it not been done before?

Senator Wong—I do not think that logic follows. The test of the law is not how many times it is broken and prosecuted against. That is part of it. A test is also how it might influence behaviour in a market. So I understand you are making a particular political point. You are entitled to do that.

Senator CORMANN—It is a policy point, Minister.

Senator Wong—I have not finished.

Senator CORMANN—It is a public policy point.

Senator Wong—I had not finished. I understand the political or policy point you are making, but I do not think it is logical or correct to assert that you can only measure the merit of legislation by whether or not there has been a prosecution under it.

Senator BUSHBY—I think you are missing the point.

Senator CORMANN—The reality is this, though: you came up with this proposal. You call them reforms. We might call them something else. But you came up with this proposal of reforms, because clearly you identified that there was a problem that needed a better solution. So you cannot tell me that over the last year or so there has not been a problem, because clearly your government has decided that there is a problem that you are trying to address, even if we would argue that it addresses it inadequately.

Senator Wong—We are addressing it. I do not understand what the point is.

Mr Murphy—The issue of exit fees as a policy issue is that it restricted people from exercising choice. It restricted people from switching accounts, which, in effect, inhibits competition in the market. And that is the policy rationale for banning exit fees.

Senator CORMANN—Of course, it will actually worsen competition in the market.

Mr Murphy—I do not think so.

Senator CORMANN—If you listen to the smaller credit unions and the smaller banks, who find it harder to compete against—

Senator BUSHBY—That is what I have said.

Senator Wong—Hang on. One senator at a time.

CHAIR—I think I might interpose a few questions here, because I have been following this issue through the banking competition inquiry of the legislative committee. I should point out that the legislation that came in in July last year about the unfair contracts was the result of COAG getting together with the consumer affairs ministers, who decided to create one legislation. It was not so much designed to address a specific problem but to have a uniform consumer affairs legislation. That legislation is the legislation that ASIC will now use in light of the policy decision—

Senator CORMANN—Is that a question?

CHAIR—Yes, it is. It is the legislation ASIC will use in light of the policy decision to ban exit fees. Is that not right, Mr Murphy?

Mr Murphy—Yes, it is. As Senator Wong said, one of the key elements in the design of legislation is to design a deterrence to certain activity. It is no criterion for success in terms of law whether there are scalps on the barn door or not. It is whether people adhere. Realistically, commercial legislation, such as economic regulation, which these people all deal with, is setting the ground rules for business to operate.

CHAIR—Sorry, Senator Cormann, I have not said anything. I just want to tease out something that Mr Murphy's answer touched on before, and that is the climate in which competition can be fostered. The

economics references committee is looking at ways in which competition can be increased, but, as I think Mr Murphy alluded to, there is no point in creating competition such that banks and other institutions create loan products and other products that are an advantage to the consumer if the consumer finds when they want to switch to another product that the early termination fees in switching their account are prohibitive. So there is no point in advancing competition if there is a brake on a customer being able to switch to that competition.

Mr Murphy—Yes. We agree.

CHAIR—So is that what you meant by fostering competition?

Mr Murphy—Yes. This government has sought to do this over a number of years. Previously we introduced the switching package, which struggled to take effect because of these inherent constraints on people exercising their free market choice. So the banning of exit fees is to try to remove some of these obstacles for people exercising choice and getting consumer sovereignty to make institutions compete more vigorously.

CHAIR—I would just like to go back to the FOI paper that was referred to. Can you tell me what the status of that paper was? Was it an official Treasury view? Who used the paper?

Mr Murphy—The paper is a working document that was prepared by Treasury analysts for consideration by myself and Mr Lonsdale and other senior people within the group as a policy development in terms of what should be Treasury's position in giving advice to the government. As you would see from that paper, it gives arguments for and against whether you should move on exit fees. What the paper is deficient in is that it does not put the action on exit fees in the context of the whole banking package in terms of fostering competition. That advice is an internal working document. That document was not provided, from my understanding, to the Treasurer or his office.

CHAIR—It was not provided to the Treasurer?

Mr Murphy—No. That is correct.

CHAIR—I will go back to you, Senator Cormann. I have one final question. So that document did not represent a Treasury point of view. Was it produced by one person? What was the—

Mr Murphy—We have working groups. A lot of people work on these issues. We have been looking at action on banning exit fees for a long time. This government introduced it when it introduced the legislation in relation to unfair contracts. It sought to move an amendment to the legislation to ban exit fees. It was defeated in the Senate. When was that?

Mr Writer—That was in the first part of last year.

Mr Murphy—So this is not a new initiative. So, to go back to the document, it is an internal working document. Then it is tossed around and argued out within the Treasury before we finalise that advice to the minister.

CHAIR—And what was the advice to the minister in the end?

Mr Murphy—It was to ban exit fees of a narrower form than what was actually in that document. If you look at the government's banking package, you see that break fees and loan discharge fees are not prohibited.

CHAIR—So they are the administrative costs?

Mr Murphy—Yes.

CHAIR—It is the early termination fees that it is hoped will be banned.

Mr Lonsdale—I was just going to add fixed costs. So break costs are a bit more than an administrative fee because they reflect any difference in the interest rate that might occur when the contract is taken out and when it is broken. The other thing I would add is that, as Mr Murphy said, it was a paper done very much at the same time as other elements of the package were forming. So you had a lot of moving parts happening at the one time. So that is sort of a missing piece of context that is not outlined in the paper.

Senator COONAN—Although the document that you gave to the Treasurer says 'Version that John took to meeting with the Treasurer', it very clearly flags the discussion on exit fees. It flagged the competition issue for smaller lenders reliant on securitisation. So there was obviously a clear awareness of the potential impact on small lenders.

Mr Murphy—Exactly. That is why it is part of a package we are pursuing to try to give impetus for the revival or enhancement of the securitisation market. The government took action through the Australian Office

of Financial Management to try to support the securitisation market. It was \$16 billion worth over two tranches of \$8 billion over the last 12 months post the GFC. Now the government has also, as part of the package, announced another \$4 billion tranche to support the securitisation market, largely to assist smaller lenders. That is why we have to look at these things in total.

Senator CORMANN—I will conclude my line of questioning on this exit fee issue and then I will pass on to my colleagues. If I understand it right, though, if you ban exit fees and you pass all your package, there is nothing you can do about banks increasing other fees or increasing interest rates unless you can prove that the fee increase or the interest rate increase is unconscionable or part of an unfair contract?

Mr Murphy—Legally, but there is the market constraint on everyone acting in this area because what you have done by banning exit fees is enable democracy.

Senator CORMANN—So the answer is yes, there is nothing you can do.

Senator Wong—No. That is not what he said.

Senator CORMANN—Well, that is exactly what he said.

Senator Wong—Please!

Senator CORMANN—I go to the Treasurer's quote—

CHAIR—Let Mr Murphy finish.

Senator Wong—Let Mr Murphy finish.

CHAIR—That might be useful. Mr Murphy.

Mr Murphy—Yes. There is legislation in place. Regulators are empowered to protect the interests of consumers so they, in effect, receive a fair deal from banking institutions. As well as that, I would suggest to you that the government takes action to enable regulators to take action. As well as that, there are the market forces of competition itself, which we have enhanced and which would put restraints on institutions increasing fees in other areas.

Senator CORMANN—But the only way that regulators would be able to crack down on any banks which sought to lift other fees to make up lost revenue is if those regulators could prove that those fees were unconscionable or part of unfair contracts. There is no other circumstance under your package where you could actually do anything to crack down on those increased fees or increased interest rates.

Senator Wong—I think that is the same question.

Senator CORMANN—No. It is not the same question.

Senator Wong—I think it is the same question.

Senator CORMANN—No, because he talked about market forces and I asked what—

CHAIR—Well, it is market forces.

Senator Wong—Mr Murphy also responded with an explanation, or Treasury officials have responded with an explanation, of the consumer protections that the government has put in place in relation to unfair contract terms or unconscionable terms. You may want a more heavy-handed regulatory regime—

Senator CORMANN—No.

Senator Wong—but the approach the government has taken has been to seek to promote competition.

Senator CORMANN—That is not the argument.

Senator Wong—Well, that is the argument in many ways because I understand we have a difference of views on this. The government does believe that facilitating competition and encouraging competition in this sector is the most sensible way to try to get the best deal for Australian consumers. We do believe that.

Senator CORMANN—You are all in favour of increased competition?

Senator Wong—We unashamedly do.

Senator CORMANN—You are all in favour of increased competition, except that this will not achieve that.

Senator Wong—I do find it interesting that we have a Liberal Party that seems to be reluctant to support increased competition in the sector. One would have thought that your ideology would in fact lead you to support it.

Senator CORMANN—We are all in favour of increased competition. We are against products designed by legislation which do not increase competition.

Senator Wong—Mr Murphy and his colleagues have gone through the different elements of the government's package. You may wish to assert that there should be more heavy-handed regulation. We have strengthened the consumer laws in relation to these issues. I am not sure that we can take this issue much further.

Senator CORMANN—Mr Murphy confirmed that legally—and he used the word 'legally'—that there was nothing that regulators could do to prevent an increase in fees or an increase in interest rates unless the regulator can prove unfair contracts or unconscionable fee increases.

Mr Murphy—What else could they do? What else could you do? It has to be unreasonable.

Senator CORMANN—But that is my point. If you ban exit fees, there is nothing you can do to stop them increasing other fees and charges. You are actually no better off.

Senator Wong—If you want to ask us whether the government is seeking to increase interest rates—

CHAIR—If we could have one at a time, please.

Senator Wong—Senator, if your proposition is the government should be regulating interest rates that is not the position of the government.

Senator CORMANN—That is not my proposition at all.

Senator Wong—As far as I understand it, it is not the position of the coalition.

Senator CORMANN—You are deceiving the Australian people by making them believe that this is fixing something when in fact it is not fixing anything at all. In fact, it could well make it worse for them.

Senator Wong—I think we need to just have a look out there at what is happening in the marketplace at the moment.

Senator CORMANN—Totally.

Senator Wong—I think that shows some of the benefits of competition.

Senator BUSHBY—On that, I think it is very disingenuous to suggest that by asking questions which are questioning the effectiveness of your government putting on additional regulation to ban exit fees we are somehow as a result trying to put more regulation on.

Senator Wong—I understand you are trying to recover the position that Senator Cormann has put to us. That is fair enough. It is called a clean-up job, I think. But the reality is—

Senator CORMANN—I am very grateful for it.

Senator Wong—I am sure you should be very grateful to him, Senator Cormann. But if you put to us, 'Oh, that is all you can do. You're not giving the regulators any more power than to deal with unconscionable or unfair contracts'—

Senator BUSHBY—He did not say 'not giving back'.

Senator Wong—then obviously it is not a surprising observation to say, 'Well, if you want to do more, you are essentially saying, "We want to regulate more."' The government has made its views on the proposition very clear.

Senator BUSHBY—I understand where you are coming from. But as you will no doubt recall, Senator Cormann was asking those questions in the context of a statement that the Treasurer had made about how he would be going around chasing all these fees if they popped up.

Senator Wong—That is not what he said.

Senator BUSHBY—That is exactly it. If you listen to his opening statement, all those questions were in the context of the Treasurer saying, 'If financial institutions have their exit fees banned, they will just whack it on elsewhere and we will chase it down and we will stop it.' That is what all those questions were about.

Senator Wong—I suspect the—

Senator BUSHBY—Have a look at the *Hansard*.

Senator Wong—I do not know precisely the words that the Treasurer used, but I would be surprised if he suggested he would be doing that.

Senator BUSHBY—Mr Swan said that regulators would crack down on any banks that sought to lift other fees to make up for lost revenue. The entirety of Senator Cormann's questions were designed to—

Senator Wong—An entirely accurate statement.

Senator BUSHBY—address how that would be undertaken. I want to move on to the FOI statement itself and ask a few questions about that. Mr Murphy, you have talked about how that was put together in the context of canvassing the advantages and disadvantages of banning the early exit fees. Looking through the document that I believe has been released, and I have a copy of, it seems to me to discuss under 'Opening current issues' the climate and the perceived advantages of banning exit fees. Then it goes on under 'Possible further action' to outline one advantage, which is that banning MEFs would make product comparison easier for consumers. But the rest of the document throws up potential problems—potential unintended consequences—from banning exit fees.

Mr Murphy—I think you have to put this in context. To me, the benefit to consumers largely outweighs the arguments against not banning exit fees. The whole problem we have had since the greater consolidation in the market post the GFC is a lack of competition.

Senator BUSHBY—That is right, and then you deal with that.

Mr Murphy—We—my colleagues here—put a lot of work and time and effort into it over the last 18 months, and the only thing you can do is make some structural changes and empower the consumers to actually exercise their own choices better. So, yes, there are arguments here and there are arguments that industry would have raised with us to say, 'If you do this, this will upset the way we operate. We will have to restructure our transactions.' But I think that was completely overwritten by the benefits we get for the consumer.

