



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

ECONOMICS LEGISLATION COMMITTEE

ESTIMATES

(Supplementary Budget Estimates)

WEDNESDAY, 20 OCTOBER 2010

CANBERRA

BY AUTHORITY OF THE SENATE

THIS TRANSCRIPT HAS BEEN PREPARED BY AN EXTERNAL PROVIDER

INTERNET

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

The internet address is:

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

To search the parliamentary database, go to:

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

SENATE ECONOMICS
LEGISLATION COMMITTEE
Wednesday, 20 October 2010

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

Participating members: Senators Abetz, Adams, Back, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Cash, Colbeck, Coonan, Cormann, Crossin, Eggleston, 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 and Wortley

Senators in attendance: Senators Back, Bernardi, Birmingham, Mark Bishop, Brandis, Bushby, Cameron, Coonan, Faulkner, Ffield, Hurley, Ludlam, Mason, Pratt, Ryan, Williams and Xenophon

Committee met at 9.00 am

INNOVATION, INDUSTRY, SCIENCE AND RESEARCH PORTFOLIO

In Attendance

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

Senator Sherry, Minister Assisting on Deregulation, Minister for Small Business, Minister Assisting the Minister for Tourism

Department of Innovation, Industry, Science and Research

Executive

Mr Mark Paterson, Secretary

Ms Patricia Kelly, Deputy Secretary

Ms Sue Weston, Deputy Secretary

Corporate Division

Mr Michael Schwager, Head of Division

Ms Cherie Ellison, General Manager, Business Collaboration Branch

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

AusIndustry Division

Mr Paul Sexton, Acting Executive General Manager

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

Ms Merryn Kennedy, General Manager, Innovation Branch

Ms Wendy Launder, General Manager, Business Development Branch

Dr Russell Edwards, Acting General Manager, Customer Services Branch

Australian Astronomical Observatory

Professor Matthew Colless, Director

e-Business Division

Mr Craig Penniford, Head of Division, Chief Information Officer
Mr Mike Sibly, General Manager, Online e-Business Services Branch
Mr Steve Stirling, General Manager, ICT Systems Branch
Mr Neil Kinsella, General Manager, ICT Systems Branch
Ms Trish Porter, General Manager, VANguard

Enterprise Connect Division

Ms Judith Zielke, Head of Division
Mr Paul Trotman, General Manager, Trade and International Branch
Ms Jane Urquhart, General Manager, Enterprise Connect Branch

Finance Division

Ms Vanessa Graham, Chief Financial Officer
Mr Brad Medland, Deputy Chief Financial Officer

Industry and Small Business Policy Division

Mr Barry Jones, Head of Division
Mr Terry Lowndes, Principal Advisor
Ms Ann Bray, General Manager, Business Registration and Licensing Branch
Mr Andrew Joyce, General Manager, Small Business and Deregulation Branch
Mr Richard Snabel, General Manager, Industry Policy and Economic Analysis Branch
Mr Andrew Lancaster Acting 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
Mr Doron Ben-Meir, Chief Executive Officer, Commercialisation Australia

Manufacturing Division

Mr Steve Payne, Head of Division
Mr Mark Durrant, General Manager, Automotive Branch
Mr Mike Lawson, General Manager, Competitive Industries Branch
Dr Michael Green, General Manager, Innovation and Space Branch
Mr Murray Fearn, General Manager, Working Groups Unit
Mr Ivan Donaldson, General Manager, Australian Building Codes Board (ABCB)

National Measurement Institute

Dr Laurie Besley, Head of Division/Chief Executive Officer

Questacon

Professor Graham Durant, Director

Research Division

Ms Anne Baly, Head of Division
Dr Anne Byrne, General Manager, Research Funding and Policy Branch
Dr Caroline Perkins, General Manager, Compacts and Co-ordination Branch
Ms Stella Morahan, General Manager, Cooperative Research Centres Branch

Science and Infrastructure Division

Ms Anne-Marie Lansdown, Head of Division

Ms Katharine Campbell, Acting General Manager, International Science and EIF Branch

Mr David Luchetti, General Manager, Science Policy and Programs Branch

Ms Julia Evans, General Manager, Research Infrastructure Branch

Australian Nuclear Science and Technology Organisation

Dr Greg Storr, General Manager, Nuclear Operations, Acting Chief Executive Officer

Mr Steven McIntosh, Senior Policy Advisor

Mr Lubi Dimitrovski, Manager, Waste Operations

Mr Peter Arambatzis, Chief Financial Officer

Australian Research Council

Professor Margaret Sheil, Chief Executive Officer

Ms Leanne Harvey, General Manager

Commonwealth Scientific and Industrial Research Organisation

Dr Megan Clark, Chief Executive

Mr Craig Roy, Deputy Chief Executive Science Strategy and People

Mr Mike Whelan, Deputy Chief Executive, Operations

Dr Andrew Johnson

Dr Alastair Robertson

IP Australia

Mr Philip Noonan, Director General

Ms Fatima Beattie, Deputy Director General

Mr Doug Pereira, General Manager, Corporate Services Group

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 expenditure for 2010-11 and related documents for the Innovation, Industry, Science and Research portfolio, Resources, Energy and Tourism portfolio, and the Treasury portfolio. The committee has set Monday 25 October as the date by which senators are to submit written questions on notice and has set Friday 10 December 2010 as the date by which answers to questions on notice are to be returned.

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 document 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]

Australian Nuclear Science and Technology Organisation

CHAIR—I welcome Senator Carr, the Minister for Innovation, Industry, Science and Research, and officers from ANSTO. Minister, would you like to make an opening statement?

Senator Carr—No.

CHAIR—Officers?

Dr Storr—No.

CHAIR—We will then proceed with questions for ANSTO.

Senator LUDLAM—I understand that Dr Paterson is not able to join us today. Dr Storr, would like to introduce yourself and your position in the organisation?

Dr Storr—I am the Acting Chief Executive Officer of ANSTO.

Senator LUDLAM—How long have we lost Dr Paterson for?

Dr Storr—Dr Paterson is currently overseas for a total period of two and a half weeks.

Senator LUDLAM—Okay. I have got a couple of issues I would like to raise. I have not raised with ANSTO before the issue reported in the press about a release of radioactive xenon-133 from the facility when I think it was being commissioned. I just wonder if you could provide us with a quick background of that event, and particularly for some of the material that ANSTO provided—and thank you for providing some information so quickly on receipt of my letter. You provided a table of monthly discharges of radioxenon between November 2008 and February 2009. What I am seeking would be something more like real-time monitoring reports that would actually show us that spike, rather than something smoothed out across a whole month.

Dr Storr—That information is available on ANSTO's website. If you go to the website you will be able to find real-time monitoring data for discharges.

Senator LUDLAM—Okay, so if we go to the dates when it was alleged in the newspapers that those releases occurred, that will actually show us the xenon spike that was detected in Melbourne?

Dr Storr—I will have to check that it goes back that far.

Senator LUDLAM—Well, it is not that long ago—only two years.

Dr Storr—I will take it on notice.

Senator LUDLAM—Okay. If it is not there could you undertake to provide us with that please? Giving us the monthly averages does not really help us when it was an event that occurred over a couple of days. Is anybody able to tell us what the highest rate of release was?

Dr Storr—During the period to which you refer the highest release was something like a little bit less than seven per cent of the allowable release for that radionuclide.

Senator LUDLAM—Allowable over what sort of period—over a year or a month? What does 'allowable' mean?

Dr Storr—That would be the allowable release over a month.

Senator LUDLAM—So seven per cent of the allowable release over a month was released over a period of a day or so? What kind of period are we talking about?

Dr Storr—The allowable limit is over a four-week period. The release from that particular event would have been through maybe one or two processing runs from the molybdenum-99 processing facility.

Senator LUDLAM—Does a processing run go for a couple of hours; is it like a shift?

Dr Storr—Yes, a processing run goes for approximately 24 hours in total.

Senator LUDLAM—So maybe for two days, one or two runs. Please provide us with some more detail perhaps on notice because I have a couple of events that I want to run through with you. Were those releases expected? Is that what you would consider routine for the kind of commissioning process that you are undertaking or was it an unexpected release?

Dr Storr—It was an expected release.

Senator LUDLAM—Was or was not?

Dr Storr—It was.

Senator LUDLAM—Did you notify the IMS in Melbourne? Were they expecting or looking for the trace gases that they picked up in Melbourne or did you get a phone call from them asking what you were up to?

Dr Storr—No. To go back to the releases, the releases were planned for as part of the routine process of production in the radiopharmaceutical facility. My understanding is the international monitoring station in Melbourne is designed to pick up very small activities from radionuclides and this was part of their testing process.

Senator LUDLAM—The *Sunday Telegraph* reported that they picked up 10 specific events between November 2008 and February 2009. Maybe you can corroborate whether that is true, whether there would have been 10 spikes. You said that it happened over a period of one or two days and that is not really congruent with what was reported, but I will probably rely on your direct testimony rather than what I read in the paper.

Dr Storr—I will take on notice whether there were 10 events or not. I point to the fact that an article was produced by officers from ARPANSA and ANSTO and an organisation in Austria on the testing of the international monitoring station and it was from that journal article that the *Sunday Telegraph* were able to get their information.

Senator LUDLAM—That is what they picked up. On notice, please provide us with some more fine-grain detail of exactly what was released and when if it is not on the website. If it is on the website, I would be happy to be pointed to where I can find it. Minister, can you confirm that Dr Zigmund Switkowski's term as chairman of ANSTO is up at the end of 2010?

Senator Carr—Yes.

Senator LUDLAM—Are efforts under way to find a replacement? Has somebody been identified or will Dr Switkowski be continuing in his role?

Senator CARR—I am discussing that with the board.

Senator LUDLAM—So a process is under way?

Senator Carr—I am discussing the whole membership with the board.

Senator LUDLAM—Is that position automatically spilled or do you have the option of just allowing him to continue into a fresh term?

Senator Carr—There are a range of options in the selection process, but ultimately it is a decision of government.

Senator LUDLAM—So he does not automatically continue.

Senator Carr—No.

Senator LUDLAM—Will you be making any alterations to the guidance you provide to him, given that he repeatedly fails to flag his opinions as his own, particularly in relation to a domestic nuclear power industry in Australia?

Senator Carr—I think that Dr Switkowski has performed an extremely valuable function at ANSTO and has, in all my dealings with him, acted with the utmost professionalism. We have a view of the research community that we want to encourage debate. He has expressed his views. At no point has he suggested that it is government policy and nor has it affected the work that he does as the chair of ANSTO, so I would not see any need to change the advice that I have given to him.

Senator LUDLAM—Do you have any concerns when he repeatedly fails to flag the opinions as his own? For example, he might turn up at taxpayer events and speaking opportunities around the country advocating nuclear power, which is directly at odds with what I understand to be government policy.

Senator Carr—No, I do not have any concerns about the manner in which he has presented his case.

Senator LUDLAM—I want to come to a budget allocation about which I spoke briefly to DEEWR officers earlier in the year, an allocation in the federal budget of just over \$8 million for addressing management of Australia's radioactive waste through the Commonwealth Radioactive Waste Facility that allocations quite heavily frontloaded with nearly \$4½ million allocated to the current financial year. Has any of that money been allocated to upgrading waste management or storage facilities at the Lucas Heights reactor complex?

Mr McIntosh—The answer is no.

Senator LUDLAM—If the Northern Territory radioactive waste facility proposed for Muckaty does not go ahead or it does not go ahead on the time line the department is considering for it, when would work to upgrade the Lucas Heights waste storage need to commence to meet the expected reprocessed spent fuel return dates of mid-2015 to 2016?

Mr McIntosh—As well as the physical work, you would be aware that would be preceded by licensing processes and probably an examination under the Environment Protection and Biodiversity Conservation Act. That paperwork would probably have to commence in 2011-12—that would be my judgment. The physical work—it is a fairly basic facility—would only take six to 12 months, but the paperwork would have to be started in 2011-12.

Senator LUDLAM—You would commence a licensing process or licensing applications the next financial year in order to meet a return time line of 2015-16?

Mr McIntosh—Yes.

Senator LUDLAM—What does the actual construction time line look like? Is that a year or less?

Mr McIntosh—The construction timeline would be somewhere around a year, yes.

Senator LUDLAM—That is helpful. If you could just confirm for us that there were two incidents at ANSTO Health, which I understand is the new name for ARI, on Monday, 27 September, the first of which involved a spillage of yttrium in a glove box around 8.00 am and a second that involved apparently the contamination of some clothing at around 12.45 am on that day, is this correct?

Dr Storr—It was at 12.45 pm, the second one.

Senator LUDLAM—Yes, you are quite right, 12.45 pm, thank you.

Dr Storr—Yes, I can confirm that there were two events on that day.

Senator LUDLAM—Were the incidents logged on that day or the following day?

Dr Storr—The incidents were reported on the day.

Senator LUDLAM—When is your written record of those incidents in your records? Could you table the incident reports that arose for us?

Dr Storr—The event reports, yes we can table them.

Senator LUDLAM—Does the data collected by the contamination monitors arising from those events still exist or has it been deleted?

Dr Storr—The data is recorded on the event reports for one of the monitors. I will have to take on notice whether the data from the portal monitor which the person who first picked up the contamination would have walked through is still available.

Senator LUDLAM—Whether that is kept, because that is routinely erased, is it not, or it falls off the back of the log every eight or 10 days?

Dr Storr—I will have to take the question on notice. I need to check the timing. I am not sure whether the data is kept electronically but it is recorded on the event report.

Senator LUDLAM—Was somebody suspended in relation to serious misconduct about that incident? Can you describe why that might have happened?

Dr Storr—I am happy to explain it. In fact, there were two suspensions just recently but they were not related directly to the events which you mentioned before. Let me be clear. The suspension of two workers at ANSTO Health just recently was not related to safety concerns they may have had; it was related to their alleged conduct at the time.

Senator LUDLAM—That does not give us much information. For what reason were they suspended? I know one of them was a supervisor who tried to bring to the attention of ANSTO Health the serious nature of one of those incidents and then found himself suspended. If it was not for that, what was it for?

Dr Storr—I repeat my previous answer. That person was suspended for alleged breaches of conduct in the organisation and at the moment there is an investigation into that.

Senator LUDLAM—I do not want to tie the committee down any further on that matter but if you are able to put anything on notice in relation to that—

Senator Carr—There are some privacy questions there, Senator. I do think it is unwise for officers to go to the detail of that matter insofar as individuals being identified. Matters are currently under investigation. The officers have indicated it was not a safety issue; it was due to other aspects which are the subject of an investigation.

Senator LUDLAM—Can you tell us the status of Mr David Reid, who I have spoken to you about at length in past sessions? Has ANSTO recently made a decision to remove the protection from his protected disclosure application which he made in September-October 2009 in relation to the moly-99 incident at ANSTO which we have spoken of at great length? If so, what part of your policy are you relying on to remove the protection from his disclosure?

Dr Storr—I will take that on notice.

Senator LUDLAM—Is that because you do not know or because it is complex?

Senator Carr—Perhaps I can assist in this regard. I repeat my invitation to you to get a briefing on this matter.

Senator LUDLAM—But a private briefing does not help us. I am trying to get material on the record here.

Senator Carr—It might inform your questioning.

Senator LUDLAM—I am reasonably well-informed as it is, Minister, but I am not getting a great deal from the officer.

Senator Carr—That is exactly the point.

Senator LUDLAM—What is that?

Senator Carr—How well-informed you are. All I can suggest to you is that the offer is there. The officers are constrained in terms of the discussion of an individual case which is currently the subject of other proceedings. That is right, is it not?

Dr Storr—Yes.

Senator LUDLAM—I do not come to Senate estimates hearings to be offered private briefings, quite frankly.

Senator Carr—That is fine, so long as you are aware that that offer is still there. If you choose not to take it up, that is your prerogative.

Senator LUDLAM—The offer is appreciated but it is not why I turned up this morning. I will come back after, if there is time, Chair.

Senator WILLIAMS—Minister, you would undoubtedly be extremely supportive of Labor's new alliance arrangements through the signed agreement with the Greens. What discussions have you or anyone in your office had since the election with the Greens about the future of nuclear policy in Australia?

Senator Carr—None.

Senator LUDLAM—I can confirm that.

Senator WILLIAMS—None, confirmed by Senator Ludlam! Do you agree with the Greens' statement that the development of non-reactor technologies for the production of radio isotopes for medical and scientific purposes must be promoted?

Senator Carr—There is a range of opportunities there. The government is committed to the successful and safe operation of the facility at Lucas Heights. It performs an extremely important function for the Australian people, not just in terms of medical research. I am on the public record arguing this case. It goes to whole issues of civil engineering, water conservation and research efforts in a multitude of fields. I am a strong supporter of the effective operation of the facility. All the evidence coming to me suggests it is well run and very closely monitored in terms of its regulatory reporting lines.

Senator WILLIAMS—I have been there myself and I am very impressed with the facility. I take from that that you do not agree with the Greens' policy that the OPAL nuclear reactor at Lucas Heights must be closed.

Senator Carr—That is clear, but there is a range of facilities that we operate across this country. This is one facility and it is the pre-eminent facility in this field.

Senator WILLIAMS—We have already seen, even in the space of a few weeks, that the ALP has caved into the Greens' demands on a number of issues—the carbon tax, for example. What kind of guarantee can you therefore give to us and, indeed, to ANSTO that proposals like those I have just cited for their nuclear policy statement will not be pursued in this term of government, especially when they start putting pressure on Labor to adopt them?

Senator Carr—I have expressed my view. There are no plans that I am aware of in any quarter within the government to change the policy of the government.

Senator WILLIAMS—Are you able to give us statistics on how many nuclear power plants are operating in the world at the moment?

Senator Carr—No, I cannot.

Senator LUDLAM—436, give or take.

Mr McIntosh—If you are wrong, you are only out by one or two.

Senator Carr—I appreciate your interest in these matters, Senator Williams. Matters that go to energy are another committee and another department's responsibility. That is RET's responsibility. This is not a facility for the production of nuclear power; it performs a whole range of functions other than that.

Senator FAULKNER—But that is not really fair, is it, Senator Carr, because, after all, Senator Williams has been given this series of questions by someone to ask. Even though they are not particularly relevant, I think you have to be fair to him and let him ask them. I would just say through you to Senator Williams that he does not actually have to ask them. He can always say no.

CHAIR—That may or may not be helpful to Senator Williams, but he has the call.

Senator WILLIAMS—Exactly, I have the right to ask the questions.

Senator FAULKNER—It was meant to be helpful, Chair.

CHAIR—I do not want to continue this conversation across the table.

Senator FAULKNER—I can assure you I was trying to be helpful.

Senator WILLIAMS—Thanks for your input. How long are you going to be here for, Senator Faulkner?

Senator FAULKNER—I have been here since the committee commenced—if you mean today.

Senator WILLIAMS—Yes, today. You said you were not going to be here for long.

Senator FAULKNER—Well, if you keep asking questions like this I will leave, I promise you.

CHAIR—We seem to have spent a lot of the morning asking each other questions or answering questions.

Senator WILLIAMS—Anyway, we agree there are 430-odd nuclear power plants in the world. Of that number, does anyone know how many are in OECD countries?

Dr Storr—We will take it on notice.

Senator Carr—We will be here forever. Sorry, I think you should go down to talk to RET and they will be more than happy to help you with these sorts of questions.

Senator BUSHBY—I thank ANSTO for coming along to assist us today. A copy of your corporate plan and research selections landed in my mailbox yesterday, which I read with great interest. I take it that the document titled *Research selections* is a selection of some of the activities of ANSTO; it is not intended to be a comprehensive document.

Dr Storr—That is correct. They are headline research components that go across our broad structure of research activities.

Senator BUSHBY—I had a good read through it and it was quite interesting. I particularly like the bit about carbon dating Huon pine from Tasmania, my home state. I was very interested to see that. How much of the activity that ANSTO undertakes, some of which is highlighted in that document, is dependent on the continuing use of the OPAL reactor at Lucas Heights?

Dr Storr—Quite a large proportion. All the neutron beam science conducted at ANSTO is done from neutron beams which come from the OPAL facility. The way we cost it is that about 50 per cent of the neutrons that were utilise are utilised for neutron beam research. Neutron beam research at ANSTO and from OPAL is aiming to be amongst the top in the world. This is because the facilities we have at OPAL are cold neutron source, very high quality beam instruments. There are other research activities also that are contingent upon the reactor, including research radioisotopes, which people use to investigate diseases or diagnostics, and also neutron activation analysis. That is a particular technique that uses neutrons.

Senator BUSHBY—And that 50 per cent of research that you mentioned would not be possible in Australia without the existence of the OPAL nuclear facility?

Dr Storr—Neutron beam science would not be possible without a research reactor or a spallation neutron source.

Senator BUSHBY—And you could not deliver the outcomes that you are getting as a result of that research without having that facility in Australia?

Dr Storr—Correct.

Senator BUSHBY—Looking at your research selections, the headings include ‘Climate and environment’, ‘Life sciences’, ‘Materials’ and ‘Engineering’. Many of the activities under those headings, delivering social, environmental and economic outcomes for Australia, are made possible because we have a facility operating the way it does.

Dr Storr—Many of those activities are related to the reactor.

Senator BUSHBY—One final question. I am looking at your ANSTO facts and figures. On page 92, there is a summary, a financial statement. I notice that the federal government funding is about \$158½ million. Your actual operation is about \$165½ million. So you actually have a technical shortfall in the funding that the government gives you but you more than make up for that with outside funding, comprising primarily of private industry funding. Is that correct?

Dr Storr—Just let me clarify the numbers for the financial year 2010-11. Our budgeted revenue was \$231 million. That includes appropriations from the government of \$166 million and therefore there is an earned revenue of about \$65 million. The earned revenue comes from the sale of radiopharmaceuticals and from a special production process called neutron transmutation doping of silicon, which we do in the reactor. These products are sold into the silicon industry for overseas companies. There are some research funding grants as well as minerals activities through the ANSTO Minerals unit.

Senator BUSHBY—I am looking at the figures from 2009. You are talking about the budget figures for the current year.

Dr Storr—Yes. I just thought I would clarify the figures for this financial year.

Senator BUSHBY—The figures are quite different. There is a \$216 million total here. You have got a \$231 million, I think, budget for this year. It has significantly increased. What percentage of that increase has actually come from an increase in government funding and how much has come from your private activities?

Dr Storr—The government funding is relatively static at the moment. As I said, the government appropriation for this financial year is \$166 million.

Senator BUSHBY—There is \$166 million and you have a budget of \$231 million. According to these figures, a large percentage of your expenditure went into investments as opposed to running what you do. Is that a similar case for this year out of your budget?

Mr Arambatzis—A very large proportion of funds that are invested are invested in research and innovation activity.

Senator BUSHBY—When you say ‘investments’, you are not talking about putting it on investments—

Mr Arambatzis—No. In terms of capital works, specifically to do with—

Senator BUSHBY—It is a very summary financial statement.

Mr Arambatzis—Exactly.

Senator BUSHBY—It does not break it down at all. It just says ‘investments’. So you are talking about putting investments into—

Mr Arambatzis—When I talk about ‘investment’ I talk about capital works. I would hazard to say that over 90 per cent of the funds that are appropriated, especially of a capital nature, go back into—

Senator BUSHBY—Developing the facilities, basically.

Mr Arambatzis—Developing the facilities. So it will be capital works for buildings, also the cost of neutron beam instruments et cetera.

Senator BUSHBY—That explains it. Thank you.

Senator LUDLAM—I will ask for some more detailed information to be taken on notice on yttrium-90 incident on 3 September 2007 that I was speaking about before. Maybe we will pursue some of this stuff in a private briefing but I might get you to take some material on notice. In relation to the data from the contamination monitors at the barrier and personal dosimeters worn by the staff who were involved in those incidents, I am interested to know what happened to that data—whether that material still exists or whether it disappears.

Mr McIntosh—To clarify: this is not the incident you were referring to in your earlier questions.

Senator LUDLAM—Yes.

Mr McIntosh—This is the incident from September 2007, which was the subject of the ARPANSA report that we provided to you a couple of weeks ago.

Senator LUDLAM—That is right. Thanks, Mr McIntosh, that is the very same. From the time line that has been provided, there seems to be some confusion as to whether Mr Reid, whom we have spoken about in relation to the moly-99 incident, was actually on site at the time. ANSTO have stated that he could not have witnessed the event because he was not on site at the time. The time line itself contradicts this. That is an issue that I would not mind stepping through with you at some length. But if there is any way you can clear up that confusion, I would appreciate it because at the moment the time line—

Dr Storr—To clarify one point: the time line does indeed show that when the event was recorded it was monitored in the afternoon, and Mr Reid was not on site.

Senator LUDLAM—When the event was recorded he was not on site. What I am talking about is when the contamination incident occurred. That was probably before 9 am when Mr Reid was on site. When it was reported and logged was later in the day. I think it was in the early afternoon after Mr Reid had gone.

Dr Storr—No. We are certain of the time when the event was recorded. It is not possible to determine at this stage when the event actually occurred.

Senator LUDLAM—We know it was before 9 am because that was when he was working with the beta-emitter. He was working with yttrium-90 before nine o'clock in the morning, which is in your time lines. I am just relying on your records for that.

Dr Storr—No, that is an assertion that has been made by the AMWU and we have to take that back and have a look at that. This was the subject of a letter which came to us late last night.

Senator LUDLAM—I guess that is what I am asking you to do. We are out of time now, but that particular chain of events is worth pursuing.

CHAIR—We have next Monday for written questions.

Senator LUDLAM—Chair, can I just ask whether the committee and the agencies treat the following estimates session as a bit of an informal deadline for return of questions on notice or whether the deadlines are treated as serious by the agencies. I am noticing more and more that answers to questions on notice are being returned in the week prior to the estimates session which can be three or four months after they were lodged, bearing no relationship to the time lines that were given the agencies. Is there an informal arrangement in place that I am not aware of?

CHAIR—No, indeed, there is not. We expect answers to be returned by Friday, 10 December. Most of the departments in this portfolio have been reasonably good, but we constantly remind the departments that the questions should be returned by the due date.

Mr McIntosh—As far as I can recall, we always comply.

Senator LUDLAM—ANSTO have been pretty good.

[9.33 am]

Office of the Chief Scientist

CHAIR—Welcome, Professor Sackett. Do you have an opening statement that you would like to make?

Prof. Sackett—No.

CHAIR—We will go straight to questions.

Senator BUSHBY—How many staff are currently working in the Office of the Chief Scientist?

Prof. Sackett—The actual staff levels vary because some may be part time and so forth. I am happy to give you the number as of 30 September. I will refer the matter to the secretary as he desires. As of 30 September, 15.65 ASL.

Senator BUSHBY—So that is up slightly from the 13 at the last estimates?

Prof. Sackett—That is correct.

Senator BUSHBY—Of those 15.65—and I understand that probably comprises more than 15.65 people—what proportion would be scientifically qualified?

Prof. Sackett—I do not have that exact number in front of me, but it certainly would be more than would have been the case a year or two ago. So the scientific qualifications of the office have been increasing.

Senator BUSHBY—You do not have the exact figure. Are you able to indicate whether about half of them are scientists?

Prof. Sackett—If you would like the exact number we can provide that, but it would be in the order of a half.

Senator BUSHBY—Also the standard of qualification, whether it is a bachelor, a master or a PhD.

Prof. Sackett—Some of each.

Senator BUSHBY—In your answer on notice, could you detail that?

Prof. Sackett—Yes, I am happy to do that. I just want to clarify that, while I am happy to give the exact numbers, it would not be appropriate, of course, to list names.

Senator BUSHBY—No, I am not interested in the names. I am just interested in the classifications.

Prof. Sackett—That is understood? Yes, very good.

Senator BUSHBY—Where is your office currently located?

Prof. Sackett—15 Moore Street.

Senator BUSHBY—Is that Industry House?

Prof. Sackett—No.

Senator BUSHBY—So you have moved from Industry House.

Prof. Sackett—Yes.

Senator BUSHBY—When you were appointed were you first working in Industry House then?

Prof. Sackett—Yes.

Senator BUSHBY—So you have worked in two places since you became the Chief Scientist?

Prof. Sackett—That is correct.

Senator BUSHBY—When did you move, just as a matter of interest?

Prof. Sackett—At the beginning of this calendar year.

Senator BUSHBY—And you were in Industry House prior to that?

Prof. Sackett—Correct.

Senator BUSHBY—In your time as Chief Scientist—and I am asking this question because I have had a look at the advertisement that was in the *Australian* for your position, before you applied for it—how often have you provided advice to the Prime Minister and on what kinds of issues have you typically advised the Prime Minister?

Prof. Sackett—The advice that I give to the Prime Minister occurs in many forms. It may be in the form of a direct briefing, it may be in the form of briefings to ministers, it may be facilitating the advice given to the Prime Minister's Science, Engineering and Innovation Council. I would not be able to give you an exact number but I would like to note that there is a variety of forms in which that advice goes forward to the Prime Minister and to government.

Senator BUSHBY—What about direct briefings? How often would you provide a direct briefing?

Prof. Sackett—I do provide direct written briefings when I feel there is a matter that should be brought to the attention of the Prime Minister.

Senator BUSHBY—Would you be able to detail how often you give direct written briefings to the Prime Minister—probably not today, but if you would take it on notice?

Prof. Sackett—Yes.

Senator BUSHBY—Have you given any personal direct briefings?

Prof. Sackett—One.

Senator BUSHBY—What was the subject matter of the briefing?

Prof. Sackett—I am just conferring about the appropriateness of the level of detail at which I could share that information.

Senator BUSHBY—I do not want any detail. I just want to know what the subject was.

Prof. Sackett—I can say that it was related to matters that were before the Prime Minister's Science, Engineering and Innovation Council.

Senator BUSHBY—Did the Prime Minister request that briefing or did you seek an audience to brief her. Firstly, which Prime Minister? What date was the briefing?

Prof. Sackett—This was to the prior Prime Minister.

Senator BUSHBY—Do you know what date it was?

Prof. Sackett—I do not the date off the top of my head.

Senator BUSHBY—Can you take on notice the date of that briefing?

Prof. Sackett—Yes.

Senator BUSHBY—Did he request the briefing or did you seek to brief him?

Prof. Sackett—The briefing was sought through Minister Carr's office and myself to brief the Prime Minister on matters related to the council.

Senator BUSHBY—Have you been asked by the government at any time to provide any advice on the future of the Murray-Darling Basin and, if so, what kind of advice?

Prof. Sackett—No, I have not been asked to provide that advice.

Senator BUSHBY—Do you anticipate being invited by the government to participate in the implementation of some of the recommendations of the *Inspiring Australia* report?

Prof. Sackett—I would not pretend to anticipate or not. I serve at the pleasure of the government and any request that it may make.

Senator BUSHBY—Have you been asked to participate?

Prof. Sackett—I have participated in events surrounding the activities of *Inspiring Australia*. Yes, I have in the past.

Senator BUSHBY—And what form of participation has that been?

Prof. Sackett—I was involved in a committee that prepared a plan to go forward for the *Inspiring Australia* report—I served on the steering committee; I am involved in many of the activities that would fall under that such as National Science Week and so forth; I have had conversations around science communication with a broad range of players that are involved in *Inspiring Australia*; and I take part on occasions in Questacon events. So I would say that I have been substantially involved in the past.

Senator BUSHBY—Are you able to provide us, on notice, with a list of the overseas meetings and/or events that you have attended in your time as Chief Scientist?

Prof. Sackett—Certainly.

Senator BUSHBY—So we can get a proper understanding of how this works in practice, does the government ask you in any cases to attend events and/or go to meetings overseas or, when you travel internationally as part of your duties, is it really just an exercise of your own discretion as to what you should attend and what you shouldn't?