Senator BUSHBY—It goes to my question: in respect of the unintended consequences and the disadvantages discussed in this paper, I acknowledge that you say this has not gone to the Treasurer et cetera and it is part of an internal working document—

Mr Murphy—Yes.

Senator BUSHBY—but do you back away from any of the unintended consequences or any of the discussion of potential disadvantages? Do you say that anything in there is not correct?

Mr Murphy—No. I am not saying it is not correct, but I think we have to weigh the arguments. I think it is like all things; as a matter of philosophical policy economics, Treasury are reluctant to intervene in the market. We are reluctant to regulate where we do not see the need to.

Senator CORMANN—Really?

Mr Murphy—Traditionally, yes, that is right. So we would raise a lot of arguments against doing something whereas I would say here that I think probably the paper gives too many emphases to unintended consequences because I think they are all big boys out there in terms of financial institutions. They are all running businesses and they can adapt much more quickly than they purport to be able to. Here again I just say that the overriding point is that this was probably one of the best things in the limited area of activity we could do, which was to benefit consumers. That is why we pursued it.

Senator BUSHBY—But is not your point, as made in this paper, that they are not all big boys? We have had evidence to the banking inquiry, which has been referred to, that a lot of the competition that had existed and which disappeared from 2008 on came from a lot of the smaller players.

Mr Murphy—Well, it did.

Senator BUSHBY—Those smaller players were able to compete on interest rates and therefore actually drive competition in the market because they were able to push some of the costs of setting up the loans and things into exit fees, which were only realised if people switched, and in a lot of cases people did not. You acknowledge in this paper that by banning exit fees you actually make it harder for them to be competitive. It says here the ban will 'therefore reduce the ability of credit unions and building societies to effectively compete'.

Mr Murphy—But we have other parts of the package to try to neutralise that impact. The thing about exit fees is that it is largely a distortion. You are distorting the market. It is a hidden fee because the majority of consumers would not turn their attention to the exit fee when they enter into a transaction initially.

Senator BUSHBY—It is better to make them pay that fee upfront and always pay it where, if it were an exit fee, in some cases they will not?

Mr Murphy—Well, it may. But at the same time it brings transparency to the fees. We think that that will have an effect of actually reducing those types of fees and charges which are being paid. Once the consumer sees what the fees and charges actually are for the life of the loan, they may be more in a position to argue the case or, alternatively, other institutions will see that as an issue where they can take a competitive advantage. Largely exit fees have driven up as a sort of non-transparent fee within the transaction because the consumer is not worried about them.

Senator BUSHBY—And there is no doubt that some of them were unconscionable and unreasonably large.

Mr Murphy—Exactly.

Senator BUSHBY—And there is certainly a mischief that needs to be addressed.

Mr Murphy—Yes.

Senator BUSHBY—I was quite a big fan of the initial approach taken by the government to address that through ASIC and the unconscionability approach to those fees. I do not have it in front of me, but I recall that ASIC, in the note that they put out in November 2007, actually define what would be an unconscionable fee. It quite specifically allowed an institution to cover the reasonable costs of setting up and breaking the loan. That seemed to me to be a very sensible—uncommonly sensible—approach taken by the government to most of these things. Then almost as soon as it was set up, you trumped it with something by saying, ‘Well, we’re going to ban it from now on.’ As noted in here, that is not going to really solve the problem for people who are already signed up. It is only going to solve it from 1 July, and that will take time to wash through anyway.

Mr Murphy—Yes. Well, it will take time to wash through. I think what we are doing is seeking to redesign the market. We are placing the onus on institutions to act prudently and fairly. And, if we are placing the onus on consumers to be empowered and seek to obtain the best terms and conditions in contracts and mortgages, we have to put them in a position where it is transparent and they can use their own nous to get better deals.

Senator BUSHBY—And banning exit fees is the only way to do that?

Mr Murphy—The exit fees, as I say, were non-transparent. By banning exit fees, you just put a marker down and throw the ball back into the court of the institutions to start to think more carefully about how they design their products.

Senator BUSHBY—Even though it might cost customers of banks or financial institutions more because those costs will still need to be covered, particularly by the smaller institutions. The larger institutions have—

Mr Lonsdale—I do not think we would say that. That is not right.

Senator BUSHBY—This contemplates that as a possibility.

Mr Lonsdale—The proposal, as we have stated in the paper, is a blanket ban on exit fees. That is not the government’s proposal. The government’s proposal is to ban exit fees from 1 July excluding fixed cost break fees and legitimate admin fees.

Mr Murphy—So they are not going to lose out.

Senator BUSHBY—So would that cover the costs, for a small operator, associated with setting up a loan on the expectation that it would run for a certain period and that, if it gets broken 12 or 24 months later, that enables them to charge an admin fee that would cover their actual administration costs?

Mr Murphy—Yes.

Mr Lonsdale—So deferred establishment fees would be covered under the government’s policy.

Senator BUSHBY—So what is the difference, then, between that outcome and what ASIC would have required anyway? It sounds exactly the same.

Mr Lonsdale—It goes to this issue of what is ‘unconscionable’.

Senator BUSHBY—ASIC designed what that meant. That basically meant covering the reasonable costs associated with setting up and breaking the—

Mr Murphy—Yes. But I think it is a matter of policy that the government decided, and on Treasury’s advice, that you needed to make some clear declaratory statements about certain issues in relation to competition. One of them was the banning of exit fees. In other words, you are giving guidance to the market and you are giving guidance to the regulators that that is what you want to achieve.

Senator BUSHBY—It is more about broadcasting the right message rather than the specific impact of whatever given that—

Mr Murphy—The government only has moral suasion or it has legislation that it can enact to give powers to regulators. That is all we can do.

Senator BUSHBY—But just to clarify, Mr Lonsdale, it is not just out-of-pocket expenses that the bank may have to pay, such as the costs of discharging the mortgage or things like that to the relevant land titles. It is actually the costs that they incur—loss of interest rate, or I think interest rate differentials that you mentioned. The bank will actually put money in its pocket out of those exit fees.

Mr Lonsdale—Just to be clear, early termination fees are banned excluding fixed rate break costs and the administration fees associated with the exit.

Senator BUSHBY—And fixed rate break costs—

Mr Lonsdale—I am referring to a fixed report mortgage.

Senator BUSHBY—Only fixed rate, okay.

Mr Murphy—But even the legal documentation, which is a large part of costs on a mortgage—

Mr Lonsdale—The discharge costs.

Mr Murphy—they can recoup.

Senator BUSHBY—The bank tearing up those papers and any filing costs that they have at the land titles office or whatever it may be in the relevant state.

Mr Murphy—Yes. That is legitimate.

Mr Lonsdale—So any upfront costs are not affected by this.

Senator BUSHBY—Those upfront costs are deferred?

Mr Lonsdale—If they are deferred establishment fees, they would be captured by this.

Senator BUSHBY—They would be captured. So they would not be able to be charged?

Mr Lonsdale—They would not be able to be charged.

Senator BUSHBY—So there will be a lot less deferred—

Mr Murphy—That is what we think.

Senator BUSHBY—In terms of competition, somebody who looks to transfer their mortgage from one institution to another may not have to pay exit fees but they are probably going to have to pay a fee to get into the new loan, which will have a similar anticompetitive effect, surely.

Mr Murphy—I do not know. I think it takes the opposite. Because things are upfront and they are on the face of the record, I think it is going to actually stimulate competition.

Mr Lonsdale—And what we have seen is that people are more likely to pay attention and factor in the upfront costs than they are costs later.

Senator BUSHBY—I do not disagree with that. Psychologically I accept that. I am not sure I accept other things. If you are looking at changing your mortgage to take advantage of a better rate or what appears to be a better deal elsewhere, and if having to pay a \$700 exit fee is, according to what you say, a sufficient disincentive for you to actually take that step, surely having to pay a \$500, \$600 or \$700 application fee would be just as much a disincentive.

Mr Murphy—What we find from the consumer angle is that when people enter into the contract they do not know what the exit fee is. When they get disenchanted, when they see a better deal across the road, that is when they find out. The institution informs them, ‘Well, you can’t get out of this contract because, if you want to, you will be charged.’ Cases were put to us of \$7,000 fees to get out of mortgages. Now that is at the worst end. The average is around \$700.

Senator BUSHBY—That is important. There is no doubt about that.

Mr Murphy—Of course that neuters competition. People would think, ‘Well, I’ll put up with it.’ Whereas I think if those fees have been reduced, even if the sign-on fees are increased marginally, at least people know what they are getting into. Because they are upfront, there will be greater competition between providers.

Senator BUSHBY—If the market works in that way, that is a great thing and it is good to see. In fact, the market is working, I think at the moment, in terms of exit fees.

Mr Murphy—Yes.

Senator BUSHBY—Quite apart from the move by the government to ban it, the increased focus on banking, banking practices and competition within banking is forcing banks to think a little about what they are doing.

Mr Murphy—I think it is the government. I think realistically the Treasurer's comments and the government's action in terms of the banking package are leading the institutions to start to think more carefully about their pricing policies, and that is to the benefit of Australian consumers.

Senator BUSHBY—That package may well be part of it, but it is not all of it, I would suggest. The community outrage, the general focus by the community, the greater level of media interest, even the activities of the Economics References Committee may well be putting a focus on banks that makes them feel a little uncomfortable and think a little about how they approach some of their fees. That is how the market should be.

Senator CORMANN—I think it is the chair of the banking inquiry that sorted all this out.

Senator BUSHBY—I do not know about that. I am happy to leave exit fees there. I do have more questions about the banking package, if I may. Other people may have questions on exit fees. I have questions on the elements of the package, but I will just put a few now and maybe a few on notice. For each of the elements of the banking package, what are the time lines for implementation that currently exist?

Mr Murphy—Maybe George can answer that.

Senator BUSHBY—Where are they currently at in terms of the stage of the process that you are going through?

Mr Lonsdale—I can go through the key ones. There are quite a few, as you know, in the package, but I can go through the key immediate ones, if that is helpful.

Senator BUSHBY—And take other ones on notice, if you can.

Mr Lonsdale—I am happy to do that. We have talked quite a lot about banning exit fees. The government has just released some draft regulations that it is currently consulting on. The idea is that that would be settled in the coming month.

Senator BUSHBY—And before parliament went?

Mr Lonsdale—Before the end of the sittings.

Senator BUSHBY—Before the end of this half year sittings?

Mr Lonsdale—No. Before the end of the autumn sittings.

Senator BUSHBY—So by March?

Mr Lonsdale—Yes. With credit cards, again, the intention is to introduce legislation into the parliament on the same time frame.

Senator BUSHBY—Will they be consulted on?

Mr Lonsdale—We are consulting on that. That is right. There has been consultation on price signalling and there is currently consultation going on with the states and territories on price signalling. The intention is, again, to introduce legislation in March.

Senator BUSHBY—Is that legislation going to have any changes in it as a result of the consultation?

Mr Lonsdale—At the moment we have had consultation. The outcome of that consultation is before the government. But the main thrust of it was—

Senator BUSHBY—I see you are nodding, Mr Murphy.

Mr Murphy—The main thrust will stay there, but there will be some adjustments. But they are a matter for the government. We are talking to the government about that in light of the consultations.

Senator BUSHBY—Fair enough. Please go on, Mr Lonsdale.

Mr Lonsdale—The fourth one that has an immediate legislative issue attached to it is the one-page key facts and terminology sheet that will become mandatory from 1 July. So the Treasurer released a prototype of that one page on the release of the package. There has been some consultation on that. The intention is to

introduce law on that, again before the end of the autumn sittings. So they are the four with immediate time frames attached to them. The fifth one is probably covered bonds, where the government has indicated that draft exposure law would be available before the end of March.

Senator BUSHBY—When the Treasurer appeared before the banking competition inquiry it was not settled what cap would be likely to be placed on covered bonds. Has that been settled?

Mr Lonsdale—No. We are currently in consultation with industry and the regulators and we are in the process of putting advice to the government on that. There are a number of design features that will need to be settled.

Senator BUSHBY—I imagine there will be. In terms of the time lines of the overall package, have the planned time lines as originally announced slipped in the case of any of those elements?

Mr Lonsdale—No. There has been no slippage at all in the published deadlines in the Treasurer's package. Certainly when we think about things internally and think about when we will consult, there is movement there. But there has been no slippage in the hard deadlines that the government has indicated.

Senator BUSHBY—Was a website put up with regard to the banking competition package initially which contained time lines which no longer exist on that website?

Mr Lonsdale—There is a website, and it still currently exists. To be helpful, I guess we had put up there some additional dates that went beyond what the Treasurer had indicated in the document to try to space out issues like consultation. There was some slippage in those deadlines but no slippage in the overall deadline that the government has promised.

Senator BUSHBY—Would you be able to take on notice and provide me with the details of the difference between what those dates that were on that initial website indicated and what they are likely to be now?

Mr Lonsdale—Sure. I am happy to do that.

Senator BUSHBY—Under the recent FOI request as well, the RBA is reported to have made some comments or provided advice that account portability could be legally challenged. Are you aware of that advice?