Prof. Sackett—Both of those are true. I have, on occasion, attended at the request of the government. I would say that the majority is at my own discretion looking at the complete nature and breadth of my remit and where I think the most value will be returned to Australia.

Senator BUSHBY—When you provide the list on notice of where you went, can you indicate, corresponding to each of those trips, whether it was at your own initiative or whether it was at the request of government?

Senator Carr—The question is a little obscure because there is crossover on work that is undertaken by the Chief Scientist, so you need to be more precise in your question.

Senator BUSHBY—I asked the Chief Scientist the degree to which discretion applies. She indicated there were some occasions where she was asked and others where she decided it was in the best interests of the position that she holds to attend. She did not appear to have any difficulty answering that. She just needs to say, 'Yes, I decided to go at the request of the government,' or she could, if she chooses to, say, 'A bit of both,' on some of them.

Prof. Sackett—In some cases it will certainly be a bit of both because I discuss my advance trips with the government. I must receive permission to travel overseas, but also I discuss it with government to make sure that I understand what else is happening within government so that I can deliver best value back to Australia. It is quite often the case when I travel that it is for more than one purpose on a single trip. That is another reason why there may be a mixture involved in a particular trip.

Senator PRATT—I understand you and your office have looked at the issue of phosphorous shortage. I am interested to know what the implications of a shortage are for Australia. Is there a global shortage? At what point will Australia need to start putting policies and plans in place to address a potential shortage?

Prof. Sackett—This is an issue for Australia; it is a global issue as well. It is one that was discussed in Japan recently at the Science and Technology in Society forum, so it is a concern that is being raised across the world. I would not be prepared to comment on the particular speed or nature of policies that should be put in place, but this is an issue that is actively being studied by the Office of the Chief Scientist. The nature of the report that will come out is broader and will only touch on the subject that you mentioned, but it is not yet ready to be released.

Senator BUSHBY—As a philosophical principle, do you think one of the most important things about science and the scientific method is its focus on rigorous analysis?

Prof. Sackett—That would be—

Senator BUSHBY—A given?

Prof. Sackett—That would be a given, yes.

Senator BUSHBY—Would you also agree that the best results are gained from continually testing and retesting assumptions and that the most professional scientists are generally those who dedicate themselves to establishing conclusive proof and not accepting a result to be true until all conceivable doubt has been removed?

Prof. Sackett—You are now asking philosophical questions.

Senator BUSHBY—Philosophy of science, yes.

Prof. Sackett—It is not, in my opinion, the path of science to wait until all conceivable doubt has been removed. The nature of science is to reduce the amount of doubt at any given time; to report one's findings in light of the assumptions that have been made—that is, to state clearly what the assumptions are that have been made—and to clearly indicate any uncertainties that may remain, but not to wait until all conceivable doubt is removed. So I think I would probably take exception to that very last part of your statement because, in fact, if one were to wait until all possible doubt were removed, one would probably be waiting a very long time, if you see what I mean. The way that science progresses is by reporting honestly both the assumptions and the nature of the uncertainty of one's results and then exposing those to peer scrutiny, and by making that available so that others can question and test those ideas in different ways. In this way, over time, the uncertainties reduce, the amount of doubt reduces and the result becomes firmer and stronger as it is subjected to increasing test. But that requires that scientists share their results frequently.

Senator BUSHBY—That is encapsulated, I guess, in the fact that something like the Theory of Relativity is the 'theory' of relativity. It is supported by the evidence, but it is still a theory because ultimately it is not conclusively provable, although all the evidence suggests that it is right.

Prof. Sackett—You use the word 'theory'; you could easily just substitute the words 'our current understanding'. Our current understanding of how the world works is continually tested by the evidence. It has been the case that theories have been modified as a result, which is simply another way of saying that our understanding has improved through this process.

Senator BUSHBY—There is a reason I asked that question. I had seen reported some comments from a speech you made in June this year in Sydney and one of the things you were

reported to have said was that the speed of some of the impacts of climate change has been exaggerated and that the scientific process itself has been misconstrued. I was just wondering if the basis for your comments was that you would like to see politicians of all sides better engaging and questioning what scientists are telling them so that they can make truly informed decisions and not jump to politically motivated conclusions?

Prof. Sackett—I would not say that those two statements were directly linked, although I would agree with both of them. That is to say that claims have been made and/or reported, or have been incorrectly reported in the press, and the scientific process has, I believe, been misconstrued—it has certainly been misunderstood by many. And I think that politicians would stand to benefit by engaging scientists about what is very certain, what is relatively certain and what is yet uncertain about climate change—or any other science for that matter that bears directly on the health and wellbeing of the Australian people.

Senator BUSHBY—I have one more very quick question to which I am only looking for a yes or no answer. You said earlier that you had provided no advice to government on the issue of the Murray-Darling Basin. Have you provided direct advice to the authority?

Prof. Sackett—No, not on the science. I was asked to nominate some possible reviewers. That report went through a peer review process. My office was asked to nominate some potential reviewers for that report, but I was not asked to advise on the science itself.

[9.50 am]

Commonwealth Scientific and Industrial Research Organisation

CHAIR—Welcome, Dr Clark. Do you have an opening statement?

Dr Clark—No, I do not have an opening statement, but I would like to table for the committee's records a copy of the showcase of CSIRO's activities for the last year, a copy which I have sent to senators and members this week.

Senator BACK—With regard to outcome 1, Innovative solutions for national challenges opportunities to benefit industry, I want to ask some questions regarding the contribution of the late Mr Les Bett, who was a Riverina grazier. I believe he contributed some \$1 million in the mid-1980s to the CSIRO from his estate and in the early 1990s contributed another \$2 million in an attempt to come to some resolution of the overwhelming problem of flystrike in sheep. Could you give me some indication as to the outcomes and the work being undertaken as a result of those contributions and, no doubt, matching funds.

Dr Clark—The head of our Food, Health and Life Science Industries Group, Dr Alastair Robertson, is with us and he will have detailed knowledge of the flystrike area.

Dr Robertson—I can give you a very quick answer to your question: not to my knowledge. I cannot give you detail, but I can take that question on notice. I would be happy to respond to that. It would part of our overall biosecurity of work.

Senator BACK—Is that the extent of the information at the moment?

Dr Robertson—It is.

Senator BIRMINGHAM—I refer to an announcement earlier this week by Minister Combet that CSIRO is undertaking work to assist the Department of Climate Change and

Energy Efficiency on its clean-up of the home insulation debacle. What is the exact role of CSIRO and when was CSIRO engaged in that role?

Dr Clark—Yes, we have been asked to assist. Mr Whelan has details of both the contract and timing of that.

Mr Whelan—Senator, you are right. CSIRO has been contracted by the Department of Climate Change and Energy Efficiency for helping the department for the purposes of their home insulation safety screening program. CSIRO signed a formal contract with the department on 12 July, although we were doing work with the department from 25 June in the lead-up to the preparation and signing of that contract.

Senator BIRMINGHAM—How much is CSIRO being paid under that contract?

Mr Whelan—That will ultimately depend on the amount of work that is done. The contract currently conceives a range of effort, somewhere between 68 and 111 days.

Senator BIRMINGHAM—Is CSIRO being paid on a daily basis? What is the nature of the payment?

Mr Whelan—I am not sure of the basis of the payment, whether it is on specific deliverables or on a daily basis. Based on 111 days the maximum value of the contract would be approximately \$182,000.

Senator BIRMINGHAM—From CSIRO's perspective, what is the exact nature of your work with the department?

Mr Whelan—There are two phases to the work. In macro terms, we are helping the department with the provision of statistical methods to help them identify dwellings with higher risks of safety concerns, and to assist the department to validate the statistical design of the inspection and rectification program that they are conducting. There are two phases to that: an initial phase aimed at developing a sampling strategy and a subsequent phase of developing a risk tool. We have already provided advice to the department with respect to the first phase—that is, the sampling strategy.

Senator BIRMINGHAM—In relation to the sampling strategy, has that phase been completed?

Mr Whelan—Not that I am aware of. I do know that we have provided advice to the department on the sampling phase, but I am not aware if it has been completed or not.

Senator BIRMINGHAM—The department has already inspected some 40,000 out of 50,000 homes in the foil space, and around 58,000 homes out of 150,000 homes in the non-foil space. They strike me that they already have extremely significant samples. I am curious as to what particular advice CSIRO is providing as to how to better refine those samples from here on.

Mr Whelan—What I can say is that the capability that the department has contracted from CSIRO is world-class statistical modelling capability. It is a matter for the department as to what they want CSIRO to do and the reasons as to why they want CSIRO to do it. I am not in a position to provide you with advice on that.

Senator BIRMINGHAM—Is 58,000 out of around one million or so households usually a fairly significant statistical sample?

Mr Whelan—I am not qualified to provide an answer on that. I would have to take advice on that from the people doing the work.

Senator BIRMINGHAM—Did CSIRO tender for this contract, or was it a selective tender approach from the department?

Mr Whelan—I would have to take that on notice; I do not know the basis for that.

Senator BIRMINGHAM—You do not know quite how the arrangement with the department began in that sense?

Mr Whelan—I do know that we began providing advice to the department from 25 June and we signed a formal contract on 12 July. I do not know what process preceded that.

Senator BIRMINGHAM—How many days have been expelled by CSIRO with the department at present?

Mr Whelan—I would have to take that on notice; I do not have that detail with me.

Senator BIRMINGHAM—Is this a frequent type of work for CSIRO?

Mr Whelan—Absolutely. Our division of mathematics information and statistics provides statistical sampling advice to a large range of Australian industry and government. We provide advice to studies on Alzheimer's. We provide advice to the wine industry on logistics. We provide advice to the transport industry on delivering fuel to aircraft. This is exactly what we do; this is our bread and butter.

Senator BIRMINGHAM—In terms of the relationship that CSIRO has, is it with the department of climate change or is it with PricewaterhouseCoopers—PwC?

Mr Whelan—We have a contract with the department of climate change.

Senator BIRMINGHAM—Do you have any relationship with PwC?

Mr Whelan—In the context of this matter?

Senator BIRMINGHAM—Yes.

Mr Whelan—Not that I am aware of.

Senator BIRMINGHAM—Are you aware of there being any contact between CSIRO and PwC in relation to this matter?

Mr Whelan—I am not.

Senator BIRMINGHAM—That is all I have on this topic at present. I might jump into a bit of Murray-Darling, if that is okay, Chair.

CHAIR—Go ahead.

Senator BIRMINGHAM—CSIRO's work has obviously formed a fair basis of some of the evidence that the Murray-Darling Basin Authority has drawn upon for the release of its draft guide, in particular the sustainable yields project. In coming to the conclusion of the guide, did CSIRO have any role in the oversight or the final development of the guide or the sustainable diversion limits that are proposed within it?

Dr Clark—With us today are two people: we have Andrew Johnson, but we also have Bill Young from Water for a Healthy Country. So the detail of our commitment to Murray-Darling Basin, the independent authority and our work with that authority, we can cover in quite substantial detail.

Dr Johnson—It was hard to hear back there, could you repeat your question please?

Senator BIRMINGHAM—Certainly. I am particularly looking at what role CSIRO had in the final development of the sustainable diversion limits and the publication of the guide to the Murray-Darling plan.

Dr Johnson—CSIRO had no role in that. As Dr Clark indicated, our role in the development of the basin plan was to provide scientific advice to the authority and the authority has obviously taken that on board with a range of inputs to formulate the plan.

Senator BIRMINGHAM—And the scientific advice that CSIRO provided? I am well aware of the sustainable yields project, which of course is particularly looking at inflows into the basin under a range of climate change scenarios. The authority has helpfully, but somewhat unhelpfully, put 1,200 reference papers on its website, which is a nice way of ensuring that you are drowned in material. What, in CSIRO's opinion, are the benchmark topics or areas that you have undertaken that have informed the work?

Dr Johnson—As you say, the work we did on sustainable yields definitely was an input into the process. We have also supplied the best knowledge we have around ground water resources. We undertook some work for the basin assessing the fit-for-purpose of their modelling, their modelling approaches for the questions they have answered. We had a number of staff on secondment to the authority during the development of the basin guide, reflecting various expertises that they had. There are a number of other smaller projects that the basin authority commissioned during the development of the plan that we contributed to either ourselves or in partnership with other organisations.

Senator BIRMINGHAM—So while not contributing directly to the guide or the setting of the SDLs, you did have staff on secondment to the authority?

Dr Johnson—That is correct.

Senator BIRMINGHAM—How many staff were on secondment and over what period of time?

Dr Johnson—I would have to get the exact dates for you on notice. I think I had best take that on notice; I do not have that detail in front of me right now.

Senator BIRMINGHAM—These were particular experts in certain fields?

Dr Johnson—Correct.

Senator BIRMINGHAM—What types of fields?

Dr Johnson—We had expertise in river water modelling, experts around ground water assessment, expertise in socioeconomics—a range of skills, depending on what the basin required.

Senator BIRMINGHAM—Obviously quite a number of staff across a number of—

Dr Johnson—From time to time, yes.

Senator BIRMINGHAM—If you could provide that detail on notice, that would be helpful.

Dr Johnson—Sure.

Senator BIRMINGHAM—CSIRO claims to undertake research to support the adaptation of irrigation communities in water scarce environments. I am aware of some of that work that you do. Have you been asked to provide advice to the authority at all in relation to those adaptation measures and how water savings may be achieved?

Dr Johnson—Not to my knowledge, no.

Senator BIRMINGHAM—Have you been asked by the department of water—I cannot for the life of me remember what its actual name is nowadays—to provide such advice?

Dr Johnson—Not at this stage, no.

Senator BIRMINGHAM—Okay, so as they have developed their on-farm infrastructure efficiency programs, their off-farm priority projects with state governments for infrastructure development, they have not sought the expertise of CSIRO that you are aware of?

Dr Johnson—Just to be clear: if you are referring to within the context of the basin plan, the answer is no; if you are referring to the broader portfolio of work that the department of environment undertakes with respect to water use efficiencies, CSIRO has had extensive engagement with that department over a long period of time.

Senator BIRMINGHAM—So their current on-farm irrigation programs that they are supporting, the guidelines and so on for those, have been developed—

Dr Johnson—Yes, CSIRO has been involved in that.

Senator BIRMINGHAM—That is fine for me for now, thank you.

Senator WILLIAMS—I have a question on staffing for CSIRO representatives. I read an alarming little story just recently, and my concerns are for the Chiswick facility in Armidale. Are there any plans to cut any of the staff there?

Dr Clark—No, there is not. We currently have 48 staff at Armidale.

Senator WILLIAMS—And it is to remain at 48?

Dr Clark—We have no plans for any reduction there.

Senator WILLIAMS—That is good news—going on a media report in the *Canberra Times* of 9 June.

Senator Carr—That is the *Canberra Times*. I would be very cautious there, Senator.

Senator WILLIAMS—Do they not always print the truth, Minister? I was led to believe that everything that went into the paper was fact and truth!

Senator Carr—Oh yes, but that particular reporter—I would be worried!

Senator WILLIAMS—You are referring to Rosslyn Beeby.

Senator CARR—Yes, Miss Beeby.

Senator WILLIAMS—I know that one of them did show some concerns. The Armidale paper, I think, had a story about job cuts in the Chiswick facility. So it is good news that I can report back that, at this stage, it does not look like there are any job cuts in it.

Dr Clark—Not a problem.

Senator BIRMINGHAM—A colleague has given me an example in relation to their region, and I went through some of this example with the authority yesterday as well. In the Ovens system, in Victoria, there is a potential cut to irrigators in the vicinity of 10 gegalitres out of 14 gegalitres that are available. From the work the authority has done, do cuts of that level leave any potential for maintaining sustainable irrigation communities?

Dr Johnson—I think you really need to direct that question to the authorities. It is not appropriate for me to comment on that.

Senator BIRMINGHAM—I might place a few of those questions in relation to Ovens on notice. Is CSIRO a member of the MDBA or does CSIRO provide any members to the MDBA's panel of consultants?

Dr Johnson—Not to my knowledge. I would have to take that on notice, but not to my knowledge.

Senator BIRMINGHAM—If you could, please check on that. Do you expect to be playing any role in the additional socioeconomic study that was announced by the MDBA on Sunday just past?

Dr Johnson—What role we play, really, is at the discretion of the MDBA. But as they know—and I reaffirm here—CSIRO stands ready to help wherever we can on this issue.

Senator BIRMINGHAM—Have you made inquiries about tendering or otherwise to assist in or develop that body of work?

Dr Johnson—No, we have not.

Senator BIRMINGHAM—The MDBA has based some of its forecasts on reduction in rainfall into the basin, and inflows into the basin, at 10 per cent by 2030. Is this consistent with CSIRO's research, to date?

Dr Johnson—CSIRO's position on that, as articulated in the sustainable yields, was an 11 per cent reduction by 2030—so it is in the same ball park.

Senator BIRMINGHAM—And in terms of the scenarios modelled, is that 10, 11 per cent reduction at the high, low or medium end?

Dr Johnson—I would characterise it as an appropriate figure based on the knowledge that we have at the present time.

Senator BIRMINGHAM—So you would expect that, having settled on a figure of 10 per cent—which aligns fairly closely to your 11 per cent—that it is largely based on that body of work.

Dr Johnson—Correct.

Senator BIRMINGHAM—What level of uncertainty exists around an estimate like that?

Mr Johns—There is uncertainty around that. It is important to recognise that that is an aggregate figure for the basin as a whole and that there will be significant differences, spatially, through the basin. As you know, the basin has a very broad geographic extent from Southern Queensland all the way through to South Australia. So there will be differences based on local geographies.

Senator BIRMINGHAM—Does CSIRO expect to be undertaking any further work in relation to inflows and those climate variability models as they affect the MDBA?

Dr Johnson—CSIRO has an extensive investment in water research in the Murray-Darling Basin in the areas that you refer to and in others, and remains a significant priority for us. Consistent with my earlier answer, we stand ready to assist government, the authority, local communities and industry in this very complex issue wherever we can, with the science that we have.

Senator BIRMINGHAM—The chairman of the MDBA, Mr Taylor, has been reported as saying that the science still needs to be tested. Is that a view that you would share?

Dr Johnson—I have not seen those comments. I would have to understand the context within which they were made.

Senator BIRMINGHAM—I will provide the detail of those on notice for you. Lastly, I assume that CSIRO relies on the data of the Bureau of Meteorology in assessing the rainfall patterns and so on?

Dr Johnson—Correct.

Senator BIRMINGHAM—There has been some suggestion in the last couple of weeks that some of the bureau's historical data published in August 2008 and again in October 2010 shows a reduction in rainfall figures for the same period of time. Have you seen any of those criticisms?

Dr Johnson—I am unaware of those criticisms. But if you would like to put them on notice I would be happy to look into it for you.

Senator BIRMINGHAM—I shall do that.

CHAIR—I have a couple of questions around funding for multidisciplinary and more pure research fields. The booklet that you distributed, *Science: securing the future*, is very interesting. It may be just the way it is organised but, apart from the climate change area, most of them focus on one particular discipline. You say 90 per cent of your total expenditure is directed towards Australia's national research priorities. Is there any problem with getting funding for multidisciplinary type areas?

Dr Clark—Currently about half of the funding is in our 10 national flagships which are directed at the opportunities and challenges of the nation, so a substantial part of our investment. I refer to our annual report which actually breaks down each of those flagships and goes through what they are covering. *Securing the future* is really just highlights. Some of the impact areas and also some of the science that we have delivered to both industry and the community has been delivered around building a sustainable future and environment for the nation. So I would urge you to have a look at the annual report which has just been tabled. You mentioned multidisciplinary—that is really the focus and the distinct and unique role of

CSIRO. We are mission directed. We have, as mentioned, the bulk of our investment in our flagships and by their very nature they can draw on all of the expertise across CSIRO to particularly address a problem. That is what sets us apart. Amongst our global peers in this area we certainly have the most distinct and unique investment in that multidisciplinary area, so it is what sets CSIRO apart from the other research institutions.

CHAIR—CSIRO has been pretty successful in securing private sponsorship and other funding that is generally, and naturally, directed towards outcomes. What about any funding for research that just arises that is not necessarily directed towards an outcome? What is the situation for CSIRO with that kind of funding?

Dr Clark—That is a very important area for us to continue to explore new horizons. We have a number of mechanisms in which to do that. We have transformational science platforms where we invest in those areas that we need to develop fundamental science but that will have application across a wide area, such as sensor and sensor networks and the areas of molecular biology. So we address those and also within our divisions we look at those capabilities that we need to develop and that have far-reaching applications as well. So we cover both of those. I suppose in CSIRO it is really both the science and science with impact, and it is bringing those two things together that we try to do with excellence.

CHAIR—So it is too simplistic to say that the funding for the more fundamental science comes from government funding and the bulk of the remainder?

Dr Clark—It is too simplistic because it is embedded, if you look at our road maps for our flagships. Many of those challenges require developments in fundamental science and many of our partnerships are in those areas. So it is not true that we can split them in that direction. Some of our external projects address some of the most fundamental aspects of science, particularly in plant genomics and some of those other areas. So it is too simplistic, but we are very mission directed and solution oriented as an organisation.

CHAIR—Science, like many other things, is becoming far more global. In a lot of the areas you need to attract either Australians who have been working overseas or foreign scientists who have been working in a particular area. All too often in science it is not money that motivates people—they do it for the love of it. Does CSIRO have any trouble with paying the right amount of money to international scientists?

Dr Clark—We certainly have no trouble attracting scientists. I think what is very encouraging is that the greatest growth in our research scientists is in the under-35 group and we do have global diversity in our scientists. What is attractive to our scientists is the capacity to work on those things that really matter to this nation and increasingly those things that matter to us around the globe. This is very attractive, as is the capacity to work in major teams, as Dr Johnson has outlined, on some of the issues facing water in this nation. This is what is attracting our young scientists and it is extremely pleasing to see the sort of growth we are getting—20 per cent compound annual growth—in our PhD students and also postdocs are growing at five per cent. In attracting the brightest and best from the globe and from this nation, the way we work and the way we are focused is certainly an attraction for many of the best.

Senator BUSHBY—Thank you for appearing before us today. If I had more time I would ask you about your staffing and reports about scientists being burnt out by bureaucracy and so on. I might put some questions on notice about that.

Dr Clark—Not a problem.

Senator BUSHBY—In the brief time that I have, I will focus on the Tasmanian ICT Centre. I recently read a report from Deloitte that was commissioned to look into the work that they do—the CSIRO Tasmanian ICT Centre impact study—and I noted that it is expected that the research they are currently undertaking will have significant economic and other impacts for Tasmania and Australia. Everything I hear about that centre is good and it is doing a great job. It is a great little thing that is very powerful and it is developing some great and innovative ideas and concepts. I would like to know how it is funded and how secure its funding is looking in the forward estimates and beyond.

Dr Clark—I concur with your comments that it is doing some terrific work across a number of areas—in supporting the fishing industry in Tasmania, in supporting communication as well as the health issues. In terms of the breakdown of funding, Mr Whelan will cover that.

Mr Roy—The ICT Centre in Tasmania was originally initiated out of the Intelligent Island program in 2006. As you may well be aware, \$30 million was invested into it over a five-year period. That funding lapses in September 2011. There are three partners to that—the Australian government effectively through the department, CSIRO and the Tasmanian government. I think it is fair to say that we are working up options going forward which are subject to budgetary consideration by the various stakeholders at the moment so it would not be appropriate to venture too much into that ground at the moment.

Senator BUSHBY—But at this stage there is no guarantee of funding beyond 2011?

Mr Roy—We are working with the other stakeholders at the moment.

Senator BUSHBY—Obviously you are working towards it, but you cannot tell me what the recommendations may be. At this stage, it depends entirely on the outcome of budget considerations that are currently being worked through.

Mr Roy—Yes, the discussions with those multiple parties is the depending factor.

Dr Clark—That is not inconsistent with many areas where we work with stakeholders to define the projects moving forward.

Senator BUSHBY—So just to clarify: you are saying that the funding is dependent on the other stakeholders?

Mr Roy—I was indicating that, as with all of these sorts of programs that run over a period of time, you have conversations with the partners who fund you as those programs near their end. Those discussions mature over time. These ones have not yet been brought to a conclusion. I am really not saying much more or less than that at the moment.

Senator BUSHBY—But if the partners were not keen to continue participating in the way that they have, it could actually pose a threat to the future of that centre?

Mr Roy—Well, if all the partners did not want it to go forward for one reason or another, then we would have to change the arrangements.

Senator BUSHBY—If all the partners did not, yes.

Mr Roy—Or you could look for alternative options as well. I think we are in the exploratory stages at the moment. The centre has another 12 months to run, so it is not unusual that 12 months out we find ourselves in such discussions.

Senator BUSHBY—I have some more portfolio related questions. When you get the science—and therefore the predictions—wrong, what kind of responsibility does the organisation take for that? Presumably, you do not always get everything right, and occasionally you may find things that have not turned out the way you intended. What kind of internal and external accountability measures are there for when you get things wrong, like when you predicted in the 1990s that unless radical action was taken more than a third of the farmland in the basin would be under saline water by 2006?

Dr Clark—I think returning to the observations and data is where the excellence of science comes from.

Senator BUSHBY—I am not being critical of the CSIRO for occasionally getting things wrong.

Dr Clark—I understand that. We very clearly separate the observations and the data from the interpretation and the uncertainties in all of our areas of science. Clearly, by separating those you can always go back with additional data and revisit the interpretations and conclusions. That is the basis of all science.

Senator BUSHBY—To some extent, I canvassed that a little bit with the Chief Scientist earlier.

Dr Clark—That is right.

Senator BUSHBY—How much risk planning would you do before embarking on any of your science related projects?

Dr Clark—What do you mean by ‘risk planning’, Senator?

Senator BUSHBY—I will use the example that I used a minute ago. If you come out and make a statement claiming more than a third of the farmland in the Murray-Darling Basin will be under saline water by 2006, how do you approach that, given that the data that you used might change due to the potential uncertainties that you just outlined? How do you build that into the process when you are starting a science related project?

Dr Clark—What is built into the process very early on is a very clear statement about the assumptions, the uncertainties and where the data comes from. So right upfront, in the way we do science and report it, all of that is transparent for any of the stakeholders. It is very important, just the way it is simply stated, that that can be revisited and looked at. As I said, that is the nature of science.

We are focused on making sure our science is used in the community to support industry in being more competitive and to create a sustainable future. So one of the things that we do with our science all the way through is look at the path to impact. We map out the possible

path to impact. We look at our approach to achieving those goals and we make that transparent. I draw your attention to the annual report, which outlines that and demonstrates that transparency.

Senator BUSHBY—I was asking because you would be aware of the legal action that was recently taken in New Zealand against the New Zealand weather bureau for alleged temperature data fraud. Given that you and the Bureau of Meteorology collaborate closely on climate research and data, and have issued joint statements and publications on that research, have you done any contingency planning at all for similar kinds of scenarios occurring in Australia?

Dr Clark—You are absolutely right: we do work very closely with the Bureau of Meteorology. Dr Johnson can go through how we do that and how we make sure we report our data. We absolutely stand by the data and observations made by our scientists in any forum—and we would be prepared to do so here.

Dr Johnson—I concur with Dr Clark. We have rigorous peer review processes with the bureau and we are very clear in all areas of science on the assumptions we make. If I could correct the record, with respect to the work on salinity you referred to, I need to go back and double-check, but I would be very surprised if we made any blanket statements along the lines that you suggest. We would have had a set of assumptions around what we thought may happen in the basin with respect to salinity. As you know, that basin has been in extended drought for a significant period of time and, as the groundwater levels dropped, the salinity threat reduced. Should the basin get wetter over time, I think the material risk of salinity becoming an issue again is significant. Confirming what Dr Clark said, we would have been very careful about the basis upon which we made that assessment. Senator, I think you asked if we had contingency planning with the bureau.

Senator BUSHBY—Yes.

Dr Johnson—No, we do not have formal contingency planning processes. As Dr Clark has indicated, we have very robust peer review processes and formal review processes at the end of our projects, and I think that provides a high degree of assurance for the Australian public around the quality of the work that we do and the quality of the work that the bureau does. Of course, as new knowledge comes to bear over time we will update our information and we will be absolutely transparent around the assumptions we make in terms of the science that we do.

Senator BUSHBY—It just concerns me that, no doubt, the New Zealand weather bureau would have been saying the same thing. I am not for one minute casting any aspersions on the Bureau of Meteorology and its data, but, if you are relying on data from other sources, the New Zealand case indicates that there may well be problems with some of that data. Your reputation essentially rests on what you conclude based on data that you are getting from these other sources. I was really interested in the contingency plans that are made—

Dr Johnson—I am not aware of the case you refer to in New Zealand, but again I can give you my assurance that any data that CSIRO accepts from third parties and any data that CSIRO generates itself goes through extremely rigorous quality assurance processes because,

as you indicate, it has a material impact on the work we do and the reputation of CSIRO in the eyes of Australians.

Dr Clark—As all scientists do, we clearly reference where the information comes from so that it is very clear whether information has come from our own research or from reports. All of that is very clearly referenced, and that provides additional transparency.

Senator BERNARDI—Dr Clark, in the assessment of the data that is provided to you, for instance, from the Bureau of Meteorology, have you ever analysed whether the stations that record temperature comply with world's best practice as far as distance from other heat sources et cetera is concerned?

Dr Clark—I understand the issue that you are referring to. In effect, the detail of our own stations and how we monitor those is in Dr Johnson's area. We would be happy to answer questions about our own stations.

Dr Johnson—Again, I think if you have concerns about the quality of any particular stations that the bureau oversees they should be directed to the bureau. I know there has been some commentary in the public domain around a couple of the bureau's stations. Again, we have sought assurance from the bureau and are satisfied that they have necessary protocols in place with respect to the data sources that they generate so that the sorts of issues that I think you are implying could be problematic are dealt with in a robust and transparent way.

Senator BERNARDI—They have been identified overseas. What about your own data-recording stations? Are they compliant with best practice?

Dr Johnson—Yes.

Senator BERNARDI—They all are?

Dr Johnson—Yes.

Senator BERNARDI—Going back to a previous answer you gave, Dr Johnson, it surprised me when you said you were not familiar with the New Zealand case.

Dr Johnson—No, I am not. I was not aware that there was legal action in New Zealand taken against the—

Senator BERNARDI—It is surprising because it is quite a significant result.

Dr Johnson—No, I am not aware of it. I will follow up post this hearing.

Senator BERNARDI—Would you like me to send you some information?

Dr Johnson—Yes, I would be delighted to receive it. As I said, I actually do not follow the New Zealand courts closely.

Senator BERNARDI—Are you aware of it, Dr Clark?

Dr Clark—Yes, I am.

Senator BUSHBY—Has the well-known climate researcher Jim Salinger done any work for or provided any professional advice to the CSIRO and, if so, what has been the nature of that work?

Dr Johnson—I am not aware of that.

Senator BUSHBY—Are you aware of Ken Stewart's recent research which has indicated that there has been artificial adjustment of temperature records in urban areas in Australia?

Dr Johnson—No I am not aware of that.

Senator BUSHBY—Is anybody aware of that?

Dr Clark—No I am not aware of that, Senator.

Senator BUSHBY—Given that you are not aware of it I will not ask any further questions on it now, but I might give you some questions on notice. Some of what he finds—and I would be very interested in the CSIRO's perspective on this, because it is obviously one person's findings—on the face of it, is very disturbing; about tampering with climate data that was recorded 50 years ago and then changed 50 years later. I will look at putting some questions on notice to you.