Mr Murphy—We have been looking at account portability. For a number of years that has been suggested. People say they can move their mobile phone numbers, so why can they not move their bank account numbers? If the government could see its way, and we could come up with a scheme whereby you could bring in account portability at a reasonable cost, you may well need legislative backing for that. I think where the concerns are is whether it could be acquisition of property or something like that. I think it was just being raised with us through the RBA because the Australian Payments Systems Council is part of the RBA. It was them saying, 'We note this.'

Senator BUSHBY—Alerting you to the risk?

Mr Murphy—Alerting us to the risk, exactly.

Senator BUSHBY—Fine. I will move on from the banking package because I am aware that there are others who have some questions. The code of banking practice is a voluntary code. What input does Treasury have into how that works?

Mr Murphy—We have consulted on that. That was largely developed by the ABA. Things like codes of practice are good things for industry as long as the ACCC and APRA and others feel that what they are proposing to set out are rules of the road for the industry that are okay.

Senator BUSHBY—You do not sound overly enthusiastic about the role that it plays. It was originally set up out of recommendations of the Campbell report.

Mr Murphy—I think those voluntary codes are a very good way for industry to demonstrate that they actually have certain standards which they are going to adhere to.

Senator BUSHBY—I had a number of questions on this, but I will wrap it up. I have had various issues raised with me about the way it works. Basically it does not provide the answers. It is suggested to me that it does not provide the role that you just indicated it might. Is Treasury aware of any reviews or conducted or participated in any that found the need for greater transparency or other changes to the code in order to be able to deliver in accordance with the intention that the Campbell inquiry had when it recommended it be set up?

Mr Murphy—Voluntary codes of conduct can often be approved—I am not sure the banking code is—by the ACCC.

Senator BUSHBY—But who from government has any input into this?

Mr Murphy—We would have input into it if we were asked. It is more likely than not APRA and ourselves. But to some extent that is the industry getting together to set out certain standards. That is to be encouraged. But you could well imagine oftentimes that that has to be read in the context of the Banking Act, in terms of the Competition and Consumer Act and in terms of powers that ACCC and ASIC have. So sometimes you read those documents and they are a bit wishy-washy, that is all. They are not legislative and they are not directive. They are just saying, ‘We exhort each other to do certain things’.

Senator BUSHBY—I will leave it at that. But just before I do, I have questions on Treasury corporate matters. Given that there is no identified place, it would be best placed to give them to Ken Henry tomorrow?

Mr Murphy—Oh, yes. He will enjoy that.

CHAIR—I detect that somebody is not biased.

Senator BUSHBY—I just do not want to get there tomorrow and find out I should have asked you today.

Mr Murphy—If it is about markets group, I can answer the questions.

Senator BUSHBY—They are about the use of consultants and things like that.

Mr Murphy—Maybe. Usually any consultants we hire are listed in Treasury’s annual report. But if you want to know about consultants and whether we engage people for forecasting or other areas, I can only talk about markets group.

Senator BUSHBY—No. That is fine. Similarly, the impact on the LPG industry through the excise would be—

Mr Murphy—Revenue group.

Senator BUSHBY—Revenue group. And consultation—this will be an issue for you—on the impact on small business of the second tranche of the consumer credit laws. That is you?

Mr Murphy—We can talk about that.

Senator BUSHBY—Okay. I will try and come back to that if we have time.

Mr Murphy—The corporate matters should be raised—I should not have been flippant about it—in the fiscal policy area because that is where the corporate—

Senator BUSHBY—The spending.

Mr Murphy—Yes. It stands, in terms of responsibilities—

Senator BUSHBY—Thank you. I will come back to you on the consultation if we have an opportunity.

Senator WILLIAMS—Mr Murphy, I want to run you through talk about change in EFTPOS Payments Australia. I am told that the major banks and big retailers are in negotiations with EFTPOS Payments Australia Ltd—EPAL I think they are referred to—to reverse an increased EFTPOS interchange fee from the current merchant-friendly average rate of minus four to five cents possibly up to 12c. I note Russell Zimmerman, the executive director of the Australian Retailers Association and chair of Australian Merchant Payment Systems, said:

Changes to the interchange fee have been on the cards for quite a while.

He says:

The Reserve Bank wanted some competition for Visa and Mastercard and for it to remain competitive.

Can you explain or add to what is going on with these EFTPOS fees, please?

Mr Murphy—The Australian Payments System Board, which is a body under the Reserve Bank, largely sets the terms and conditions of EFTPOS and interchange fees and whatever. They have had a long-running engagement with industry to try to get the best deals for consumers in terms of fees and charges on EFTPOS transactions and other transactions which we all use. ‘Battle’ may be the wrong word, but it is a continual negotiation between the Payments System Board coming forward with regulation in certain areas and the industry reacting to that. But I cannot really go into the detail. I will take it on notice. It would be better if I take that on notice. I have not really got someone here who could go into the nitty-gritty of the EFTPOS things. We comment on it, but basically if you asked, ‘Who’s the regulator in this place?’ it is the Payments

System Board. On that board is the governor of the Reserve Bank, the chair of APRA plus appointees by the Treasurer, who are businesspeople, to try to give a proper business focus to the board. So I would just waste your time. If you give it to me on notice, I will give you the facts and figures and things about it.

Senator WILLIAMS—Perhaps you might give me an explanation. The only concern I have is whether this leads to higher costs that, hence, are passed on to small businesses et cetera. I think what EPAL are trying to do is have a sliding scale so that smaller transactions might have a lower fee and bigger transactions have a higher fee. But I stand to be corrected. The matter has been brought to my attention. It is complicated. You are a professional man in Treasury and if you are having some problems understanding it, how do you think I am going?

Mr Murphy—We do not initially engage in it unless it is brought to our attention, as you are doing, that there are problems there. We would initially go and talk to the Reserve Bank, because that is their responsibility, and see whether what they are trying to achieve is having perverse effects. I must say, from all I know about it, the Reserve Bank and the Payments System Board has been seeking to get greater competition into that sector over a number of years. It really has.

Senator WILLIAMS—I used to be in small business. One Saturday morning I had my banking on my computer in my shop. I pulled out my savings account and I put \$5 through it. The bank was St George and my EFTPOS was with CBA. Within the matter of a second the \$5 was gone from my savings account—it was on my computer in front of me—on the Saturday morning. The following Wednesday, that \$5 arrived in my business account. I know through the banking inquiry that Bendigo Bank will do the transfers overnight regardless, even on Christmas Day, weekends and everything. If a business is waiting from Saturday morning, for example, up to Wednesday to get their money you wonder where the money evaporates to, where it goes.

Mr Murphy—You start to question it, don't you.

Senator WILLIAMS—It is slow. In this world of technology, you would think, 'If you can get it out of my account in a half a second, how come it takes you five days to get it into my other account?' Is that something you could perhaps look at?

Mr Murphy—We could get you a briefing on that. As I say, the banks push very hard to get more competition and to free up the market in terms of the provision of financial services to the community. It is hard going. The fact of the matter is the institutions own all the technology. They have sunk the costs in. They have made the big investments. Then as government comes along and says, 'Well, we want you to do this and do that', they are obviously resistant.

Senator WILLIAMS—That is the short-term money market. I should have mentioned that.

Senator HEFFERNAN—I want to talk to FIRB.

Mr Murphy—FIRB, yes, Senator.

Senator HEFFERNAN—How are you?

Senator CAMERON—He is okay at the moment!

Senator Wong—You should ask him in about 10 minutes, Senator.

Senator HEFFERNAN—I want to talk about the \$230 million-odd to raise the trigger on—

Mr Murphy—The threshold?

Senator HEFFERNAN—Yes.

Mr Murphy—On investments.

Senator HEFFERNAN—Do you take into consideration any variation in the trigger due to fluctuations in the currency? Let us just say the trigger is \$230 million, which was US\$185 million three or four years ago. It is now \$200-odd million. So they can invest. But that is probably not a good example. Firstly, I had better ask you: what is the regulation on the investment of American money, under the free trade agreement, into Australia?

Mr Di Giorgio—Well, under the free trade agreement, the threshold for US investment rests at one thousand and—

Senator HEFFERNAN—It is \$1 billion, is it not?

Mr Di Giorgio—It is \$1 billion. That is under the FTA.

Senator HEFFERNAN—So it is now, say, \$1.2 billion or \$1.3 billion?

Mr Di Giorgio—No. It is \$1 billion.

Senator HEFFERNAN—Regardless of the currency fluctuations?

Mr Di Giorgio—That is right. The threshold is at \$1 billion.

Senator HEFFERNAN—So unlike the A\$230 million, it is a standard US\$1 million or Australian?

Mr Di Giorgio—It is Australian dollars.

Senator HEFFERNAN—There you go. Would you agree that the US is technically insolvent?

Mr Murphy—I do not know about that, but I see the point.

Senator HEFFERNAN—They have an amount approach \$3 trillion of toxic debt warehoused, which they are not going to run to the market with because they do not want to collapse everything. They are at about 65 or 70 per cent of GDP to public debt.

Senator WILLIAMS—It is \$14½ trillion.

Senator HEFFERNAN—No. With great respect, they have just on \$3 trillion of toxic debt warehoused, as we had the wool stockpile warehoused. They have a ratio of 67 per cent of GDP to public debt. They are going to be at 100 per cent in another six years unless they use inflation, which they will. Do we take any of that into account or do we just wear it?

Mr Murphy—What do you mean?

Senator HEFFERNAN—The currency fluctuation.

Mr Murphy—It may be that these thresholds have been set at a time when the Australian dollar—

Senator HEFFERNAN—Is it time to reconsider?

Mr Murphy—It may be. I take your point. We can talk to the government about that.

Senator HEFFERNAN—That is my first point.

Mr Di Giorgio—There is just one point on that. They are indexed annually. There is a formula.

Senator HEFFERNAN—It is like trade tariffs. Trade tariffs are old fashioned and out of date like non-digital TVs. Currency fluctuations blow the tariffs out of the water in the movements that are around today. We have China with a non-market currency, which has this serious problem with the US because they do not know whether to continue to trade by devaluing their currency or to continue to protect their capital investments around the world—hopefully by staying where they are; they are going to eat us eventually. I noticed recently the ASIC equivalent in the US has taken Citibank—and we will not name all the people they have taken to the cleaners, over allegations of corruption in dealing with Chinese sovereign funds, because they were investing in sovereign funds that go into the US, which can then come into Australia as a vehicle of the US. It is not mandatory, but you have reporting into Australia of sovereign funds, correct?

Mr Murphy—All sovereign wealth funds' investments are exempted.

Senator HEFFERNAN—The little trick that is playing is: how do you know that it is sovereign fund backed?

Mr Murphy—We would be looking through and, if it is sovereign, it is clearly identified.

Senator HEFFERNAN—No, it is clearly not.

Mr Murphy—We have a Foreign Investment Review Board.

Senator HEFFERNAN—They are useless; they rubber stamp it.

Mr Murphy—The Foreign Investment Review Board are private sector commercial people who, in my experience, have a pretty good understanding of where investments are coming from. It is not Treasury bureaucrats who are looking at these things.

Senator HEFFERNAN—If Citibank takes Chinese bonds or something and it is \$5 trillion, \$10 million or whatever it is and put it into their consolidated revenue and then they allow me, you or anyone else—Wacka Williams—to access capital to start Wacka Williams Investments Pty Ltd and they come into Australia as the foreign investor but they are sovereign backed, you will never know.

Mr Murphy—What I am saying is that the proposals that are put forward are examined in considerable detail.

Senator HEFFERNAN—That is right, but Wacka's money is from Citibank, and Citibank money is from a sovereign fund. You do not do the second transaction.

Senator Wong—It is ownership, not funding. I will leave Mr Di Giorgio to sort it out.

Senator HEFFERNAN—It is going to get more complicated.

Mr Di Giorgio—Essentially what we look at is the ownership structure of any particular investment or, in effect, any merger and acquisition, if it is that.

Senator HEFFERNAN—I know all of that. To save a bit of time, if I go to the ANZ Bank and borrow \$1 million, I am borrowing the money from the ANZ Bank and I am not really worried about where they got it from.

Mr Di Giorgio—I would suggest that is an issue of potential prudential regulations of that particular bank in the jurisdiction where it comes from.

Senator HEFFERNAN—China has a non-market currency. I would like to address the question, but I probably do not have time for sovereignty and what sovereignty actually means these days, because we had a European delegation in parliament today and I got them to admit that they have lost their sovereignty, which they had through the Euro and the non-performance of the north and the south. We are at the same risk here, because modern communications, transport, free trade agreements and a whole range of things are overpowering the market. Today I heard the MLA say in a meeting with the Europeans, 'One market, one rule.' Our closer economic agreement, for instance, with New Zealand precludes us from a whole lot of testing for antibiotics. We cannot, because the free trade agreement or closer relations agreement says that we do not have to, even though we should. I am wondering if the Foreign Investment Review Board really needs to rethink regulations that are out of time.