Dr Clark—We would be happy to provide expert advice on those.

Senator BUSHBY—Thank you. Does CSIRO have any involvement with the Researchers in Business program that is run under the auspices of Enterprise Connect and, if so, can you outline what involvement you have in it?

Mr Whelan—I think we do but I am afraid I do not have the details with me. I would be very happy to take that on notice. We do work closely with the Enterprise Connect program, and CSIRO provides advice and research to that; but I do not have the exact nature of the detail of that and the numbers with me.

Senator BUSHBY—I am happy for you to take that on notice. Question to the minister—who is not listening at the moment—

Senator Carr—Sorry?

Senator BUSHBY—When the Researchers in Business program was first announced, it was a \$10 million program focussed on bringing university researchers into individual businesses.

Senator Carr—Is this through Enterprise Connect?

Senator BUSHBY—Yes, but I gather that there has been at least one extension to the program that was announced in June 2010 when Parliamentary Secretary Marles said that you had widened it to include post-graduate students in maths and statistics. Can you confirm that extension and advise us of any others that have been made?

Senator Carr—Do you mind if I check the precise detail? It is actually through Enterprise Connect, and if those officers are here I would rather get—

Senator BUSHBY—Okay, not a problem. CSIRO is a partner of the Monash IITB Research Academy—is that correct?

Dr Clark—We have a number of partnerships with Monash. Can you give me a bit more detail?

Senator BUSHBY—I am talking in particular about how you sponsor IITB students from India to study in Australia.

Dr Clark—Yes we are a partner in that venture.

Senator BUSHBY—Can you explain how you identify the students for sponsorship? Do you run an application process? In which case, can you tell me how many applications you receive and how you sort through those?

Dr Clark—The process for studentship is managed by the chief executive of the IIT Bombay. There is a process of review, there is a selection committee and then the decision is made on students.

Senator BUSHBY—So you call for applications?

Dr Clark—We call for applications. There is a select committee which has representations from Monash and externally, and the process is managed by the chief executive of IIT Bombay.

Senator BUSHBY—How are the applications advertised? How do the Indian students know that—

Dr Clark—I do not have the details of the website for the applications, but I can certainly provide you the application process for that.

Senator BUSHBY—How many students have been awarded sponsorships in each year since it has been running?

Dr Clark—I can provide you that detail further.

Senator BUSHBY—I am interested particularly in seeing how recent negative publicity about Australia and India has impacted it, if at all.

Dr Clark—To my knowledge there has been very good attraction to that program and application.

Senator BUSHBY—What about the number of people applying? Could you also take that on notice?

Dr Clark—As I mentioned, I will give you all that detail.

Senator BUSHBY—Not just the people who are successful, but the number of people who apply as well.

Dr Clark—Not a problem.

Senator BUSHBY—I might ask some questions about your staffing then, because I have a little bit more time than I thought I had—I was under a misconception that it was finishing earlier. On page 109 of the 2009-10 annual report states that CSIRO moved away from a whole-of-organisation staff opinion survey to more focussed topic specific qualitative ways of measuring staff opinion.

Dr Clark—Yes.

Senator BUSHBY—The examples given in the report are focus groups and reference groups. Can you elaborate further on the specific ways that the staff were engaged to obtain their opinions?

Dr Clark—Yes we can, because we have just completed some of that work and Mr Roy is with us who covers our area of HR, and can cover that area.

Mr Roy—Thank you for the question. As you indicated, we use a range of different methodologies to do that. Let me walk through the most recent one, if I may, which was conducted in June and July this year with the assistance of Towers Watson.

We established 29 focus groups to work with staff to understand what was important to them. There were four lenses used around that. There were their views around remuneration and allowances; their views around leave and work-life balance; their views around career performance and rewards; and the final lens into that was the way we work at CSIRO.

We then received results back from that work which, again, were analysed by Towers Watson. The focus groups were facilitated by our own HR people, who were trained by Towers Watson to do that, to look at the attractors of people to CSIRO—I think Dr Clark elaborated on some of those earlier in a response to a question—their motivation for staying with CSIRO, the retention issues and also what would make them leave CSIRO. That is one of many examples of the sorts of things we do in getting a pulse on what the staff are thinking.

Senator BUSHBY—How many of the staff of the CSIRO were involved in that process?

Mr Roy—There were 239 staff, who were randomly selected to match the profile of CSIRO in location and general demographics in terms of age, level, gender and the like. We asked Towers Watson about the degree of confidence around the survey findings given the consistency of the feedback and the analytics they use. They have 95 degrees confidence level in the results that were found coming back to us, so we are very satisfied with their confidence levels in the results coming back.

Senator BUSHBY—In representing the views of the staff as a whole.

Mr Roy—That is correct, yes.

Senator BUSHBY—What was the reasoning behind shifting from a whole-of-staff survey to the focus group method?

Mr Roy—There were a range of reasons for that. Rather than the broad sweep of questions, which in the past was in the range of about 120 to 130 questions, we wanted to focus on something a little bit more consistent in interacting and pulsing with staff, if you like, and also on issues that came up as being important to staff as well. Without just focusing on the recent focus group example I used, since about 2006 we have been running an annual survey with staff around their feedback to the delivery of support services they receive—for example, the level of IT support, HR support, legal support, finance support and contract admin support. That is done on an annual basis and we have a good trend line as to where that happens. The other important aspect of selecting Towers Watson—which I should have picked up on—was that they conducted the last insight poll you referred to in 2007. So, in some circumstances, they were able to benchmark the staff results that they provided to the organisation in 2007 to what their views were in June and July 2010.

Senator BUSHBY—I was going to ask whether you conducted your whole-of-staff surveys internally, but obviously you did not; you used consultants for that.

Mr Roy—Yes, we used the support of external experts, and it was Towers Watson.

Senator BUSHBY—How does the cost of what you are doing now compare with the cost of what you were doing?

Mr Roy—The cost of doing the current piece of work is significantly less. I do not have the exact number.

Senator BUSHBY—Could you take that on notice for both the current work and the previous work.

Mr Roy—I would be happy to.

Senator BUSHBY—How did you select the consultant? Obviously Towers Watson were already doing it; did you just, because they were doing it, give them the nod to continue to do this?

Mr Roy—No. I am happy to provide a headline answer, if you are comfortable with that, and then take any further detail on notice. My understanding was that we went through a call for applications—some form of tender process—and then sifted through who the most appropriate tenderers to that were. As I said, I would have to take that on notice. I am not as close to that as some others.

Senator BUSHBY—In general, how would you summarise the findings of the most recent work?

Mr Roy—I will summarise those findings into four categories. What attracted people to join CSIRO? It was the leading-edge science we conduct and it was the brand and what it means to work for CSIRO. The fact that it was a great career launching pad was something that was generally used in there, so that was a pleasing finding. What motivates staff to perform well and highly inside the organisation? There is the interesting, challenging work that makes a real difference. There are ongoing learning and development opportunities in the work they do. They enjoy the collaborative approach and the collegial atmosphere that they work in as part of a diverse team. That comes back to the chair's previous question around working in a multidisciplinary organisation. I think the staff value that.

In terms of retention, why do we keep people—and as an aside I say that our voluntary separation rate at the moment is at pretty much a 10-year low at just above four per cent—they like the interesting and impactful work and, again, they enjoy the diverse range of people and teams. What would motivate them to leave the organisation? Frustration with bureaucratic procedures, complexities inside the matrix and not getting on with their peers or their leaders. When we pushed Towers Watson around that piece of work we got that that was fairly consistent with most groups, because we surveyed employees who are still with us and have not exercised the right that every employee has to leave their employer at one stage or another.

So we got some good input out of that and some areas that we will work on going forward. I will just summarise the headline findings though. We spoke about the 2007 report vis-a-vis the 2010 report. Towers Watson did some analytic work on two questions. In response to the question: 'I would recommend CSIRO as a good place to work', compared to the 2007 poll the number of staff who answered positively was greater than 10 per cent higher. They also benchmarked against global R&D norms, so peer organisations—

Senator BUSHBY—You have highlighted that, in answer to a specific question as to why people would leave, there were some issues raised which you would expect in response to such a question, but your overall take on it is fairly positive. According to media reports—and I am referring specifically to one from the *Canberra Times* on 16 September—the CSIRO Staff Association—

Senator Carr—The opposition should broaden their research. I think that would be the first lesson we can draw from this.

Senator BUSHBY—Are you telling us that we should ignore things reported in the paper?

Senator Carr—No, I am just saying you should broaden your research tools.

Senator BUSHBY—I can assure you that we have looked at a number of things, but if it is in the paper and it is relevant then I am not going to ignore it.

Senator Carr—No, I am just offering some advice. I have been in your position.

Senator BUSHBY—I appreciate your advice, Minister. The CSIRO Staff Association does not appear, according to that report, to read the results of this survey as rosy as you do. It describes it as a ‘wake-up call’ for Australia’s peak science agency. The article states:

... 62 per cent of scientists thought CSIRO’s top-heavy management structure created conflict over research goals ... 54 per cent said an increase in administrative tasks ... was diverting valuable time away from research.

You have painted a fairly rosy picture of this. Quite clearly, you do these sorts of things because you want to find out if there are problems in the organisation so that you can make appropriate management changes to address those. Are you listening to these concerns and taking them seriously or are you saying: ‘This is pretty good and the organisation is performing well above the global average for research organisations; therefore, we don’t need to take any action’?

Mr Roy—I think either you or the journalist has taken that out of context. The situation I would say is we have a very positive dialogue with the staff association. They are one of the inputs to our pulse on the staff. In terms of the staff association survey, CSIRO was not directly involved in that. It was, as you alluded to, some work done externally with the support of the CSIRO Staff Association. They ran two focus groups of 10 CSIRO staff members to initiate that. There were 21 individual interviews that followed and a survey was sent out to staff members, which asked a series of questions, and there were 2,100 responses—

Senator BUSHBY—So it was a voluntary response?

Mr Roy—I am being a little careful here. I can attest to the fact that there were 2,100 forms that were received in the office, but as I reviewed one of the forms myself and completed it for my own interest there was no way of having a personal identifier on there. That is different from what we do in our surveys. Even keeping the individual confidential—allowing them anonymity in responding—

Senator BUSHBY—Are you saying that these surveys could identify who the people were?

Mr Roy—No, you could not identify them. There was no marker on the survey. So, in terms of the key finding that we need to do some more work in terms of matrix, systems and processes, absolutely. I do not think we will ever get off that treadmill. We will continually try to improve the way we do business as an organisation. I have sympathy for some of the findings of the survey.

Senator BUSHBY—Just for the record: how many employees left the CSIRO in the 2009-10 year?

Mr Roy—I can get that detail for you.

Dr Clark—In terms of the context, as Mr Roy outlined, our resignation rates, voluntary leaving of the CSIRO, is at a five-year low, certainly for our scientists—in the year to date, it is around 1.7 per cent, which is a drop from over four per cent. That is a pretty clear measure.

Senator BUSHBY—Could you get those numbers for the last five years?

Dr Clark—Absolutely. We can provide those numbers.

Senator BUSHBY—Also, how many stress leave claims have there been in the past 12 months?

Dr Clark—We can certainly provide that for you.

CHAIR—I thank officers from the CSIRO for coming in today. We will see you again.

Proceedings suspended from 10.46 am to 11.00 am

Australian Research Council

CHAIR—Welcome, Professor Sheil. Do you have an opening statement?

Prof. Sheil—No, I do not have an opening statement.

CHAIR—The Australian Academy of Technological Sciences and Engineering in their latest newsletter referred to a report that was funded by the Australian Research Council. It was conducted in 2009 and reviewed the state of aged-care technology in Australia and Europe. I understand that you launched that report?

Prof. Sheil—Yes, I do not have a copy with me.

CHAIR—No, that is fine. I do not want to go into the detail. I am interested in how often you commission those kinds of reports.

Prof. Sheil—That report was funded under a program known as the Learned Academies Special Projects scheme, which has about half-a-million dollars a year to distribute. It is distributed on a competitive basis amongst the four academies and the joint group, which is the National Academies Forum. It is not so much that we commission the reports but rather that they apply to us for funding on a particular area. An expert committee determines whether that is worth funding. That has been an annual process up until recently. From this year we have moved to a triennial funding arrangement with the academies whereby they apply to us for funding for a range of projects within a common theme. That gives them the flexibility to commission and undertake studies in a more responsive way than the scheme has been able to address big issues previously.

CHAIR—That in fact is the kind of answer I was looking for because I have been speaking to a few people in the science and technology area who are a bit concerned about funding for multi-disciplinary work and across ranges of areas. It seems to me that aged-care technology is an example of that, where there are a lot of disciplines that might be involved in addressing that particular theme.

Prof. Sheil—It is true that one of the larger grants that was given under that triennial award in the last round was in fact for an interdisciplinary project across several of the academies. We can get you the precise details of the funding. The academies have obviously played a leadership role but we have encouraged them to collaborate and to bring together as many disciplines as they can in that kind of work.

CHAIR—So you are actively looking at that issue of interdisciplinary collaboration?

Prof. Sheil—We are looking at it in a whole range of areas, across both the national competitive grants program and through the Excellence in Research for Australia initiative as well.

CHAIR—Right. I think it was in this article, certainly in this magazine, there was a quote from the National Enabling Technologies Strategy which concerned me a little. It said:

Outcomes should be demand-driven and not a result of technology-push.

I appreciate that to some extent but there is also a need occasionally for some exploration of new technologies or new research.

Prof. Sheil—The National Enabling Technologies Strategy is the responsibility of the department so there would be officers here who could comment on that in detail. But in terms of the whole issue of user-pull and researcher-push, that is why we have a variety of funding schemes and so some of our schemes are very much bottom-up driven by discovery and by the researchers themselves. The discovery program is an example of that. In the linkage program and in the CRC program, which is administered by the department, it is very much user-pull and problem based. It is a different strategy and it is really important that you have both.

CHAIR—Thank you.

Senator MASON—Good morning, Minister and officers. Much of the discussion at the May estimates between senators and the ARC revolved around the implementation of the Excellence in Research for Australia program. Senators were told, Professor, I think, that the ARC was preparing to open for submissions from institutions. The other issue, I think, for senators on that day was about consultation around the rankings of various academic journals, which apparently is a matter of much dispute and consternation among academics. What has been the progress in the consultation since last estimates?

Prof. Sheil—Since last estimates we have rolled out ERA. We have received the submissions. We have formed the committees to do the evaluations. They have been provided with the information and they are actively working through those and will convene later this year to make ratings and evaluate the submissions from the universities. In terms of consultation, we are continuing to receive feedback on various issues. 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.

Senator MASON—What is the reporting timetable?

Prof. Sheil—We will be reporting the results of ERA early next year, in the first quarter.

Senator MASON—I remember—this is going back a few years now, I admit—that the ranking of academic journals was always an issue of much dispute. How is that being dealt with?

Prof. Sheil—There are over 20,000 journals on the list. There are probably 35 that are still contentious, where we have received more than five pieces of correspondence. It has been a massive exercise with an enormous amount of input and consultation from a range of expert learned academies, from peak bodies, from 700 individual reviewers and so on. You would understand that at some point you will get to a point where academics and different groups do not always agree—

Senator MASON—Oh, I agree with that! They don't!

Prof. Sheil—but actually, when you look at the total of the numbers, the number that is in dispute—where, as I said, we are receiving repeated correspondence—is very small.

Senator MASON—It is very few at this stage.

Prof. Sheil—Yes.

Senator Carr—Can I just make some interpolations here. I think ERA is going very well. All the evidence that I am getting suggests to me that it is very broadly supported. I am genuinely surprised, given how hard it is to reach consensus on any major reform within the higher education system.

Senator MASON—Particularly on the quality of research, very hard; I agree with you.

Senator Carr—This is a very sensitive issue. We are actually saying to people, 'We want you to participate in a method of assessment which will verify whether or not your claims about how good you are are actually able to be tested,' or, as I say, verified. That is a very sensitive issue.