Mr Murphy—It is hard to say. Notwithstanding your comments, you have reputable financial institutions or major financial institutions coming forward with investments in Australia. I would suggest that the investments are examined quite thoroughly by the Foreign Investment Review Board before any advice is put forward. That is what I have to rely on. They are people who actually know the market and can look through some of these transactions to see—

Senator HEFFERNAN—I understand that. I can run you through the companies that they cannot look through. For instance, there is a series of companies on the Cayman Islands.

Mr Murphy—The other thing I would suggest to you, just for elaboration, is that when it comes to the Foreign Investment Review Board, and the team here looks at it when they think they need to, they would consult, if possible, with the department of agriculture. They would consult with other organisations within the Commonwealth. I do not want to go into who.

Senator HEFFERNAN—That is fantastic, but the department of agriculture would not know where the sun comes up on this stuff. Give me a break. What I am trying to say is—

CHAIR—Senator Heffernan, can you wind up with a couple of quick questions.

Senator HEFFERNAN—It is very difficult for me to do that.

CHAIR—I know that.

Senator HEFFERNAN—Perhaps we can continue this at another time and another place.

Mr Murphy—Yes, certainly. I take your point.

Senator HEFFERNAN—What I mean is that it is not mandatory to report a company like Shenhua, the coal company in the Hunter, who are 68 per cent Chinese sovereign government owned, but you would like them to report the fact that they are—is that true?

Mr Murphy—We would be looking pretty closely at any Chinese investment.

Senator HEFFERNAN—But it is not compulsory.

Mr Murphy—If it is determined by us—

Senator HEFFERNAN—They have to volunteer it.

Mr Murphy—No.

Senator HEFFERNAN—I have a final question. Huawei is a Chinese company run by a guy who, according to the press, used to be closely connected to the Communist Party of China. It is a Chinese company.

Senator Wong—That is not unusual.

Senator HEFFERNAN—I know. And most of them are likeable rogues that went from government, took a load of money as they got out and started to come here. They are all billionaires. This mob has no money other than employee and government money involved with them. They are actually in Australia bidding for the NBN. They have been banned in America because they are doing Communist work in China and there is a security risk, so the US has said, ‘No go; thank you very much.’ They are here looking for work on the NBN. Would you be entitled to look at them, even though they allege that they are a Chinese company owned by the employees?

CHAIR—That is a very hypothetical question.

Senator HEFFERNAN—No, they are here.

Mr Murphy—If it were an investment and it came to our attention that examination would be needed, you would look through the veil. You would look to see who were the constituent owners.

Senator HEFFERNAN—Do you have enough resources to do all of this?

Mr Murphy—There is a division of Treasury that has done this type of work and is quite thorough.

Senator HEFFERNAN—Can I make an appointment to go and see that division?

Mr Murphy—Yes.

Senator Wong—I was going to suggest that it might be very useful if we asked Mr Di Giorgio to come and speak to you.

Senator CAMERON—I am still trying to get over the revelation tonight that Treasury is not in favour of intervention in the market. This has made me even worse, when I found a Chinese businessman might be a member of the Communist Party. All these issues are really revelations! There seems to be a theme over the last two and a half years that I have been a member of this committee that there is a problem with Chinese investment. I noticed that the Consul-General, Mr Shen Weilian, made a speech on 25 February this year and he argues that commodity trade will continue to grow, that service trade will be a new highlight and that acceleration of two-way investment is inevitable. Does that sound like a reasonable assessment of the maturing of the relationship between the People’s Republic of China and Australia?

Mr Murphy—I think so. China is an emerging country. The fact of the matter is that we welcome foreign investment from China. It is properly scrutinised. China is making significant investments in Australia and, as you say, the two-way trade—and not just in minerals; there is tremendous trade in minerals—is starting to pick up between Australia and China.

Mr Di Giorgio—Since about November 2007 we have seen something like \$60 billion worth of investment and around 220 proposals. That is coming off a pretty low base. There has been an acceleration in investment from China. We have noticed that the investors have increasingly understood the regulatory regime that we run over all foreign investment equally, including investments from SOEs, state owned enterprises. There has been a maturing of the relationship. We have not had occasion to reject any applications.

Senator CAMERON—There are real benefits in not only Chinese foreign investment but international foreign investment in Australia.

Mr Di Giorgio—We have relied on international foreign investment for decades. There has been a wave of different investment over time. First there were the British, then there were the Americans in the sixties and then there were the Japanese. Lately, of course, we have seen an increase and acceleration in Chinese investment. When there is a liberalisation of trade and economies over the world expand and increase, we see a concomitant increase in interest in us—they have greater resources to invest and so they invest in us. We have benefited from that, and that is why we have always had an accommodating stance on foreign investment.

Senator CAMERON—Senator Heffernan talked about US investment. Do you have a figure for US investment in Australia, and is it increasing or decreasing?

Mr Di Giorgio—US investment is increasing. For example I can give you two years of ABS data. In 2009 US investment increased from \$442 billion to \$514 billion, and there has been a steady increase since then.

The US has for a long time been the major investment source in Australia, followed reasonably closely by the United Kingdom. I will quickly run down the list. You have the United States, the United Kingdom and Japan, followed by the Netherlands, Hong Kong, Singapore, Germany, Switzerland, New Zealand and France. They are the top 10, and they are followed by Canada and China. The investment of first three has been pretty stable now for quite a long time. Likewise, Australian investment overseas follows that pattern of at least the top two. Our major investment is in the United States and the United Kingdom, but we also invest very heavily in New Zealand.

Senator CAMERON—What is the relationship between the outward investment and the inward investment in terms of our standard of living?

Mr Di Giorgio—The relationship is unambiguously positive, in the sense that, as our economy grows and the wealth in the economy increases, you either invest locally or invest internationally. If I was an investor I would want the greatest return. Increasingly, as investors become more sophisticated in Australia, they will invest internationally. I think it reflects the maturity of the Australian economy that our investments increase overseas as well as domestically.

Senator CAMERON—What measures has the government taken to improve the transparency of Australia's foreign investment regime? It is getting more sophisticated, more mature and more important. Senator Heffernan asked questions about it tonight, quite rightly. How is transparency being dealt with?

Mr Di Giorgio—The government released in the middle of last year a rewrite, or clarification, of Australia's foreign investment policy, and that is up on our website. It goes through the rules and regulations, who needs to apply and how to apply. We use the offices of our colleagues in Austrade to disseminate information about how to go about investing in Australia. We are in contact with them and we use their communication services to do that. Last year, the Treasurer, Mr Murphy and I went to China and spoke at some fora there to let them understand more clearly how our investment regime works, the fact that we welcome foreign investment and so on. We use mechanisms available to us to explain the policy.

We are in constant communication with key clients that work on behalf of investors. These are typically legal firms who understand our policies. We have a working relationship with them. We also meet delegations quite frequently from countries across the world. We have met quite a number of Chinese delegations over the past couple of years.

Senator CAMERON—Do you think any of them were Communists?

Mr Di Giorgio—I would hazard a guess—

Senator CAMERON—I just thought I would pre-empt Senator Heffernan's next question.

Mr Di Giorgio—We have met with delegations from Europe and a number of countries. We have a policy of being very open and disclosing.

Senator CAMERON—Do you have a figure for merchandise trade between Australia and the US, and where has that been going?

Mr Di Giorgio—'Merchandise trade' is getting specific.

Senator CAMERON—You can take it on notice if you like.

Mr Di Giorgio—Yes. I do not have a figure on merchandise trade as such.

Senator CAMERON—Can you take that one on notice for me, for the period just prior to the bilateral agreements and since.

Mr Di Giorgio—Certainly.

Senator CAMERON—Mr Murphy, you and I had an exchange on the US free trade agreement and bilateral trade agreements. I asked a question and there was a response, SBT172. Basically I asked whether there were figures to indicate what the actuality was in terms of trade with the US against the theoretical modelling that was done. The department responded:

Treasury has not conducted modelling into the impact of bilateral and multilateral trade agreements.

That is not what I asked. It later says:

However, care needs to be taken with this economic modelling as it assumes all barriers to trade and investment will be removed. This has never occurred in practice.

I have missed a fair bit of your response, but those are the key points for me. Given that we knew that this was a bilateral preferential trade deal and not a free trade deal, can anyone explain to me why the modelling that is used still assumes that all barriers to trade and investment will be removed?

Mr Murphy—I am not clear.

Senator CAMERON—The modelling that is done is not done by Treasury. It is government sponsored modelling in the case of the US free trade agreement and others. That modelling assumes that all barriers to trade will be removed. That is what you have indicated in your response to me.

Mr Murphy—Yes.

Senator CAMERON—I agree with you in your response that that is not the factual position. It is a bilateral trade deal or a preferential trade deal where not all barriers are removed. How can we have any confidence in the modelling that is done which uses that assumption that all trade will be free when we know that it is not going to be the case, and then we tell the public that these are the benefits that you will get and that is the figure? It is not like advertisers. The banks will put a little asterisk and say, 'Read the fine print.' We do not do that; we say, 'This is what you're going to get,' and we know it is not. Have you got any answers?

Mr Murphy—With any modelling you will have assumptions. I would have to go back and look at the modelling that we are talking about, but there will be assumptions. Oftentimes in these things you make assumptions with a fixed number of factors and then you run a scenario change. I note that in this area it might be worth looking at the Productivity Commission's report, which has just been published, on bilateral free trade agreements—it is quite a weighty document—in terms of the benefits, how it is assessed and so on. When I responded to you I said that the Productivity Commission was undertaking a study. That has now been released, so it might be worth looking at.

Senator CAMERON—I thought I would come direct to Treasury. I thought you guys were the experts.

Mr Murphy—That is what I am saying. It might be worth our looking at that and then coming back to you.

Senator CAMERON—Yes. You are the market experts on this. The public are fed a line based on a false assumption, not by Treasury but by the modelling that is done to say, 'Embrace these free trade agreements, because this is the increase in GDP, this is the increase in trade in terms of what is happening', but it has not happened.

Mr Murphy—If you really wish to address free trade agreements, I suggest that is a matter for the Department of Foreign Affairs and Trade.

Senator CAMERON—No. I would suggest it is not, because the economics of it is the Treasury.

Mr Murphy—Yes, of course.

Senator CAMERON—That is why I am asking you. I would not ask the Department of Foreign Affairs and Trade about modelling.

Mr Murphy—They commission the modelling.

Senator CAMERON—That does not make them experts on it, does it?

Mr Murphy—Yes.

Senator CAMERON—You are kidding me? Your market department is about informed decisions on the operation of the Australian market. If I am looking for an informed view on these issues, I am coming to you. Do you think that is fair enough?

Mr Murphy—It does not matter whether I think it is fair or not, because that is what your request is. We will do our best to look into it.

Senator CAMERON—I am asking you again to have a look at what I asked for, to have a look at what you can come back to me on, and actually try to answer the question. Also in addition to that, I would appreciate it if you could give me some details on the merchandise trade and the US free trade agreement.

Mr Murphy—Yes.

Senator CORMANN—I will try to go quickly through a series of financial services related issues. In relation to the Future of Finance Advice reforms, where is that process at the moment?

Mr Miller—We are in a process of consultation. The time line set out when it first started early last year was that we would go into a period of fairly intense consultation, which we have been doing. We are now preparing advice for government as a consequence of that consultation. Mind you, the consultation has not

stopped. We have been doing monthly consultation and that is still happening, even though we are preparing advice for government. The government will, in due course, come out with some decisions resulting from that consultation and the idea is that about midyear we should be able to get some draft legislation out for consultation with the idea of trying to get that into parliament in the spring sittings.

Senator CORMANN—That is a very concise and very complete answer to my question; I appreciate it. Obviously I am talking to financial service providers out there and there is a level of concern. If I were to summarise the main areas of concern, would I be right to say that they relate to the opt-in proposals, the definition of statutory fiduciary duties, removal of commissions on life insurance and banning of all volume rebates? Would that be a fair summary?

Mr Miller—Yes.

Mr Murphy—Yes.

Senator CORMANN—Have I missed anything?

Mr Miller—They are the main ones.

Senator CORMANN—Is it still the government's intention to proceed with a proposal to renew contracts once every year under the so-called opt-in proposals?

Mr Miller—The government is considering those issues. As I said, we have been going through this fairly major consultation process. We have heard many aspects, both from consumer groups and from industry, about the pros and cons of the one-year opt-in, the costs and all the other things that go with that. The government has that in consideration and they will come out with their decision in due course.

Senator CORMANN—Not wanting to verbal you here, but is it fair to say that it is not a lay down misere, that it is still open? It could well be a different proposal than the one that was framed?

Mr Murphy—No, I do not think so. It will be an opt-in, but the time period might be different.

Senator CORMANN—So rather than one year, it might be three or five?

Mr Murphy—Yes. The idea is to get consumers to address these issues.

Senator CORMANN—Have you assessed the impact of opt-in on the cost, availability and quality of advice, as part of the exercise that you have gone through?

Mr Miller—Are you referring to how much it will cost?

Senator CORMANN—Cost of administration and the flow—on consequences in terms of the cost and—

Mr Miller—There are various reports and they are almost coming in daily from various people who are doing studies in this area.

Senator CORMANN—To you, too?

Mr Miller—Yes. We are getting a lot of data from that. When you summarise all the various things that have come in, most are saying that the opt-in measure will cost around \$100 per person per client. For an average size advisory firm, that might be around \$100,000 a year.

Senator CORMANN—So if you have 3,000 clients, it is \$300,000 a year?

Mr Miller—If you have 3,000 clients, yes. There is a range of figures. I am trying to average out all the various things that have come in from various parties.

Senator CORMANN—I am conscious of time so we will go through it quickly and we will have other opportunities to talk about the merits of opt-in and opt-out. In relation to the issue of volume rebates, is it your view that all volume rebates or scale payments distort advice?

Mr Miller—In most cases that is correct.

Senator CORMANN—So it is not in all cases?

Mr Miller—One of the things that we have been looking at in consultation is whether there are any volume payments that do not distort advice. There are various views and some views are that all volume payments will distort in some way. It is quite a complicated structure, but there are volume payments that come down from funds managers, product manufacturers, the platforms themselves and then from dealers down to their advisers. All those different volume payments have a potential to affect the advice that the adviser gives to the client.

Senator CORMANN—The policy intention of the government, as I understand it, is to ban those volume rebates that distort investment advice. So, to the extent that there is evidence that some volume rebates do not distort investment advice, you would not be targeting those?

Mr Murphy—We are trying to tackle the conflicts of interest that are in this so you get better quality advice. If, through the discussions and consultations Mr Miller and his team are undertaking, we can quarantine out certain volume transactions that do not lead you to conflicts, there may be no need to act in that area. It is reasonably complicated and complex because a lot of these, especially the larger companies, have different arrangements as to how they remunerate their agents and how they are structured. We are trying to ensure that the new regulation—we understand what the government is trying to address is conflict of interest—ensures that legitimate business practices can continue.

Senator CORMANN—I think that will reassure people a lot, because if legitimate business practices can continue then everybody will agree that, to the extent that volume rebates distort investment advice, that should not be allowed to happen. If you can quarantine what you call legitimate business practices that would be very good.

Mr Murphy—It is quite an issue.

Senator CORMANN—Just in finishing off on Future of Finance Advice, I turn to the issue of commissions on life insurance. The argument that has been put forward by the industry is that there is already a problem with underinsurance, and you would be aware of this?

Mr Murphy—Yes, we have looked at insurance.

Senator CORMANN—What is your response to the argument that banning commissions on life insurance would make that problem worse?

Mr Miller—The government indicated in its announcement that it was going to do some separate consultation on insurance, because the question of commissions with insurance is very different from that of commissions for financial advice. We commenced, as was agreed, with that particular consultation in January this year, which has been ongoing. It is true that there are differences and, therefore, those differences may result in a different policy outcome. Again, we are right in the middle of that consultation now and we will be giving advice to government fairly shortly on some of those aspects.

Mr Murphy—We have always had an Insurance Contracts Act which governs these contracts, and the issue is whether you need to go further than what is already in that act.

Senator CORMANN—Presumably you would be aware that in the United Kingdom they decided to ban commissions on risk products and that was reversed, essentially, because it caused all sorts of problems. The determination was made that risk commissions did not present a conflict of interest. You would be aware of that?

Mr Murphy—Yes.

Mr Miller—Of course, the British experience is something that we can learn from.

Mr Murphy—They had lots of problems.

Senator CORMANN—That is good to hear.

Mr Murphy—Not to their ears.

Senator CORMANN—I am interested in the issue of unregulated market participants who call themselves stockbrokers. You would be aware of that as an issue?

Mr Murphy—Yes. The Stockbrokers Association of Australia raises it.

Senator CORMANN—You say that in a way as if you do not think it is a legitimate issue.

Mr Murphy—No. I think there is an issue there whereby the stockbrokers—they are regulated by ASIC and licensed—are trying to find out who these people are and if they are purporting to hold themselves out as stockbrokers or not.

Senator CORMANN—If somebody presents themselves as a stockbroker it obviously attaches a certain credibility in the eye of the customer.

Mr Murphy—Yes.

Senator CORMANN—If they are not stockbrokers, you can see why those who have to go through the regulatory regime would feel a bit aggrieved by that.

Mr Murphy—Yes.

Senator CORMANN—What the stockbrokers are saying to me is that government perhaps has done little to address the issue and that it is causing problems for consumers.

Mr Murphy—I do not know if it is a major problem; that is what I would say. It is in this area where there are stockbrokers, financial planners and financial advisers all competing for market share. I know the Stockbrokers Association is concerned about people passing themselves off, but whether they are doing that is the issue that we are looking at.

Senator CORMANN—The ASIC Commissioner, Shane Tregillis, said today that he was working very closely with federal Treasury to consider whether the regulation of stockbrokers should be extended to fund managers and non-direct brokers. He then mentioned a number of firms. Where is that process up to?

Mr Murphy—ASIC has to be closer to the market than we are, and if they see that there is mischief out there or there is a regulatory gap that needs to be plugged, they come to us and we look at it. I am primarily talking about discussions I have with the Stockbrokers Association where they raised this issue. They have raised it in the past, but up to this time government has not been minded to see that that is a major problem.

Senator CORMANN—It does not sound like you really think it is a major problem either.

Mr Murphy—It may be. All these things are a matter of degree. You cannot regulate everything, if it is one or two people. If it is becoming a policy or becoming quite proliferate and there are more people doing it—

Mr Miller—Most of our regulation regulates function rather than a name. We do not sign people up as accountants, but we regulate you if you are doing auditing or if you are doing tax. We regulate the function rather than—

Senator CORMANN—I do not have much time left so I have to go quickly. If stockbrokers are subject to a particular regulatory regime and then there are people presenting themselves as stockbrokers who are not having to comply with that regulatory regime—and by the sounds of it there have been some collapses in recent years that have caused loss to investors, then—

Mr Miller—If they are carrying out a function that has to be regulated, they will be regulated. Whether they call themselves a stockbroker or not—

Mr Murphy—Yes.

Senator CORMANN—How does the regulator know where they are?

Mr Murphy—It does not really matter. If they are providing financial advice they have to meet certain competency standards. They have to be licensed.

Senator CORMANN—Just to wrap this part of it up, if the Stockbrokers Association or individual stockbrokers want to see policy development in this area they essentially have to present you with more compelling evidence?

Mr Murphy—I suppose so, yes.

Senator CORMANN—In relation to the government's intention to bring competition into the market for trading in listed shares, is that part of your area as well?

Mr Murphy—Yes.

Senator CORMANN—When did the government first announce its intention to bring competition into that market?

Mr Murphy—It has been on the cards for a number of years. It was delayed, to some extent. This government decided to do this. It has been delayed by the emergence of the GFC. We have now made an announcement.

Senator CORMANN—I will run you through a few timelines, because I have had a bit of a look at this. Chi-X applied for a licence back in April 2009, nearly three years ago. There were two others, AXE-ECN Pty Limited and Liquidnet Australia Pty Ltd, who applied at the time, too, but they have dropped off. That is nearly three years ago. Is that an appropriate time frame to deal with that?

Mr Murphy—There are a couple of things here. Yes, it is a long time frame, but that is because you want to make sure about the stability of the financial markets, which are very important listed markets. The factors on the timeline were the movement and this government's decision to take away the supervision of the market from the ASX and transfer it to ASIC. It was decided that in Chi-X and Liquidnet applying, you had to decide

what you do with the supervision because ASX was supervising itself. ASX could not supervise Chi-X or someone else. The government decided to do that. You also had the global financial crisis, which has contributed to a delay.

Senator CORMANN—On which end? Is it on the regulatory end or on the applicant end?

Mr Murphy—No, delays on the regulatory end. As I was going to say, I can understand why Chi-X and Liquidnet were saying that the process has taken a long time, and the government is very keen to get competition in the market, but you had these other factors that had to be taken into account.

Senator CORMANN—What I am trying to understand is how the GFC resulted in the delay.

Mr Murphy—We had such a disruption to financial markets that it was not the time to introduce a new market player.

Senator CORMANN—Is there an expected deadline by which this regulatory process is to come to a conclusion?

Mr Murphy—ASIC at the moment is working very hard in developing the rules that would apply to other market participants other than the ASX.

Mr Miller—I know Chi-X has been asking the government specifically about a timeline. The government has asked ASIC to provide Chi-X with such a timeline. I think that is happening at the end of this month.

Senator CORMANN—At the end of this month?

Mr Miller—Yes. I understand they may have even spoken to Chi-X informally at this point, but they will get a formal timetable very shortly.

Senator CORMANN—Which leads me to the next question, which is linked to the ASX-SGX proposed merger. You have talked about the regulatory functions having been shifted from ASX to ASIC.

Mr Murphy—The supervision of the market.

Senator CORMANN—Are there any other regulatory functions in terms of the operation of the market?

Mr Murphy—The ASX currently decides the listing rules.

Senator CORMANN—Would the ASX listing rules apply to other operators in the market?

Mr Murphy—If you wanted to list them. Not with Chi-X, but if you wanted to list.

Senator CORMANN—They would have their own listing rules.

Mr Murphy—Yes.

Senator CORMANN—The question is: will the regulatory oversight be impacted in any way by the ownership of ASX moving forward?

Mr Murphy—That is a matter being considered very closely by the government.

Senator CORMANN—You have not got a conclusive answer to that question?

Mr Murphy—No. The SGX is yet to put in a formal submission to the government. There are a host of issues that need to be addressed in terms of the proposal and the impact it has on the ASX.

Senator CORMANN—Given the reforms that this government has made sensibly to put the regulatory supervision with ASIC—because clearly there would be a conflict if you were an operator and a regulator having to compete with others—and given that all of that has taken place, is the ownership structure of ASX in any way relevant to the level of regulation of the market in Australia?

Mr Murphy—Yes.

Senator CORMANN—It is?

Mr Murphy—Yes. You are saying: does the ownership structure of the ASX have any impact on the regulatory structure that we now have? I would say we have to take account of that in any decision that is made by the government in relation to the proposal from the Singapore Exchange. As I said, there are a host of issues that need to be examined and that we are looking at.

Senator CORMANN—Is there somebody here who can assist us with the Cooper review?

Mr Murphy—Yes.

Senator CORMANN—Mr Cooper made a number of recommendations in relation to corporate governance arrangements. I am particularly interested in three recommendations. One is the recommendation to ensure that, where a superannuation trustee board does not have equal representation, the trustee must have a majority of non-associated or independent directors, and another is the one where the trustee board must have equal representation and no less than one-third of total directors must be non-associated and no less than one-third of employer representatives must be non-associated. Why has the government not supported those two recommendations?

Mr Rollings—My understanding of that particular area of the SIS Act, with a rather detailed set of provisions on it, is that, whilst equal representation at the moment is mandatory in a limited number of circumstances, in a lot of cases funds opt to have equal representation on their board of their own volition. The government's response in this area essentially reflects that they think the current arrangements should remain the same.

Senator CORMANN—Cooper would have had a reason to make a recommendation. From his point of view it was an important way to improve the corporate governance structure of superannuation funds. You say the government decided that it should remain. I guess I am looking for an explanation of policy. Why does the government think that it should remain?

Mr Rollings—I am not a particular expert on the details. I would be happy to take the detailed question on notice.

Senator CORMANN—Yes, please take it on notice. Can you also explain why the government has only noted and not supported the recommendation that directors wanting to sit on more than one board must attest to APRA that at the time of appointment there is no reasonably foreseeable conflict of interest. I would have thought that ensuring that corporate governance arrangements help avoid foreseeable conflicts of interest would have been a good thing. The talk on the street is that the minister may be a bit too focused on a certain bias towards a certain section of the superannuation industry rather than acting in the broader public interest, so I am interested in your answer to the question on notice.

Senator Wong—Do you want him to answer that last assertion?

Senator CORMANN—I would like the department to answer why the government is not supporting the recommendation that directors wanting to sit on more than one superannuation board must attest to APRA that at the time of appointment there is no reasonably foreseeable conflict of interest. I would have thought that it was a sensible recommendation.

Senator Wong—If you can just put a full stop—

Senator CORMANN—To put a context around it so that everybody understands where I am coming from—

Senator Wong—I do not think—

Senator CORMANN—There is the view that the minister is letting his union bias get in the way of acting in the public interest. I am sure that will help and assist Treasury in putting forward the most informative answer possible to my question.

Senator Wong—I do not think it is Treasury's responsibility to respond to a political assertion that you made. In relation to the question as to what was the rationale behind the noting rather than the acceptance of that particular recommendation, I am sure that can be taken on notice.