Senator MASON—And difficult.

Senator Carr—And given the extent of collaboration in the project I think there is very strong support for the claim I am making that this is very broadly supported within the scheme. One argument that we put is that we are reliant too heavily on the journal articles, and the CEO has outlined the issue around the journals themselves—the ratings of journals. But, in total, in terms of the research program for this year, it is important to remember that there were 333,119 research outputs, as they put it to me. There were assessments based on 4,912 books, 34,755 book chapters, 73,741 conference publications, 206,816 journal articles and 12,895 non-traditional means. So it is not just the journal articles; that is the first point. On top of that—

Senator MASON—No, but it is ranking journals by virtue of academic standing, which, as the professor knows, is an extremely difficult task.

Senator Carr—But the context is important here. There are over 50,000 research staff submitted and there are 149 expert panel members involved. It is, as you say, complex, but I have reason to believe that we should have some confidence in the arrangements. So, while it will invariably be said that we need to strengthen this or that aspect of the screening—

Senator MASON—I appreciate that.

Senator Carr—that is the context in which we are working, and we will move in response to later rounds of ERA to adjust to meet specific criticism where it is found to be warranted.

Senator MASON—Can I ask about that, Minister. Have any of the complaints thus far resulted in a readjustment of rankings?

Prof. Sheil—Perhaps I could answer that. We had one, I think, technical error where we established that there had been an error. We have noted the remainder but we have not adjusted after the final list was published because, if we had done that, you could imagine that we would have had just as many complaints about the adjustments as the changes.

Senator MASON—I appreciate that.

Prof. Sheil—Just for the record, I will give you the exact numbers. There are 20,712 journals on the list. There have been only 36 where there have been more than three complaints. There have been only three where there have been more than five complaints that we have noted. So, as I said, after the extensive consultation process, we really understand where the issues are. We understand the small number of journals that we will review for next time. We will do a big public consultation on the list. So we are reasonably confident that we know where the issues are.

Senator MASON—Professor, how does the ERA compare with any similar research quality frameworks in other OECD countries? Are there precedents?

Prof. Sheil—We have taken quite a different approach, in that, in a sense, we had the luxury of time, of seeing what some of the other jurisdictions have done, and have learnt from that and also learnt from the work in the lead-up to ERA. We have sort of jumped over the rest of the world in terms of our thinking.

Senator MASON—Okay. So you would say that, in a sense, it is a leading framework internationally?

Prof. Sheil—Yes. Ms Harvey gave a presentation at the international research management conference in South Africa earlier this year. There was standing room only at that. I will let Ms Harvey talk in more detail, but there have been requests from all around the world for members of her team to come and talk to them about ERA.

Senator MASON—The follow-up question is pretty obvious, I suppose. It is this: if our system is different—and I am not saying that that is a bad thing—does that make it more difficult to compare research quality with other OECD countries—you follow the question, don't you—

Prof. Sheil—Yes.

Senator MASON—because the frameworks are different, even if leading?

Prof. Sheil—No, it does not, because what we are doing is using international benchmarks in all our metrics. So we are comparing, for example, the citation rates of papers compared to the rest of the world and compared to international citation rates. It would be almost impossible to have a like-for-like comparison in any case. Whatever we did, and even if we had followed slavishly one of the other exercises, we would not have been able to replicate that because of differences in the structure of our universities and our research structures. So, within ERA, everywhere that it is available there is an international reference point.

Senator MASON—Okay, there are benchmarks. So you are quite happy that you can compare the output of Australian academics with those in Britain, for example?

Prof. Sheil—Yes.

Senator MASON—You can do that?

Prof. Sheil—We can. Ms Harvey has just pointed out to me that we have international experts on our committees as well.

Senator MASON—I was going to ask that. Is there ongoing dialogue between, for example, Australia and Britain and the United States about measuring the quality of research?

Prof. Sheil—Ms Harvey can talk about some of her recent meetings in that respect.

Ms Harvey—I have just returned from a trip to the UK where we spoke to the Higher Education Funding Council for England. We talk to them all the time. We share our learnings and how we derive those benchmarks. They are looking to change to a metrics measure and they are seeking advice from us about that. We also visit other jurisdictions such as Singapore, Amsterdam and a whole range of different ones that are looking at it. We also visit New Zealand, which has a different basis. One of the things we try and do is how they get agreement about what is world standard, so you can do a comparison if you have different bases. We have the luxury of the fact that we have every research output produced within the reference period. We are then able to use bibliometrics to establish what is world standard on citations, so we can categorically stand behind that international benchmark.

Senator MASON—In the few years that I worked in a university, this was an issue even then, a decade ago—trying to compare the Yale law journal with the university of Queensland law journal and what weight is to be given to each one. This is not a criticism but I know how difficult it is. How you weight is very difficult because it has an effect on people's careers, obviously. Good luck with it all, because it is going to be an ongoing and very difficult I think to objectify research. It is a very difficult project.

Senator Carr—Thank you for your support, Senator. We have put a fair bit of money into this. It is very important. It will provide advice not just to our deliberations in the portfolio; it has much broader whole-of-government implications. It has an opportunity to drive some of our international engagements to give people a better sense of where we fit internationally. It is a way of ensuring we have genuine national and international benchmarks for research quality. It should provide a real service to students to better inform them about where they go for their PhD. It will provide opportunities to reward and assess university performance because it will guide funding in aspects of the program.

Senator MASON—In the context of compacts.

Senator Carr—That is exactly the point. It is an important tool about the quality of our research program and where we fit internationally. That is why we are putting the resources into it. I am satisfied the work that is being undertaken is producing the results that we need to meet those policy objectives.

Senator BUSHBY—I refer you to a question on notice from the last round of estimates and your answer to that—EI145. There was some detail missing from that answer which is uncommon in answer to questions on notice. We have subsequently managed to piece together what happened in regard to time lines. The question went to the timeliness of the decision-making process for the assessment of applications for funding under various project rounds. Is it correct that all applications for Linkage projects round 2, for funding commencing on 1 July 2010, were received on or before 18 November 2009? Is it also correct that the ARC did not finish its assessment of the applications until more than six months later on 27 May 2010? After you provided your recommendations to the minister on 2 June 2010, another three weeks passed before he made an announcement about who had been successful—is that correct? And therefore for projects that were supposed to be in on 1 July of this year—and we are not talking about small projects; some of these are quite large—no-one knew who had been successful until one week before it was due to start—is that correct?

Prof. Sheil—Those dates are correct. The funding is available from that date, but in particular for Linkage projects there is a process whereby the applicants have to go through with their industry partner to form an agreement and sign the funding agreement. They have nine months, in fact, to commence the project from the time that the funding is announced.

Senator BUSHBY—But it still took six months. Those time lines were correct. During that process, is it the case that you received complaints about the length of time it was taking because some of the applicants saw that it was going to complicate their ability to undertake the projects?

Prof. Sheil—We received one complaint. Normally, the Linkage grants are announced in late May. There was not a major change to the time lines. That process of six months which involves an extensive process of peer review and assessment, checking and committee meetings and so on is the normal process.

Senator BUSHBY—Okay, but with respect—

Prof. Sheil—In this case, this was the first year where we had our new research management system in place and we had some additional checks to do, so it took us a little longer than normal to make the recommendations to the minister. But it was not extraordinarily different from the normal time line.

Senator BUSHBY—Those new processes that you referred to having been in place one year, you will have learnt from that and you will be able to get back at least to the few weeks earlier that you would normally do it?

Prof. Sheil—Yes, we would expect that we would make an announcement several weeks earlier.

Senator BUSHBY—In respect of the one complaint that you received, how did you deal with that?

Prof. Sheil—The Linkage Projects scheme coordinator would have spoken to the individual concerned and advised them when the time line for the announcement would be.

Senator BUSHBY—In respect of that complainant and other applicants, are you aware if any of them were forced to start up alternative arrangements while they waited, in order to try and get their projects started?

Prof. Sheil—As I indicated, often it takes them up to nine months to commence the project.

Senator BUSHBY—That is assuming they get funding.

Prof. Sheil—Yes, assuming they get funding.

Senator BUSHBY—I am more interested in whether people who had applied found that the time that it took before they actually found out whether they were successful or not meant that they went off and made other arrangements and did other things rather than continue the process with you.

Prof. Sheil—That often happens. It is known that this is a long process. When the applications are submitted, it is known that it will take more than six months to get an answer. So it happens, in that particular scheme, where there are industry and other end-users involved, that sometimes they start the project early with a different arrangement, or they make other arrangements as priorities within the company change. It was not an extraordinary year. It was a slightly longer time frame, but not an extraordinarily longer time frame.

Senator BUSHBY—Is there any scope to reduce the time that it takes to make these decisions? I know you say there is a nine-month start-up period, but a lot of these applicants are ready to go as soon as they can get the funding, and the delay actually delays their ability to, in some cases, commence projects that are ready to go. It causes them practical issues.

Prof. Sheil—The minister announced recently a new element to the Linkage Projects scheme which will be known as research training awards where we will be making allocations directly to institutions on the basis of their track record of interacting with industry. There will be 200 awards. And we will monitor very closely how that scheme develops. But the intention behind that scheme is to provide the funding and the certainty to the university partners in advance of the negotiations with the industry partners so that, once the industry partner's commitment is secure and the student is in place, they can start straight away. So it is a different way of thinking. In our Linkage Projects scheme *Consultation paper* that was out last year, we flagged this as a possibility and there was some support for it. So we will be trialling it in targeted areas.

Senator BUSHBY—For those who can take advantage of that—and it does not sound like everybody can—no doubt that will be quite useful.

Prof. Sheil—The other thing I should point out is that the Linkage Projects scheme is being evaluated this year, so we will look at modifications, improvements and changes as a result of that formal evaluation.

Senator BUSHBY—One of the reasons why I was asking is because, in your answer to question on notice BI-147, you actually acknowledge that it is crucial to provide successful and unsuccessful applicants with advice about the fate of their applications well in advance of

the start dates for grant funding. So, quite clearly, advising them one week before—even though they have nine months to get up and running—really does not seem to fit with your acknowledgement that it is crucial that they have advice of their success or otherwise well in advance of the start date. And I would have thought that working that acknowledgement into your processes is a reasonable thing to be doing in looking at ways you can improve that.

Prof. Sheil—Yes. We will obviously take that feedback on board.

Senator BUSHBY—Can you update us on the latest progress towards the implementation of the Australian Research Integrity Committee?

Prof. Sheil—Yes I can. We are still on track to have that committee operational in the first month of the new year. I recently met with my colleague the CEO of the NHMRC to consider applications to that committee, and we have a shortlist of candidates for that committee who we are just undertaking some final interviews and reference checks on. So we should be in a position to announce the membership—

Senator BUSHBY—How did you identify the candidates?

Prof. Sheil—We called for applications. We advertised and we have been through the usual process of checking referees and so on.

Senator BUSHBY—How is the committee being funded?

Prof. Sheil—It will be funded through the agency. It is a joint committee that will be separately constituted by each agency—if that makes sense. The ARC will consider matters where it is ARC funding or where it is a university that we fund, and the NHMRC will consider matters where it involves NHMRC funding or a medical research institute. The work that has been done to date has been done by officers from both agencies in collaboration, and the service of the committee will be done through that with us, again, with a sharing arrangement from our internal resources.

Senator BUSHBY—It will be a secretariat set up for the committee which will be funded jointly by different agencies?

Prof. Sheil—Yes. It will be more a sharing of resources rather than a joint funding of separate resources.

Senator BUSHBY—So you are using in-kind resources to support it? Is that what you are saying?

Prof. Sheil—Yes.

Senator BUSHBY—You will not actually be putting funding into a special pool?

Prof. Sheil—No.

Senator BUSHBY—You will just be using resources that you already have in your respective agencies and using those resources to provide the manpower?

Prof. Sheil—Yes.

Senator BUSHBY—So that will be taking resources away from other activities, but there is always an evolving—

Prof. Sheil—We have resources that deal with complaints around research misconduct anyway. Both agencies do, and it is those teams that will be working on this committee.

Senator BUSHBY—Is it true that a Centre of Excellence for the History of Emotions is to be established by the ARC?

Prof. Sheil—Yes, that is correct.

Senator Carr—And a very good centre it is, too.

Senator BUSHBY—Is it established yet?

Senator Carr—I launched it.

Prof. Sheil—The minister has launched it.

Senator BUSHBY—So it is up and running?

Prof. Sheil—It has been announced. The funding will become available in the new year.

Senator BUSHBY—So funding has been announced for it, but it has not actually been established yet.

Senator Carr—From my memory, they topped the round, didn't they?

Prof. Sheil—We do not comment on rankings, Minister.

Senator Carr—I expected to get a question on this; it did not surprise me. I must say that I think it is an extremely good project and it has been selected because it was the best of the round.

Senator BUSHBY—It was the best proposal. You said just now, 'An extremely good centre it is, too'. But, if it is not actually up and running yet, we do not know how good it is.

Senator Carr—I have had the opportunity to look at the material they are undertaking. I read the briefs—because you realise, of course, that the way the process works is that these are actually made independently of government. Yes, I had the choice; I could have done what Brendan Nelson did and intervened on 10 separate occasions and told the ARC to take away their suggestions on a humanities issue. This is a centre that was selected by the expert process, and my recollection of the material is that this topped the round.

Senator BUSHBY—Thank you for your input, Minister. Be that as it may, going by reports the purpose of this centre is going to be to help Australians deal with their everyday problems. Is that correct?

Senator Carr—It deals with the fundamental issues that motivate people—what is it that drives people? It looks at it in historic context and looks at the issues. Particularly through Europe, it has industry collaboration from Opera Australia, from the ABC, from the Globe Theatre in London—

Senator BUSHBY—Did you say from Opera Australia?

Senator Carr—Yes, from Opera Australia. It has industry collaboration from very senior performing arts institutions in Scandinavia, from my recollection. I was quite impressed. In fact, I was more impressed when I listened to the people giving their presentation than I was by some of the material that was published outlining what it was, such as the media release.

But the fundamental issue goes to the question of what motivates people in times of crisis or in periods of social change.

Senator BUSHBY—And Opera Australia and the performing arts are relevant to what motivates people in times of crisis—

Senator Carr—That is right. What impact does music have? What impact does poetry have? What impact does literature have in driving these social responses? For instance, it looks at the questions that relate to major epidemics.

Senator MASON—Altruism.

Senator Carr—It is quite open. There is the question of the baroque music. Our research program does not just deal with medical research; it covers the full gamut of human activity, and this is an important project. As I say, I chose not to intervene. My attitude stands in contrast to the previous government on research issues.

Senator BUSHBY—Minister, that is your call on that. I would have thought that if the purpose of the centre is to deal with people's everyday problems or what drives people—to quote you—potentially, linkages with the government's National Advisory Council on Mental Health or other organisations like that would have been ones that you would be quoting to me rather than Opera Australia and—

Senator Carr—All I am doing is quoting from the material that I had in front of me when preparing for the University of Western Australia launch. I was very impressed with the quality of the work. It deals with understanding everything from stock market crashes to the housing bubbles to revolutions. That is a legitimate field of academic or research interest.

Senator BUSHBY—I guess we will follow that one closely—

CHAIR—We have concluded the time allocated, but do you want to continue, Senator Bushby?

Senator BUSHBY—I was going to ask a question about skin cancer research, particularly as it applies to Tasmanian devils, if we have time for a quick answer.

CHAIR—Yes. It is very important.

Senator BUSHBY—I would just like an overview of the work in that area.

Prof. Sheil—Obviously I am not the expert in that area. Katherine Belov and her colleagues at the University of Sydney are. That is a very important and exciting project funded both by a Future Fellowship Discovery Project and a Linkage Project. It is an unbelievably important project and we are really proud of that one.

Senator BUSHBY—If you could take on notice to provide me with some more information about that and what it is doing, I would appreciate it.

Prof. Sheil—We would be happy to do that.

Senator WILLIAMS—Could you take on notice to give me the research as far as bushfires and what is going on in that area?