Senator CORMANN—Thank you, Minister. The minister, when he released the so-called Stronger Super reform proposals, asserted that an Australian worker currently aged 30 can expect up to \$40,000 more in retirement following the Stronger Super reforms. Is that assertion based on the assumption that all other things remain equal?

Mr Rollings—That estimate is based on a few things.

Senator CORMANN—Can you talk us through what it is based on?

Mr Rollings—I can. There are a couple of inputs to that estimate. One of those inputs was a report done by Deloittes for the super system review. That was an independent report around the potential for reduction in fees as a result of MySuper. That report is actually part of the super system review final report and you can see the detail in there.

Another input is around estimated savings of the SuperStream package of reforms. Again, an input for that is some of the work done in industry, including Ernst and Young, who estimated up to \$1 billion a year in savings from the SuperStream package of measures. A combination of those independent external reports has fed into the Treasury estimates around the savings for the average 30-year-old worker.

Senator CORMANN—Which asset allocation strategy do these cost savings take into account to develop a final number?

Mr Rollings—Again, I could take the detail of this on notice, but broadly it is based on a balanced investment portfolio option.

Senator CORMANN—Did that modelling take into account that certain investments may be prohibited under MySuper, such as investments which may not comply with the proposed performance fee standards to be developed by APRA?

Mr Rollings—MySuper will not prohibit any particular investment strategy. The investment strategy will be left for the trustee of a MySuper product to determine. It will be up to the trustee to decide what is in the best interest of the members of the MySuper product.

Senator CORMANN—In that context, are you aware of the Chant West analysis of that particular modelling?

Mr Rollings—Not specifically, and some of these modelling questions might be better addressed to our retirement income modellers as part of Revenue Group.

Senator CORMANN—So I can ask questions on this in Revenue Group? In that case I might leave it here to give other colleagues some time.

CHAIR—Senator Bushby, we need five minutes at the end for Senator Ludlam.

Mr Lonsdale—In terms of advocacy issues and retirement income modelling, Mr Gallagher from the Retirement Income Modelling Unit would be best to handle that.

Mr Murphy—He is an expert on that.

Senator CORMANN—Thank you.

Senator BUSHBY—In terms of the regulation of credit for small business, which is the focus of phase 2 of the NCCP, how have you approached putting together the consultation group?

Mr Miller—The consultation group is pretty much the same consultation group that we had. There is a main consultation group and there are also subgroups for specific measures. The main consultation group consists of many of the same people, in many cases, who were on the main consultation group for phase 1.

Senator BUSHBY—Phase 1 had a different focus. It was about provision to consumers, as opposed to small business.

Mr Miller—It is the same sort of people. It is the banks, consumer groups, brokers and so on. As that main group is so wide, it covers both, but then we have subgroups on, say, reverse mortgages and consumer leases. Most of the other measures have subgroups where we brought the more specialised people into play so that we can get the advice from those specialised people.

Senator BUSHBY—I will get to the reason why I am asking, because we are short of time. The Commercial Asset Finance Brokers Association feels that they have not been included. They apparently approached Treasury during the first stage of the NCCP and were told: ‘This is not for you, because we are looking at consumer credit. You do not lend to consumers, so we’ll talk to you in the second stage.’ They approached Treasury, according to them, for the second stage—and I have copies of emails—which suggests that, now that it is highly relevant to them and in an area where they have quite specific interests in ensuring that it goes smoothly, they have not been included in the consultation process.

Mr Murphy—Which group is this?

Senator BUSHBY—The Commercial Asset Finance Brokers Association.

Mr Murphy—Thank you for raising it.

Senator BUSHBY—They were given an undertaking that they would be included, but they have not been.

Mr Murphy—I am surprised.

Mr Miller—I am surprised about that, because apart from those subgroups we engage one on one. Basically, if a group like that wanted to talk to us, we have never said, ‘No, you cannot come and talk to us.’

Senator BUSHBY—I can talk to you afterwards if you like. I have copies of emails with Treasury officials where it demonstrates the difficulties that they have been having.

Mr Miller—It may be that there was no room on the big committee because there are already 22 people and you can only have a certain size, but we have never excluded people from talking to us.

Senator BUSHBY—The other point that they make is that the current members of the phase 2 consultation group, which I presume is the big group that you refer to, continues to have three different groups from consumer advocates, which is fine, but in a lot of ways they represent a similar perspective. But there is no group that really represents small business as such, which they claim to do.

Mr Miller—We have various broker groups.

Mr Murphy—This is the same group? That is their point?

Senator BUSHBY—It is the same group, yes.

Mr Murphy—We will fix that up. We can talk to them.

Senator BUSHBY—Thank you.

Senator LUDLAM—I have some follow-up questions for Mr Murphy relating to the National Contact Point issues that we were discussing last time. I gather our National Contact Point, since we last spoke, has left us: Mr Colmer has resigned.

Mr Murphy—He has moved to another job in Treasury.

Senator LUDLAM—A transfer rather than a resignation?

Mr Murphy—Yes.

Senator LUDLAM—Is that a case of jumping or pushing?

Mr Murphy—It is what happens to all of us. He was offered another opportunity. He is moving to a very good job. He was in a very good job, but he is moving to the macroeconomic area to work on international financial institutions. That is a good job.

Senator LUDLAM—Is there a new NCP?

Mr Murphy—Yes. Ms Deidre Gerathy will be the new general manager of the Foreign Investment and Trade Policy Division. She is a Treasury officer.

Senator LUDLAM—Does that make you, by definition, the National Contact Point?

Mr Murphy—Yes. She will be the general manager of the Foreign Investment and Trade Policy Division.

Senator LUDLAM—Has that been made public or are we hearing this for the first time live in Senate estimates?

Mr Murphy—It has been announced in Treasury and they are the only people who are interested. It has been announced internally.

Senator LUDLAM—That is not true.

Mr Murphy—She will take up the position. It is important work and we are engaged in it.

Senator LUDLAM—Has the new appointee taken her place yet?

Mr Murphy—No. It is on 7 March.

Senator LUDLAM—That is quite soon.

Mr Murphy—Mr Di Giorgio is the acting head of the foreign investment division.

Senator LUDLAM—I will pitch these questions to either of you—whoever wishes to take them up. I am sorry, what is the name of the new appointee?

Mr Murphy—Ms Deidre Gerathy.

Senator LUDLAM—Does Ms Gerathy have any knowledge of the OECD guidelines and the review that is being undertaken at the moment?

Mr Murphy—Ms Gerathy is a very experienced Treasury person. In her travels she may have come across the guidelines, but we would expect that she will be well across them as soon as she starts.

Senator LUDLAM—She will pick it up?

Mr Murphy—Yes.

Senator LUDLAM—National contact points in other countries—the examples I have here are the UK and Holland—have designated staff to promote the guidelines. They have a disclosed and designated budget. Can you explain to us what resources, if any, have been spent to date in the last five years on promoting the guidelines and investigating cases?

Mr Murphy—We investigate the cases as they are raised. As I said last time at estimates, Mr Colmer attends meetings on the guidelines and there is a Paris committee, which I understand is actually reviewing the guidelines at the present time. We engage cases as they are raised with us and that is the way it operates.

Mr Di Giorgio—I can elaborate on that. You asked what resources we have. That position has available to it the full resources of the Foreign Investment and Trade Policy Division and, in particular, one unit, the International Investment and Trade Policy Unit, which has a range of people.

Senator LUDLAM—I am aware of that. What I have never been able to establish is how much time is given over to the National Contact Point into investigating cases. That has never been made clear.

Mr Di Giorgio—The amount of time that is required is done as part of the overall functions of that position. The reality is that there have been six cases over the past five or six years. There is one that is current. That case is being considered fully. I will not go into the details because we are respecting the privacy of the individuals concerned, but suffice it to say that we have met with both parties and we are taking the issue forward.

Senator LUDLAM—I should say thank you to you both for returning the questions on notice that I put. The one that we did not get back was the one that I was going to put to you, Minister. Senator Sherry was at the table last time we had this discussion. I asked him to find out why we were not doing anything to promote the existence of the National Contact Point in host communities. This is an office that is meant to be available. If I am in Malawi and a uranium mining company is making a mess of the local river, I have a right to complain to the National Contact Point in the office of the company, but we do not appear to do anything at all to disclose to host communities the fact that this office exists and that there is a resource there. If I am incorrect in surmising that no answer came back from the minister, the answers from the department came back, but nothing came back from Senator Sherry. Is there any information that anyone can add as to whether we intend to promote the existence of this office?

Senator Wong—Was the question taken on notice?

Senator LUDLAM—It was taken on notice by Senator Sherry.

Senator Wong—If the minister takes it on notice then it is generally put down as a question on notice whether an answer is filed or not.

Mr Murphy—We have answered the list of cases before the OECD National Contact Point and we have also answered—

Senator LUDLAM—I have three answers back.

Senator Wong—in relation to the OECD National Contact Point overseas. That is this one.

Senator LUDLAM—I have three back from the department and nothing back from the minister's office on why we do not promote the office.

Senator Wong—I do not understand what you mean by the minister's office. We do not get a separate thing from the minister. The questions on notice take this form and are filed with the committee. I am a little confused as to what you are asking about.

Senator LUDLAM—We are quite short of time. I will give you the reference.

Senator Wong—No. Just give me the question and I will take it on notice. I am sure Mr Murphy or Mr Di Giorgio will ensure that an answer is considered?

Senator LUDLAM—I will restate it. If host communities have no idea at all that this office exists, what is the point of it? What do we do to promote it in host communities? That is the question that Senator Sherry took away.

Mr Murphy—We will look at overseas practice, which you have raised, and we will also look at it in terms of the OECD and the guidelines.

Senator Wong—Senator, I think you are wrong. Is this how you number them in this committee—SBT 168?

Senator LUDLAM—Yes.

Senator Wong—It says:

I take your point, Senator. I will take it on notice.

And then an answer has been provided.

Senator LUDLAM—Can you give us the number?

Senator Wong—SBT 168 is the number that I have in front of me. There is a very long exchange between you and Mr Di Giorgio and then Senator Sherry says:

I take your point, Senator. I will take it on notice.

There is then an answer provided: ‘As a member of the OECD’ and it goes on to say what is done. It probably will not be as much as you would like.

Senator LUDLAM—It was not an answer to the question that I asked; that is why I overlooked it. I asked: what do we do to promote the existence of the office in host countries? That is not what the answer is addressing.

Senator Wong—It says it is committed to promoting the guidelines. It talks about the website. It talks about heads of mission being briefed.

Senator LUDLAM—If I am in a village in Malawi or in PNG and there is an Australian mining company setting up camp next door, what do we do to inform those people that they have a right of appeal to the NCP? That is the reason for its existence.

Senator Wong—I am not sure how much the NCP applies to every single place in which Australian companies are operating.

Senator LUDLAM—I will give you an example. Why are the mining or resource companies not required to disclose that this office exists and hand out a piece of paper?

Senator Wong—That question is probably—

Mr Murphy—Yes. We can do that. It is probably a question for the actual guidelines themselves.

Senator LUDLAM—It is not an unreasonable question?

Senator Wong—No.

Senator LUDLAM—Thank you. I know we are short of time so I will finish up. Can you tell us what the time line is for further consultation in Australia on the review of the guidelines and what kind of response have you had in your call for submissions? I think you sent out 50 invites to comment on the review.

Mr Di Giorgio—Those processes are in train now. We intend to undertake a process to complete those consultations. I know that the OECD is looking at the guidelines now, in March and in April, and possibly beyond. As I understand it, we set in train the process last year, consistent with the requirements of the OECD and that process is going to continue on.

Senator LUDLAM—Did you get any response to that? Are people feeding back their views?

Mr Di Giorgio—I would have to check that.

Mr Murphy—The stakeholder meetings were held in May last year inviting submissions for inclusion in the review. Two such submissions were received by the committee from Australian stakeholders. Further briefings will be held before the April meeting of the OECD investment committee. We attend those meetings.

Senator LUDLAM—Where are those briefings conducted?

Mr Murphy—That will be in Paris.

Senator LUDLAM—We canvassed this last time and I think I teased you about it a little bit. Can the Treasurer explain how they would proceed if the OECD guidelines complaint mechanism were triggered in regard to an EFIC funded project? Would there be any different avenues of recourse or any difference in this process?

Mr Murphy—I do not think so.

CHAIR—We are at the tea break, so we will resume at 10.15 with the Productivity Commission. Thank you to the markets group for coming in.

Proceedings suspended from 10.02 pm to 10.15 pm

Productivity Commission

CHAIR—I welcome the Productivity Commission. Do you have any opening statement to make?

Dr Kirby—Yes, thank you. I will very briefly give you an update on the Productivity Commission's work program and I guess it is fair to say that we have been operating very much at full capacity in recent times. Currently we have got 11 commission projects underway. There have been three new projects since we last met: an inquiry into the economic regulation of airport services, an inquiry into the economic structure and performance of the Australian retail industry—and both of those are due to report towards the end of the year—and there is also a research study on emission reduction policies and carbon prices in key economies. This is on a much tighter time frame and it will be reporting to government by the end of May.