Prof. Sheil—Yes, we can give you a list of projects that we have funded in the area of bushfires.

Senator WILLIAMS—That would be wonderful, thank you.

CHAIR—Thank you to the Australian Research Council. Thank you for coming in today. I will now ask IP Australia to come to the table.

[11.33 am]

IP Australia

CHAIR—Welcome, Mr Noonan. Do you have an opening statement that you would like to make?

Mr Noonan—No, thank you, Chair.

Senator BUSHBY—Thank you for coming along today to assist us. In the Cutler report that was released more than two years ago now it was stated:

... in new areas of patenting such as software and business methods, there is strong evidence that existing intellectual property arrangements are hampering innovation.

In the two years since then I believe a review has been set up and is being run by the Advisory Council on Intellectual Property, but there has not been anything recommended to the government that is publicly available yet through that process. Can you give us an outline of when you expect that process to finish, when the recommendations will be provided to government and when the government is expected to provide a final public response?

Mr Noonan—I think the review went on to talk about the general standards of patentability within Australia being arguably lower than they were in other countries, and it talked about the disadvantages of that. Since then, IP Australia has been putting out a number of papers about how the law could be changed in that area. I think we put out the first papers in early 2009. We had a round of consultation about that. A second, more refined set of proposals was put out in late 2009 and we had a second round of consultation. We are now working towards the preparation of a bill that would implement the proposals that we have put forward.

Senator BUSHBY—Do you have any indication of timelines or when things are likely to happen?

Mr Noonan—I do not have a precise indication. It depends on drafting resources and how quickly the bill can be drafted within the Office of Parliamentary Counsel.

Senator BUSHBY—So you are up to the stage where you are ready to brief the parliamentary counsel or have you briefed them?

Mr Noonan—We have issued instructions to parliamentary counsel.

Senator BUSHBY—So you are just waiting for them to come back with a bill. Presumably, it will then go back to the minister?

Mr Noonan—In fact, the Office of Parliamentary Counsel has commenced drafting a bill, but when they will complete that will depend upon the other bills that might come into the office. Of course, when we have a bill that is ready to go we would present that to the minister.

Senator BUSHBY—Then it is up to the minister as to what he will do with that.

Mr Noonan—That is correct.

Senator BUSHBY—I also want to ask you about the agreement that was signed in 2008 between the IP officers of Australia and Vietnam. Can you outline what has happened in the two and a half years since and what concrete outcomes there have been for Australian businesses as a result of that arrangement?

Mr Noonan—This is an agreement for cooperation. We have a number of these agreements. I would probably characterise them as agreements that are about helping less experienced IP officers develop their skills. In the case of Vietnam there have been some exchanges of staff and also there have been some joint projects involving public education and awareness about IP issues. I would not say that the state of the IP system throughout the region is such that that converts quickly to concrete benefits for Australian businesses, but our long-term goal is to benefit Australian exporters over time by encouraging the development of strong IP systems in various countries in the region.

Senator BUSHBY—By ensuring that their intellectual property is protected when they go into those countries?

Mr Noonan—Indeed.

Senator BUSHBY—You mentioned that there are a number of such agreements. How many of those kinds of agreements are in place, and with which countries?

Mr Noonan—I would have to take that on notice. I do not have a complete list.

Senator BUSHBY—That would be appreciated.

[11.38 am]

Department of Innovation, Industry, Science and Research

CHAIR—We are now discussing outcome 2, Science and research, and I welcome officers from the research division of the Department of Innovation, Industry, Science and Research.

Mr Paterson—While those officers are coming to the table, I would like to draw to the committee's attention a correction to information on a return to order on appointments. The return was tabled by the minister on 11 October based on information provided by the department. We have identified an inaccuracy in that information tabled. The tabled return indicated that Mr Greg L'Estrange, a member appointed to the Pulp and Paper Industry Innovation Council, resided in the ACT. His state of residence is in fact Tasmania. On 19 October the minister provided the President of the Senate an amended single page for that return, identifying the correction. It was a minor inaccuracy in the report. We became aware of it and acted as soon as we were able to. I thought I would draw it specifically to the attention of the committee this morning.

CHAIR—Thank you.

Mr Paterson—The minister had tabled information based on the advice we provided to him. That advice contained an error and we have corrected that error.

CHAIR—Thank you.

Senator MASON—I understand that the 13th Cooperative Research Centres Program selection round closed on Friday, 2 July this year. Is that right?

Ms Morahan—That is correct.

Senator MASON—I understand that stage 1 of the 13th round is complete and 13 applications were invited to the next stage. Is that right?

Ms Morahan—That is correct.

Senator MASON—How does it work from there? What is the process until December?

Ms Morahan—We are currently finalising peer review assessments on the research project proposals. Each of those applicants progressing to stage 2 have been required to provide their example research project proposals. We are in the process of receiving peer review assessments of those proposals. The CRC Committee is meeting on Friday this week.

Senator MASON—That is fine. So it is underway.

Ms Morahan—There is that process and then there are interviews in early November. The CRC Committee will meet immediately after those interviews and will then make their recommendations for funding to the minister.

Senator MASON—In December. Has interest been on a par with previous rounds?

Ms Morahan—It has been much stronger.

Senator MASON—It has been stronger?

Ms Morahan—Much stronger.

Senator MASON—What do you put that down to?

Ms Morahan—I would say that the identification of priority areas has certainly stimulated significant interest from the research sector and also from various end users in Australia.

Senator MASON—Are any patterns emerging in areas of applied research?

Ms Morahan—There was a very strong response from the social innovation and social inclusion area, with people looking particularly to use new technology to find innovative solutions to some of the very difficult challenges that Australia faces around social inclusion.

Senator MASON—Can you give the committee an example of that?

Ms Morahan—For example, looking at health and ageing and some of the innovative responses that might be generated.

Senator MASON—In disabilities as well? Would that be an example?

Ms Morahan—In disabilities—that is true—and also in education and training: groups looking at innovative ways of using that technology to tackle a range of issues in that space.

Senator MASON—How do you measure the success of a CRC? Sure, you talk about commercialisation, but how do you measure the success of it?

Ms Morahan—As part of the application and also as part of their contract and the ongoing monitoring, we ask each applicant to identify the benefits that they would deliver. So we ask them to tell us about what outputs they expect from their research, how those outputs would

be used and what both the monetary and the non-monetary benefits would be. That is in the application. That is built into the contract.

Senator MASON—There is the application and then there is a contract.

Ms Morahan—Then we ask them to report against that.

Senator MASON—When?

Ms Morahan—Through the annual report process.

Senator MASON—For how long?

Ms Morahan—For the duration of their contract. It is an annual report. So they will report progress against their milestones and the delivery of benefits each year. They then undergo independent performance reviews. The timing of those reviews will depend on the length of their contract. For example, for a 10-year contract there would be a performance review in the fourth and the eighth year. We then ask them to provide an exit report at the end of their contract. The purpose of those reports is to identify where they have got to in terms of delivering benefits. We will then undertake, approximately on a five-year basis, an impact study. The research we have done to date would indicate that the full benefits do not start to be realised until at least nine years after the commencement of a CRC. We then do independent—

Senator MASON—There has been 13 years of it, so you are seeing the benefits flow through now.

Ms Morahan—Absolutely. The last study we did into this was in 2006. That study indicated that for every dollar invested in the CRC program there was a \$1.16 returned in monetary terms. So it is a positive return.

Senator MASON—Is that in terms of commercialisation or a multiplier effect?

Ms Morahan—That is in terms of monetary benefit to Australia. It is not just commercialisation.

Senator MASON—There is a public benefit aspect.

Ms Morahan—There is a public benefit aspect there. It is the monetary benefit of that public benefit.

Senator MASON—It is hard to assess, though. It is nearly as hard to assess as research output, Minister. It has to be done.

Ms Morahan—Yes, it has to be done. These are not easy things to do. It is also quite difficult in some cases to draw a direct line between the work of the CRC to the actual benefits. Again, there are people more expert in doing that sort of assessment than me that we use and rely on.

Senator MASON—Thank you. Chair, I have no further questions on CRCs specifically. I have other questions for this area but not CRCs.

CHAIR—Are there any CRC questions?

Senator BUSHBY—Not CRC, no.

Senator PRATT—I have a very quick one, which is to follow up on your question about social innovation CRCs. I was wondering where that fits within the priority areas. Also, how do you manage your level of resources when a new area balloons like that and it has a lot of good stuff in it? How do you weigh up what is going to be prioritised?

Ms Morahan—The social innovation was a priority identified by the government for the 13th selection round. There were 22 applications out of the 30 applications received in the 13th round that identified themselves as addressing the social innovation priority. In terms of managing the resources, the CRC committee undertakes a first stage assessment. Then we will make a judgment as to which one should go through to the second stage for a fuller assessment, a peer review and the interview process.

Senator PRATT—Just to be clear: that was 22 out of 32 for the 13th round of all priority areas?

Ms Morahan—Twenty-two out of 30 were in social innovation. The other priority for the 13th round was manufacturing innovation, and there were seven applications in that priority, from memory. I want to double-check that I have my number correct. Yes, seven in manufacturing innovation.

Senator PRATT—Which priority areas did not receive many applications?

Ms Morahan—Those were the two. There were only two priorities.

Senator PRATT—Okay. Thank you very much.

CHAIR—I understand that Senator Bushby does have a couple of questions on CRCs.

Senator BUSHBY—Just one question, which may lead to other questions—but one primary question. During the election campaign, the government announced that it was intending to cut \$32 million from the Cooperative Research Centres and Collaborative Research Networks programs over the forward estimates. Can you outline for us in a bit more detail where these cuts will be made?

Ms Morahan—For the CRC?

Senator BUSHBY—For the CRC particularly.

Ms Morahan—The CRC program reductions are \$26.3 million over the forward estimates.

Senator BUSHBY—Can you break that down over the three years or over the years of the forward estimates. Also, I am particularly interested in where those funding cuts will manifest in terms of the CRCs themselves.

Mr Paterson—I think the number for the CRC program was \$2½ million in 2011-12; \$9.6 million in 2012-13; and \$14.2 million in 2013-14.

Senator BUSHBY—Which suggests a progressive winding down of some of the CRCs or—

Mr Paterson—I think the way the profile works is that the early out years are likely to be more committed because you have previous years of CRC rounds that are multiyear rounds. The further out from the start point you are, the less committed dollars—

Senator BUSHBY—Which makes sense.

Mr Paterson—The profile reflects the profile of the existing commitments under the program and resources available over those out years. It is planned to commence in 2011-12, then slightly more in 2012-13 and then more in 2013-14.

Senator BUSHBY—How will you deliver those cuts? Would they be part of the normal CRC application round, where there will not be as much?

Mr Paterson—There will be less resources available to the program for the CRC committee to consider applications and therefore make recommendations to the minister. So it will be a reduction in the overall available money within the program over those three financial years.

Senator BUSHBY—So the minister will not sit there each year and decide where it is going to cut and slash?

Senator Carr—The way it works—

Senator BUSHBY—I understand that. I am getting it straight for the record.

Senator Carr—It means less resources available for distribution for this purpose. But it does mean—

Senator BUSHBY—Which may undermine the viability of some CRCs.

Senator Carr—No, because this is for new applicants. What we are doing here is that, given the budget's overall budgetary strategy, I am required for any new initiative to have an offset. That is why in the election campaign we did not have one extra dollar to add to the overall budgetary obligations for the Commonwealth as a result of election commitments. So every single commitment made had to be offset. In this case, we provided that other scientific innovation activities would be offset against this expenditure. So it is not being lost to the science, innovation and research—

Senator BUSHBY—You just think other vehicles are better vehicles than the CRCs. Quite clearly, you have made a priority decision to strip some money from here—

Senator Carr—There is a clear implication of a budgetary commitment. We do not have the situation you had with an \$11 billion black hole—

Senator BUSHBY—We will get into that later with Treasury.

Senator Carr—We actually funded every promise we made, and the difficulty for that is that we will have to make choices—

Senator BUSHBY—Exactly.

Senator Carr—in the coming years about where each of the dollars goes.

Senator BUSHBY—So, ultimately, you decided to put your dollar elsewhere rather than here.

Senator Carr—We are now entering a very tough line of country. Because of the nature of the challenges facing our budgetary situation we have to make some tough calls. I have been a strong supporter of this program for a very, very long time. Activity is not being lost to the science, innovation and research community; it means we are doing it in different places.

Senator BUSHBY—Exactly. You have made a priority call that you would rather spend that portion of the—

Senator Carr—Against future bids for money. That is effectively what has happened—uncommitted moneys.

Senator BUSHBY—You are creating new vehicles or putting money into different vehicles to conduct that research, and the CRCs have proven a successful operation.

Senator Carr—We have put money into the Science for Australia's Future program. I had to fund those commitments. That is the consequence of it. That is the budgetary discipline.

Senator BUSHBY—You have made a judgment call and decided that you would prefer to put money into that vehicle rather than into the CRCs and that the CRCs were not going to deliver the outcomes sufficiently. In a comparative sense, you would rather deliver the other outcomes than the potential outcomes out of future CRCs.

Senator Carr—I have said what I have got to say about it. That is the reason for it.

Senator BUSHBY—That was my question on CRCs.

Senator MASON—Mr Paterson, according to your figures, then, it was \$26.3 million over forward estimates for the CRCs. Does that mean that for the collaborative research networks you had \$4 million over that forward estimates that has been cut? Is that right? Is that a fair assumption?

Mr Paterson—On those numbers, yes, but the real answer is no because there were a number of offsets against both the CRC program and the collaborative research networks. What I have given you is the total sum of the offsets from the CRC program—

Senator MASON—Yes, the offsets from the—

Mr Paterson—From the CRC—so from the collaborative research centres program. The numbers that I have in response to Senator Bushby's question were those numbers—

Senator MASON—Yes, I understand that.

Mr Paterson—and the total savings that were taken out of the collaborative research networks program were \$20.7 million, and they were used for different offsets in the program. There was the total of the savings that I identified for the CRC and the total for the collaborative research networks, and the \$20.7 million for collaborative research networks came out of the 2013-14 year.

Senator MASON—I understand. Minister, your answer would be the same as it was to Senator Bushby's question about a readjustment of priorities?

Senator Carr—It is the inevitable choices that you—

Senator MASON—I know—I understand that—but that is your answer. All right. In relation to the collaborative research networks, then, this was a new initiative in the 2009-10 budget—that is right, Minister, isn't it?

Senator Carr—Yes.

Senator MASON—And it was to develop research capacity for assisting small and regional higher education institutions by teaming up with other institutions in areas of

common interest. It is designed to foster collaboration. At the May estimates, officials said that as a result of the consultation process program guidelines had been prepared and would be released shortly. Is that right?

Ms Baly—That is correct. In fact, not only have guidelines been released but applications have been called for and we have expressions of interest for the first stage of the program from eligible institutions.

Senator MASON—All right. Very briefly, what is the content of the program guidelines? What do they address? What makes it distinctive?

Ms Baly—The guidelines spell out the institutions that are eligible to apply for funding, the conditions under which that funding will be made and the expectations of institutions that would be in receipt of that funding.

Senator MASON—But how do the guidelines seek to foster collaboration, which is the policy link here? How do they do that?

Ms Baly—As I said, they explain what the expectations of institutions and the receipt of funding would be, in that there is a requirement that they develop research collaborations with institutions in areas where they have research strength and an indication of the sorts of measures by which we would look at assessing those applications.

Senator MASON—How will you assess the effectiveness of the program?

Ms Baly—The effectiveness of the program or the effectiveness of the applications under—

Senator MASON—Both. The applications first.

Ms Baly—In terms of the applications, we would look at a number of things, one of which would be the strategic alignment of the application to the university's mission. So we are not being prescriptive. There is no intention to be prescriptive about particular areas that universities might collaborate in. It needs to be aligned with their strategic mission and that needs to be quite clear. The applications need to spell out—

Senator MASON—Sorry to interrupt. You say 'strategic mission'—the minister knows all about this—but is that where a university would elucidate that in a compact, for example?