In addition to those three new projects there are eight ongoing projects from when we last talked. There are a couple of major social policy issues, one on disability care and support, and the draft report of that is scheduled to come out before the end of February, so that draft is only a few days away. And the draft report for Caring for Older Australians has already been released. It was released towards the end of January and that has been attracting a fair bit of attention.

In addition to those, we have also been conducting a research study into the education and training workforce. That involves a series of three projects. The first is a study into the vocational education and training sector. A draft came out before Christmas and the final report will go to government in April. As to the early childhood development sector of the education workforce, a draft report for that is due in June of this year. When the VET project finishes we will be commencing a study into the workforce of the schools education sector and it will take a year for that project to be finished.

In addition there is an inquiry underway into Australian's urban water sector and a draft report will be coming out in April. A draft report is coming out on this Friday, 25 February, in relation to the next stage of our business regulation benchmarking. That will be covering planning, zoning and development assessments. That is a report which is also likely to attract a fair bit of attention I would think, given the potential for those issues to affect many businesses right throughout the economy as well as individuals and their residential decisions et cetera.

Finally, in terms of those government commissioned projects, our study into the economic impacts and benefits of the COAG reform agenda is well underway. A framework report, talking about the methodology that we are employing, was released in January and we will be working on the first major report during the rest of this year.

In addition to those we do a lot of work for COAG, in particular for the steering committee of the review of government service provision. Related to that at the end of January we released the latest edition of our *Report on government services* and that provides comparative indicators across a whole range of government services throughout all the various jurisdictions in the country.

We also produce some important reports relating to Indigenous Australians. In the middle of the year we will be releasing the next edition of our major publication *Overcoming Indigenous disadvantage*. That is a report which is released every two years and this year is an on year. Also relating to the Indigenous community, we will be releasing the first edition of a report on Indigenous expenditure reporting. That again will be in late February. That will basically be any enumeration of the spending by all governments throughout Australia on specific programs for Indigenous Australians as well as their share of the mainstream government programs.

They are the projects we currently have underway. Since we last met we have also completed a few. A research report on bilateral and regional trade agreements was released in mid-December. We also released a commission research paper on population and migration, understanding the numbers, which is an attempt to try to clarify some of the statistics which sometimes confuse discussion in this area.

There is also one other inquiry report which has been completed and handed to government but is yet to be released, and that is into rural research and development corporations. The final report went to government a week or so ago and will be released some time in the future.

The commission has also published four staff working papers. One of them on intangible assets, and Australia's productivity growth is perhaps a little bit, let us say, theoretical, although that is not quite the right word. But the other three are quite topical: labour force participation of women over 45; the links between literacy and numeracy and labour market outcomes; and finally, quite an interesting report, providing an economic perspective of childhood obesity. There is some quite interesting research there and all of those have stimulated a fair bit of interest.

Finally, I would report that the commission's 2010 Richard Snape Lecture was delivered on 22 November by Her Excellency Dr Mari Pangestu, who is the Indonesian Minister of Trade. That report has also been published. I think it is quite a full and varied work program. I will leave it there.

Senator CAMERON—What has happened to my friend Mr Banks? What has happened to the chair?

Dr Kirby—The chair is actually on leave at the moment. He is interstate attending his son's wedding.

Senator CAMERON—That is a good excuse.

Dr Kirby—It only comes around once in a lifetime, I guess—hopefully.

Senator CAMERON—It is just that I miss him, that is all. In the *Report on government services* that you mentioned there is a chapter on school education. Does the Productivity Commission use the same data sets as those used for the *National report on schooling*?

Dr Kirby—I do not know about that but I can tell you the data set we do use, and I think it is important to understand the process. There is a subtle difference here in that the report on government service delivery is not a Productivity Commission report. We act as a secretariat for a COAG steering committee, so it is a subtle difference. What it means in practice is that all the information which goes into that RoGS report is provided to us by state and Commonwealth governments. The quality and the accuracy of all that information is checked quite thoroughly by Commonwealth and state governments so there quite an intense quality control process there. The data is one of the best data sets in terms of comparability and analysis of those sorts of issues.

Senator CAMERON—Given that checking that you do, what is the explanation for the much lower increase in government funding for private schools in the *Report on government services* than that which is showing in the *National report on schooling*?

Dr Kirby—I am aware of the issue and I understand it is largely a question of apples and oranges, making sure that the data that you are talking about is actually comparable. There are several things that one needs to be aware of to ensure that the comparisons are legitimate. One is the issue of capital versus recurrent expenditure. As I understand it, our report concentrates on recurrent expenditure. Some people throw capital into the mix as well. There are differences from time to time in terms of whether you are talking about calendar years or financial years—

Ms Gropp—And whether it is real or whether it is current.

Dr Kirby—Yes. We stand by the quality of the data in the RoGS reports but some people use different data.

Senator CAMERON—The private school funding figures in the *Report on government services* include only recurrent funding and exclude capital grants. How can the figures for the period 2001-02 to 2005-06 in the RoGS be higher than the funding figures in the successive issues of the *National report on schooling* when the NRS figures include capital grants?

Dr Kirby—I think we would have to take that on notice to look at the data in detail.

Senator CAMERON—How does the Productivity Commission explain the difference between the increase reported in the *Report on government services* and that being provided in annual supplementation under the SES funding model in line with increases in average government school recurrent costs?

Dr Kirby—We will take that on notice.

Senator CAMERON—Can the Productivity Commission investigate the apparent disparities between the figures in the *Report on government services* chapter on school education and the percentage increases in average government school recurrent costs and the disparities between the RoGS figures and those in the *National report on schooling*, and advise the committee on the results of these investigations?

Dr Kirby—Will do.

Senator CAMERON—Can you understand why there is some confusion out there on this issue?

Dr Kirby—I guess in the minds of the Productivity Commission and all the state governments and Commonwealth government there is not confusion in terms of the data that are provided in the RoGS report.

Senator CAMERON—Even though it is showing different outcomes for different government analysis?

Dr Kirby—That data is accurate.

Senator CAMERON—Your data is accurate?

Dr Kirby—Yes.

Senator CAMERON—How can you be so sure when you cannot explain it to me tonight? Is that just a statement from you? Is that a defensive statement?

Dr Kirby—That is a statement from all of the Australian Commonwealth, state and territory governments because they are the ones who have vetted the data and basically ticked it off.

Senator CAMERON—What if they made a mistake; how do you check that?

Dr Kirby—They are human beings so mistakes could be made—

Senator CAMERON—So there could be mistakes in there?

Dr Kirby—There is a very extensive quality control process which has been in place for more than a decade, so the chances of a really fundamental error are pretty minuscule, I would suggest.

Senator CAMERON—Can you provide the methodology of those fundamental checks?

Dr Kirby—Yes, I think we could. We could provide a description of the processes by which the RoGS is put together.

Senator CAMERON—If people are looking for the accurate spending on schools they should not look at the government's figures, they should look to yours; is that what you are saying?

Dr Kirby—I would suggest that would be a first port of call.

Senator CAMERON—Even though the inputs are from a wide range of states and you are relying on their accuracy for the input?

Dr Kirby—That is right. Remember also that the individual states are also keeping the layout on their fellow states in the accuracy of that data as well. If you actually look at the report you will see that the data in the report are very, very thoroughly described, including the caveats on the data and any data differences between states et cetera.

Senator CAMERON—Have you done an analysis on the *National report on schooling*?

Dr Kirby—No.

Senator CAMERON—Could you take on notice to have a look at the *National report on schooling* and the outcomes there, and compare them to what you are saying are the accurate figures?

Dr Kirby—As I indicated before, we will provide some advice on the data differences.

Senator LUDLAM—I gather under your act the commission is required to have at least one commissioner with extensive skills and experience in applying the principles of ecologically sustainable development and environmental conservation that are outlined in a couple of sections of your act. How many commissioners currently have extensive skills and experience in applying the principles of ESD and environmental conservation?

Dr Kirby—I think at the moment Dr Wendy Craik would be the one that we would put under that banner.

Senator LUDLAM—Your act says at least one. I trust you do not treat those as a cap—

Dr Kirby—No, certainly not.

Senator LUDLAM—Are there any other commissioners who would fall within that definition?

Dr Kirby—I think Dr Craik would be the main one.

Senator LUDLAM—Yes, I picked her out. I think her specialty is zoology. I am just wondering if there is anybody else?

Senator Wong—She was also—I cannot remember what the title was; was it CEO?—of the Murray-Darling Basin Authority.

Senator LUDLAM—Urban water and a couple of other things. Is there anybody else?

Dr Kirby—She would be the main one.

Senator LUDLAM—Would she be the only one?

Dr Kirby—I think she would be the main one.

Senator LUDLAM—If you want to correct the record after we have done, that is fine. Have there ever been any periods when the commission was in breach of that section, that is, you had nobody with that expertise on your team?

Dr Kirby—Not to my knowledge in the time I have been with the commission.

Senator LUDLAM—For how long is that?

Dr Kirby—Since 2004.

Senator LUDLAM—That is a bit of history. How many senior staff have you currently got with qualifications in ESD, environmental conservation or environmental economics or any of those related fields?

Dr Kirby—I would have to take that on notice.

Ms Gropp—A number of people will, in their economics degrees, have studied environmental economics.

Senator LUDLAM—If you want to provide us with—

Dr Kirby—We will check and see if we have got the data on that, of course.

Senator LUDLAM—Let us know how you go. Have you ever had a commissioner who was an environmental economist or who had that specialty?

Ms Gropp—Dr Neil Byron was a commissioner for many years and he was an environmental economist—a quite well-known one.

Senator LUDLAM—You have not identified whether there is anybody on staff at the moment and I will wait to see what comes back on that, but is there any reason why none of your current commissioners have a background, as far as I can tell, in environmental or ecological economics given the kind of things you are being tasked with and the kinds of challenges we are facing?

Dr Kirby—As was alluded to by my colleague, I think mainstream economics in fact supplies a tool kit which is relevant to understanding a vast range of issues: industry issues, social policy issues and environmental issues. So the mainstream economic skills and training are perfectly relevant for examining those sorts of questions.

Senator LUDLAM—That is an interesting interpretation. I suspect some of the economics—

Senator Wong—I do not know that Sir Nicholas Stern was an environmental economist. I am just making the point that, although I appreciate the position you are putting, you do not have to be an environmental economist to work out the economics of some environmental issues.

Senator LUDLAM—If you want to get Sir Nicholas Stern on the commission I would be delighted with that. I think that is probably an area of quite active dispute in the economics profession, as to whether mainstream neoclassical economics has the tools at all to deal with some of these concepts, but I will leave it at that. I will wait to see some of the material that you have offered to provide to us. Thank you very much.

Senator EGGLESTON—I am going to ask how are you progressing with two of your reports? The *Bilateral and regional trade agreements* research report has been released; is that the case?

Dr Kirby—That is with government. Government is considering it.

Senator EGGLESTON—The government is considering it?

Dr Kirby—Yes.

Senator EGGLESTON—I suppose it is up to the government what their time frame is before we get to see it. When do we think we will see the *Impacts and benefits of COAG reforms*?

Dr Kirby—That is one which I mentioned. In January a framework report was released for that one which basically talks about the methodology and the way we are going to try to measure some of those impacts and benefits. Later in the year, by the end of the year, we should have our first full report. It will probably concentrate on regulation and competition streams of reform and maybe something in the human capital stream as well, maybe education.

Senator EGGLESTON—The last one I am interested in is the *Emission reduction policies and carbon prices in key economies* report, which I see is due for completion on 31 May.

Ms Gropp—That study just started towards the end of last year. It is on a very short time frame. It is essentially data collection and analysis of what other countries are doing. We are doing a stocktake of policies in a number of countries, including Australia, in mainly the energy and transport sectors. That is a large task in itself. We are also at the moment having a number of contractors collecting data on how those schemes are working. We will be issuing a methodology paper in the next month or so before it is put on our website.

Senator EGGLESTON—I see you are also looking at Europe, Germany, China, India, Japan, South Korea and the USA, all our major trading partners, so I will look forward to that with great interest. That is in May, is it?

Ms Gropp—The end of May. It is a rather quick pace, as I said. Collecting data from some of these countries is proving challenging, but we are making some progress.

Senator EGGLESTON—I am sure it will be up to the usual high standard.

Senator CORMANN—You went through a very impressive and very extensive list of projects but I thought there was one missing, which was commissioned by the Senate and which has a deadline of 31 May 2011—namely, the report commissioned by the Senate on the design of a process for the selection and ongoing review of superannuation funds to be included in modern awards or enterprise agreements as default funds. Where is that project at?

Dr Kirby—I am aware of the order of the Senate last year and the renewal of that order this year. Let me start by saying that the commission has the utmost respect for the Senate and none of our action so far, nor what I am about to say, should be interpreted as any disrespect. We have previously complied with requests from the Senate to supply documents. For instance, in 2009 the Senate asked us to supply documents with respect to the Carbon Pollution Reduction Scheme and we did that, including several internal minutes which were supplied.

The issue this time around is really about creation of new documents. I guess, whilst I have no legal training and I do not want to enter a legal debate, the issue is, as we interpret it, whether we are compelled to produce a document which relies on information that we do not have. The reality is that the commission at the present time has no information on default super schemes so we are just simply not in a position to create such a document for the Senate. That is really where it is at at the moment. We of course will be listening to wiser heads on the legalities of all this but at the moment that is where it sits.

Senator CORMANN—Thank you for your explanation. That sheds some light on where it is that you are coming from, which would help the Senate address the reasons for your current predicament, I guess, from your point of view. But I thought I would just share with you that there is a longstanding history of governments of both persuasions asking statutory agencies to create reports, including reports created for the purpose of complying with the order in relation to documents that are not held by the agency—

Senator Wong—Senator—

Senator CORMANN—There is a question in this. Please, I am being quite sincere on an issue that the Senate has occupied a lot of time trying to get itself on top of. I have waited patiently to ask my question. Invariably, past orders of the Senate were initiated by cross-bench senators or by senators of the opposition. That is the nature of the way the Senate operates. But they were passed by the Senate and a majority of the Senate supported them.

I will give you some examples to put into context for you a request that was made to the Productivity Commission. I will put that into the context of past instances where similar statutory agencies have complied with them. I guess on notice I would like you to get back to the Senate to see whether the information in any way changes your perspective. I draw your attention in particular to, for example, an order of the Senate initiated by Senator Murray asking the ACCC to report on issues relating to grocery retailers, which involved the creation of documents not held by the ACCC at the time. Similarly, the ACCC was asked by the Senate on a motion initiated by then Democrat Senator Allison to report on tobacco and health related issues. In fact the ACCC was ordered to do so on two occasions and complied with that order.

In more recent times, Senator Fielding initiated an order for the Australian Securities Investment Commission and the Future Fund Board of Guardians to report on issues relating to the disposal by the Future Fund of shares in Telstra.

Over the last 30 years there is a long track record, whether it was the Hawke, Keating or Howard governments, of statutory agencies created by the parliament complying with orders of this nature. I guess the advice from the Clerk of the Senate is that, unless the act which is governing the operation explicitly rules that out, then under section 49 of the Constitution we are entitled to make the request and we are entitled to expect a response and compliance with that request unless there are clear and articulated public interest reasons as to why it would not be in the public interest.

I thank you for your indulgence on this. I thought it was important to put it on the record to enable you to on notice provide an answer to this committee as to the explanation I have just provided. I also seek leave to table the list of precedents so that it can be shared with the Productivity Commission formally and so that enables you to perhaps on notice provide an answer to see whether any of this changes your view on these things.

Senator Wong—Obviously the relevant minister, which would be the Assistant Treasurer, will actually need to respond. I have not gone through *Odgers* and looked at whether or not all of those orders were complied with nor investigated this matter in detail. But, in general, my understanding of orders for production has been for documents in existence. Perhaps if you had an order for production of a document which was effectively pulling together documents you already had in existence and indexing them or providing some summary, but you are actually seeking more than that. Perhaps I have not looked at every order for production, but it is a very significant further step to be suggesting that the Senate itself can order a statutory body to in fact undertake a further inquiry. That is effectively what your motion is doing.

I would invite senators, including cross-benchers, to consider whether or not that is really appropriate. I understand you want to be in government but statutory authorities do not generally simply go away and do inquiries because one part of the parliament tells them to in relation to policy issues. But Dr Kirby has made his response. I understand it is also a matter that the Assistant Treasurer will have to respond to as the responsible minister, and I am not sure we could take it much further than that.

CHAIR—I will just take it that the committee agreed that the document be tabled.

Senator CORMANN—Thank you again, Minister, for putting your perspective and your understanding of all of this on the record because it will help the Senate to resolve this issue. I would clarify though that I am not just making this up off my own back. The advice from the Clerk of the Senate consistently is that under section 49 of the Constitution the Senate has the undisputed power to order the production of documents necessary for its information, a power which encompasses documents already in existence and documents required to be created for the purpose of complying with the order.

Senator Wong—But does that mean you can just say, ‘We would like ASIC to go and do an inquiry costing however much’—disregarding whatever their other priorities are—‘into how particular fees have changed over the last 20 years’?

Senator CORMANN—It is a judgment for the Senate to make. In this particular instance I do not think it is an unreasonable and very resource intensive request. Ultimately, that is a political judgment for the Senate to make. On this occasion I guess we have made it. There is a long precedent of statutory agencies doing this and, to be honest, until two or three months ago it has never been a problem; agencies have actually complied with this. I invite you to consult the list—

Senator Wong—You have got three. I do not know what happened with those three. Generally, orders for production are documents already in existence. You have pointed this out to me and I have to say this is not an issue I have dealt with before. I was not aware of those examples to which you refer and they may well assist your case; I do not know. I have not looked at the facts of them and what the sort of documentation is. This is my personal view. I will pass it onto the relevant minister.

Senator LUDLAM—The Information Commissioner is caught up in a similar conversation, should I say, with the parliament and with the Clerk of the Senate on a similar issue relating to orders for production of documents, not creating documents but documents that are in existence that may or may not be in various ministers’ possession—

Senator Wong—Which is a different scenario.

Senator LUDLAM—Which is a different scenario but it is related. What the Information Commissioner chose to do was respectfully disagree with the Clerk of the Senate but gave us a six- or eight-page statement of reasons as to why, which in turn I and a number of others disagree with. But at least we have a statement of reasons. Can I invite Dr Kirby to provide a similar statement rather than simply not comply and wonder

whether anybody is going to notice, which appears to be the approach that has been taken to provide such a statement to the parliament.

Dr Kirby—We can provide that or a higher authority could provide that as well. Essentially, I have stated our viewpoint. I have been advised that the advice which the Senate gave us on 10 February did talk about the undisputed power, documents already in existence and documents required to be created. But I am informed that *Odgers* actually qualifies that a little bit more. If you read the full quote, or something akin to the full quote, it is about documents required to be created by a person or body having the information to compile the reports. We have conducted no work on this topic. We have no information on this topic. If we were to write a document on this topic, it would be an empty document.

Senator CORMANN—Can I just you ask you a question—

Dr Kirby—We are not in a position to comply.

Senator CORMANN—But your explanation changes from the explanation that you have given to the Clerk initially because in Mr Banks's letter to the Clerk it was that it was his understanding that such a report would have to be commissioned by the minister, which is a different proposition altogether. What the Senate asked you to do is actually Labor Party policy. It was a pre-election policy of the Labor Party to ask the Productivity Commission to design a process for the selection of default superannuation funds on the modern awards and so on, for that process to be objective, competitive, transparent and so on. What the Senate is asking you to do is implement Labor Party policy. If the minister commissioned you to do so, how would you go about finding the information? How would you go about that process?

Dr Kirby—If the minister commissioned us to do this project, he would give us signed terms of reference and we would then institute the usual inquiry processes that we do for any particular inquiry that we get.

Senator CORMANN—Which is exactly what the Senate has done. The Senate has given you terms of reference effectively—

Dr Kirby—The Senate has ordered us to create a document and we are not in a position to comply with it.

Senator CORMANN—To conclude this, I am planning to propose to the Senate next week to refer this whole issue to the Privileges Committee for final resolution because I think we have reached an impasse. It is a very recent impasse, mind you, in relation to both the Productivity Commission and Information Commissioner. Hopefully through that process we will be able to get some conclusive clarity on all of this.

In relation to your report on executive remuneration, are you in a position to provide some answers in relation to this?

Dr Kirby—Yes, more than likely.

Senator CORMANN—It is just because the legislation was introduced by the government today and there is one particular aspect that troubles me a bit. Broadly, I am comfortable with the proposition that if shareholders own a company, any effort to improve the alignment between shareholder views and board views is a good thing. So in principle I think that what came out of your report, the recommendations and what is in the legislation, is broadly something that we would be likely to support. But there is one particular area that troubles me and that is the recommendation that key management personnel who also hold shares in the company should not be allowed to vote in relation to those shares in relation to remuneration matters.

The reason I am concerned is that it seems to disfranchise people who are also shareholders of the company who are key management personnel but who have also got skin in the company; they all of a sudden seem to be a lesser class of shareholders than other shareholders. I am trying to get an understanding as to why you thought it was on balance an appropriate course of action to exclude them from those votes.

Ms Gropp—The rationale for that recommendation was in relation to the remuneration reports which are, as you know, non-binding. It was because they were non-binding that they were essentially a poll on what shareholders felt about remuneration. We felt that to include the people being remunerated in that poll as to whether they thought the remuneration was well-structured et cetera was, if you like, not giving a clear signal about what other shareholders felt, and that was the initiator of the two strikes proposal. But by the same token, when it came to the next vote about whether you would spill the board and vote for directors, then you would re-enfranchise all shareholders. It was more that because it is not binding, it was seen as, if you like, not a popularity poll but something along those lines.

Senator CORMANN—Having had a briefing very generously by Treasury this afternoon, that is not how I understand the legislation is crafted though. You have got the non-binding vote and then you have got the two strikes vote and they are excluded from all of that.

Ms Gropp—Two strikes is still just that you would vote on the remuneration report, et cetera—

Senator CORMANN—Sure, but they are not able to vote on any of that and they are not even able to vote on the original spill motion, for want of a better word, which has got the 50 per cent target. If you are somebody with a sizable shareholding, if you have 45 per cent of shares and you are excluded from these sorts of processes, that puts you into really quite a lower category of shareholders; does it not?

Ms Gropp—All shareholders could vote on any vote on a board member, from my understanding.

Senator CORMANN—Have you assessed or considered the risk that there is actually a disincentive for key management personnel to be shareholders in companies and have skin in the game if it dilutes their capacity?

Ms Gropp—I guess because it was a non-binding vote in terms of the remuneration report, that in particular was not going to have a real consequence. I guess that was our feeling.

Senator CORMANN—I will have to explore this a bit more somewhere else, but thank you.

Senator CASH—In the final few minutes of this hearing tonight could I please turn to the Productivity Commission report into gambling reform? Did the Productivity Commission undertake a cost-benefit analysis of its recommendation for mandatory precommitment?

Mr O'Brien—Its recommendation was for a trialling of precommitment. It did not recommend a particular precommitment model. It acknowledged that there are various models that might work and thought that trialling would be a way to establish which worked best and to what degree they worked.

Senator CASH—There was no cost-benefit analysis actually undertaken of that recommendation into the various models?

Mr O'Brien—There was an evaluation across the range of measures that can contribute to helping problem gamblers and it was judged on the arguments that compulsory precommitment was a promising line which would not itself be a silver bullet but could be useful in conjunction with other measures like education, counselling, et cetera. The idea was that by moving to a protocol that took advantage of the modernisation of gambling machines, which is of course going on all the time anyway to make them more engaging entertainment, one could take advantage of the central electronic controls of these machines to explore effective policies in all of these areas, for example changing cash limits or push limits on machines. So this was seen not as a standalone, one shot in the locker, but rather a proposal of one—

Senator CASH—Of what could be actually many ways to potentially solve the problem.

Mr O'Brien—I guess the commission report discusses more generally the problem of bringing evidence to bear in forming good policy when your starting point evidence is incomplete. Indeed, I think there is an entire chapter in the second volume of the report that talks through those issues. Other aspects of its recommendations go to creating a better pooling of evidence on trialling of gambling control measures and thereby iterating in, including by using the advantages of Australia as a federation and the natural experimentation that occurs across jurisdictions, to actually identify the best policy. I guess where I was feeling my way in that answer was towards the notion that the cost-benefit analysis was out there in the trialling and implementation phases when a range of measures would be facilitated by an Australia-wide agreement on how the protocols by which gambling machines talk to head office, so to speak, could be settled.

Senator CASH—What are the consequences then of adopting mandatory precommitment without the proper trial?

Mr O'Brien—I am not sure if that is an issue because, if I understand correctly, there is a trialling element envisaged in what is being discussed in the Joint Select Committee on Gambling Reform. There is a question of timing, a question of cost and a question of how much you do the trialling up front versus how you go. The commission formed a view on those issues and indeed its view evolved between the draft report and the final report in part on the basis of evidence from gambling machine manufacturers and gambling regulators in the states and territories as to the feasible rate of low-cost adaptation. But the issue of trialling, as I understand it, is still out there and in play—

Senator CASH—And it is certainly something that you recommend? You would not recommend introducing or adopting mandatory precommitment without first implementing a trial?

Mr O'Brien—The commission's recommendations are on the record and more generally, and in a range of work recently, the commission has been highlighting the opportunities to use federal diversity to learn from different experience. It is a general theme across several reports.

Senator CASH—Thank you very much for your time. I will be placing several questions on notice for you in relation to this particular subject.

CHAIR—Thank you, Minister and members of the Productivity Commission, for coming in this evening.

Committee adjourned at 11.00 am