Ms Baly—Yes.

Senator MASON—So it would tie in in that way?

Ms Baly—It would indeed.

Senator MASON—So the university sets its own mission in a university compact?

Ms Baly—In a compact, and the projects that would be funded under CRN would be discussed as part of that compact process as well. So we would look for a strategic alignment, we would look at the strength of the partnership in relation to the partners that the university is proposing to collaborate with, and we would look at the strength of those partners in the particular areas of research that are proposed. We would be looking also for a university to describe to us how that project would lead to sustainability in building research capability.

Senator MASON—In an ongoing capacity—I understand that. How about the program's effectiveness?

Ms Baly—We would be looking at the eligible universities' research performance over time and we would be looking at a range of measures to assess that capability, including through the outcomes of the ERA process that the ARC is running.

Senator MASON—Will you be doing an assessment that was mentioned where you will be able to say that for every dollar invested in a CRC the return will be \$1.12, which includes a benefit back to the public?

Ms Baly—I am not sure that we have thought that far ahead in relation to this program. It might be a little harder to do that in this program than it is for the CRC program which is specifically about addressing an end user problem—

Senator MASON—And commercialisation—

Ms Baly—This is about building research capacity, so the way of measuring research capacity is to look at improvements in research activity and research quality over a period of time.

Senator MASON—So the ERA process would feed into that, so you would be able to measure whether research output had increased and so forth?

Ms Baly—We would be able to do that, certainly.

Senator MASON—You could at least do that.

Ms Baly—Yes, we could at least do that. And we can look at publications, citations and a number of things.

Senator MASON—Has it been well received?

Ms Baly—Yes.

Senator MASON—How many applications?

Ms Baly—We had applications from all of the 16 eligible institutions.

Senator Carr—There is never a shortage of applications to spend money in this portfolio.

Senator MASON—No, I understand that. It is a new program.

Senator Carr—This is valuable. We said we wanted to secure very significant structural reform within the system. We have said we are pursuing a policy of research excellence. We are trying to drive up the value chain. The question is what you do with universities that do not have the same level of capacity within the system? How do you build that? That is what this program is designed to do. It is aimed at giving people a real incentive in partnering with others to build those networks, the capacity, and accordingly it has been extremely well received by eligible institutions.

Senator MASON—And build some difference some times.

Senator Carr—Some real partnerships.

Senator MASON—Yes. A regional university, for example, cannot be an Oxford in Northern Australia necessarily but it can be a university in Northern Australia which has certain specialities that make it different.

Senator Carr—What we are trying to do is provide the best kit we can for every academic in the area and for the research students. That means that people at a regional university will get access to the best the country can provide.

Senator MASON—Chair, I now have questions on the development of Australia's future research workforce.

CHAIR—I think we are done on CRCs, so we could move on.

Senator MASON—We are finished on CRNs too?

CHAIR—Yes.

Senator MASON—The development of Australia's future research workforce is clearly one of the areas of significant importance for the department and the research sector. I understand the department has established a reference group to continue to undertake the development of the government's research workforce strategy. How is that progressing?

Ms Baly—It is progressing very well. The reference group has met on a number of occasions—three or four times. It has a very representative group of people on it, including the university sector, industry and students—the sorts of people you expect would be included. There has been a very extensive process of analytical work done within the department and through some commissioned work that we have had done, and there has been an extensive consultation process as well.

Senator MASON—What are the aims of this?

Ms Baly—The aim of the exercise is to look forward to make sure that we have the capacity within the research workforce for Australia's future needs.

Senator MASON—The number of people finishing master's and PhD research degrees has increased exponentially in the last 10 to 15 years. Is it right that over the last little while the figure is starting to deflate?

Dr Byrne—The trends in recent time have been to see a slight decrease in the commencements of domestic PhD and Master's by research students and a slight increase in the PhD international flow. In completions as well we have seen an increase in the proportion of international students completing in a timely way compared to domestic students. That said, overall I think there are two issues here. You are correct to say that quantum-wise there has been an increase over time, but the policy challenges are quite different than, say, several years ago. For example, government has introduced participation targets in relation to undergraduate involvement in university education which in turn have an impact on the flow of skills that are needed in the university sector to provide that training.

In addition, the government has announced critical policy measures, including through Powering Ideas, around the sort of innovative economy that we want and the sort of skills base that we need in order to sustain that. The challenge, if you like, has changed. The quantum is part of the issue and, as I mentioned, needs to be looked at in terms of absolute

numbers and then in terms of the composition of the commencements and completions by domestic and international students. In addition, the policy drivers are quite different. So the landscape is different—and the minister or secretary or Anne Baly may want to add to this—and I think we need to contextualise the conversation a bit differently.

Senator MASON—I understand that and it is a fair point. Dr Byrne, do you make the assumption that, from the government adopting the Bradley review and the target of 40 per cent of Australians having an undergraduate degree by 2025, many more Australians will undertake research higher degrees? Is that the government's assumption?

Senator Carr—It is more complicated than that. What you have got is an undergraduate program in which we are quite likely to see quite significant expansions as a result of growing demand—that is, we are trying to get higher levels of participation through a change in funding. Somebody has got to teach those students. We have an expectation these days that being an academic requires appropriate qualifications.

Senator MASON—I understand that.

Senator Carr—We are moving to improve the level of qualifications for academics. There are too many universities that are having programs taught by people who do not have PhDs.

Senator MASON—It is an ageing workforce too.

Senator Carr—And on top of that you have got an ageing workforce. So there are two conflicting trends meeting here. Further, we have got very extensive investments being made by China, India and other countries, which are directly competing against Australia as pre-eminent sources of research infrastructure and experts capacity. We used to be regarded as amongst the best—probably still are—in the region.

Senator MASON—I think we still are, Minister, but there are future pressures.

Senator Carr—There are a number of issues here. Our competitive position internationally is under some challenge and I do think we need to address that question. Further, we have got a need for Australian industry and the Australian economy more generally to pick up the level of its engagement with the university system because, by international standards, deployment of highly qualified researchers is well below par. We have to lift the level of industry engagement with the research sector. All our programs, I would like to think, do dovetail. There is coherence to the package that we put through the white paper. The emerging area is around the question of personnel. We have put significant investments into the capital side of it—to build the kit, as I say. The question is making sure we have got the people. In an internationally more difficult environment we do have to measure up to different levels of challenge. This is at a time when the budgetary pressures are such that we simply need to think in much more creative terms than we have.

Senator MASON—Let me touch on that because you raise an interesting point. I am not quite sure of the answer to this myself as this is very difficult. The Howard government said Australia had to be upskilled, that we had to train people to increase productivity. I think we would all agree on that. Minister, there is some talk, and you often hear it coming from industry and also from parts of the higher education sector, that it is more important, as some people say, for skills and apprenticeships through vocational and educational training than it is

for people to get undergraduate tertiary degrees. I am not saying that I agree with that, but I am saying that it is an argument that I have heard in various places, that if we are talking about upskilling our country it is more important to look at VET than it is to look at undergraduate university education. What is your view on that, Minister?

Senator Carr—As you know, I have had a keen interest in vocational education for many years. I have not resiled from that. The truth is that if you are to build a highly productive population you need to make sure that you keep a balance in the various range of programs that are being run and as to the skills that are available for this society, so not just for industry but for society.

Senator MASON—You see my point, do not you?

Senator Carr—I do, and I just want to make these two other points for you. First of all, if you look at gaps in terms of the training regime for this country then there is the question of management training, which is often neglected in the public discourse, and we are seeking through this portfolio to do something about that. We are making a big effort to try to lift the level of skills for management of companies while not neglecting the importance of vocational education for workers. The other area is a very high level of the PhD program that needs significant attention, given the changing nature of the needs of this economy. We have just announced an industrial PhD program, as an example. We were trying to bring a couple of things together there. We are saying that by international standards we are below par when it comes to the deployment of PhD students. Industry's investment is far too low so we want to encourage greater collaboration, through the universities, by industry investment in higher degree training as well as supporting higher levels of management training for small and medium sized enterprises, which we are trying to help with through Enterprise Connect and various other measures.

Senator MASON—Fair enough, Minister, but I am noticing, and I am sure you are too, a certain friction developing between universities, on the one hand, and the VET sector in terms of: who is most important for upskilling more Australians for a more productive future? That came out a while ago on the front page of the *Australian*, and there have been articles in the *Melbourne Age* about this. I suppose my point is this. Where does the government see the emphasis or do you see them as not being mutually exclusive and that we can do everything? Can we increase undergraduate participation along the lines of the Bradley review and also do PhDs? What is the most important or are they all equally important?

Senator Carr—You cannot neglect any of them.

Senator MASON—I am not saying we should neglect. What is the order of priority? That is a fair question.

Senator Carr—It is about being able to walk and chew gum at the same time. A country that seeks to be an innovative economy and that seeks to have an advanced technological base to the maintenance of living standards is going to need all of these things catered for simultaneously at a time when there is increasing pressure on public sector budgets. So there are some quite serious public policy questions there.

Senator MASON—I am not saying I disagree with you, Minister.

Senator Carr—I know you are not, but I will just make this observation. We take the view that industry has some obligations here as well. This is not some sort of cheap privatisation—I am not interested in that. What I am saying though is that the collaborations between the public and private sectors have to improve and we have to look to industry to invest more heavily in its own future.

Senator MASON—Yes, I understand that. The difficulty is that all of us have to—and how do I put this—sell the importance of higher education to our constituencies, and you understand that.

Senator Carr—We are doing that, and we are saying that the universities can be more responsive without losing their core values, their enduring values. But it also means that things like the Industrial PhD provide an opportunity for industry to see the value of having highly qualified people that can actually train their own workforce. It also provides broader career opportunities for people in this country.

Dr Byrne—Perhaps it is just worth adding that government's commitment to the strategy is out to 2020 so it is taking the perspective that this is a long haul, if you like, and that, as the minister mentioned, there is a range of actors that have responsibility in the space of the research workforce. It is not just universities vis-a-vis other sectors of education. It is obviously other trading providers, institutions and industry in collaboration, but for a longer term perspective rather than a short term.

Senator MASON—That is right. But the big policy question for governments of any persuasion is: what is the most cost-effective way to upskill a nation?

Dr Byrne—I think the question is a bit different though. The question is: how to build an innovation nation or an innovation economy and what is the analytic work underpinning it?

Senator MASON—I understand that, but politicians and governments talk in terms of productivity and that comes from upskilling. How do you do that—not on the cheap—but how do you do that cost-effectively? It is a fair question.

Senator Carr—Yes, it is.

Senator MASON—Many people are saying—and I am not saying that I adopt this view—that there should be greater concentration on the VET sector rather than the university sector. I am not saying that I agree with it, but the argument is certainly around.

Senator Carr—And what we say in response is—and I probably do not do this as effectively as I should—try to get an understanding of the interrelationship between these different responsibilities.

Senator BUSHBY—I have just some general questions first. You would be aware of the Prime Minister's comments in mid-September that government promises made before the election no longer necessarily apply because of the new environment created by the hung parliament, and you will have also highlighted some of the policy challenges, particularly funding challenges, that you have in terms of making priority decisions. Following on from that statement, can you please advise us whether all of the promises for the Innovation, Industry, Science and Research portfolio will be kept and, if not, which ones will not be kept?

Senator Carr—I think that we have a very good track record of delivering on election promises, and I can give you chapter and verse, if you like.

Senator BUSHBY—I am asking the question in the context of the new environment as quoted by your Prime Minister.

Senator Carr—It is our intention to fulfil any promises I have made.

Senator BUSHBY—I look forward to you fighting hard within cabinet if anything changes as a result of the new environment that currently exists. When you appeared at your first estimates—

Senator Carr—Some things I might welcome, but that is another question. I made commitments during our election campaign in statements—and I do not recall seeing one from you on election commitments—and I like to compare our respective slates.

Senator WILLIAMS—Carbon and everything else—

Senator Carr—No, in terms of innovation.

Senator BUSHBY—Are you saying that we did not have a policy on innovation?

Senator Carr—I do not recall you having a policy on innovation.

Senator BUSHBY—There was a policy on innovation. You need to get your staff to look a little bit harder, I think.

Senator Carr—Sorry I missed it.

Senator BUSHBY—It was a very good one too. When you first appeared at an estimates hearing as the minister for the portfolio in 2008 you said:

We are not about wasting public money. We are about improving the financial position of the government consistent with our responsibilities as part of the government.

Can you confirm the veracity of the Productivity Commission's calculations in their recent *Trade and assistance review 2008-09* publication that the government industry assistance for that financial year alone blew out to \$17.2 billion?

Senator Carr—No, I cannot confirm that, and I have found that, over the time, many of the assumptions the Productivity Commission makes are open to considerable debate.

Senator BUSHBY—Are you aware of that publication, Secretary?

Mr Paterson—Yes, I am aware of the publication.

Senator BUSHBY—Are you aware of the figure that they quote in that publication?

Mr Paterson—I would not suggest to you that I could pull it straight off the top of my head.

Senator BUSHBY—It is not something that has been brought to your attention?

Mr Paterson—I have looked at the publications, so I am aware of it, but I do not pretend that every number that passes my desk actually sticks.

Senator BUSHBY—Would you mind taking on notice having a look at that and seeing whether you agree with their conclusion, particularly in light of the minister's comments.

Mr Paterson—I am not sure about questions to us about competing judgments—whether we think something is appropriate. We are not expected to respond to questions of opinion.

Senator BUSHBY—This is a calculation that the Productivity Commission has done.

Mr Paterson—Yes, but you are asking me for an opinion about a calculation done by the Productivity Commission. I am happy for the Productivity Commission to respond to your questions as to how they reached the conclusion. I am not sure that it is for us, or for me particularly, to give an opinion.

Senator BUSHBY—No, I am not asking for your opinion. Let me ask the question slightly differently. Would you be able to indicate to me, in the 2008-09 financial year, a figure that you consider is appropriate as representing government industry assistance through your department?

Mr Paterson—The government publishes on an annual basis innovation tables which provide a very broad whole-of-government position in relation to innovation support mechanisms that are available. The Productivity Commission's report does not just look at our portfolio, it looks across the whole of government. What you are asking me to do is to pass judgment on their assessment of the value of whole-of-government assistance across many portfolios. I do not think that is appropriate.

Senator BUSHBY—The question I just asked you was just in respect of your department.

Mr Paterson—Yes, which will not be the number that you quoted.

Senator BUSHBY—No, but it will form a part of an investigation that we can look at and see how it all compares?

Mr Paterson—I am happy to take a question on notice that limits the question to this portfolio and that is not framed in the context of asking me to pass an opinion in relation to it. If you are asking us to make a calculation as to what we think that number is in relation to our portfolio, I am happy to take that on notice.

Senator BUSHBY—Okay. As part of Labor's signed agreement with the Greens, are you and your staff, Minister, required to meet with them and/or give them briefings whenever requested?

Senator Carr—Can I just say this to you, Senator Bushby: if you rang me up and asked me for a briefing, you would get one.

Senator BUSHBY—I will remember that.

Senator Carr—I have never refused a briefing from any member of parliament while I have been a minister.

Senator BUSHBY—I accept, on face value, your statement that you are open in that respect for requests. Is there any formal arrangement in place under which the Greens—

Senator Carr—Get any special arrangement? No.

Senator BUSHBY—Nothing beyond that general open—

Senator Carr—No special arrangement. Every member of parliament, as far as I am concerned, is entitled to receive briefings if they go through the due process. There is a due process.

Senator BUSHBY—I understand your general openness, but is there any arrangement in place under—

Senator Carr—I do not have any special arrangements. There are no special arrangements for particular groups outside the Labor Party, of course. I will concede I do have special arrangements with members of my own party.

Senator MASON—You've got your own faction.

Senator Carr—I wish I saw more of them.

Senator BUSHBY—You would also be aware that the agreement with the Greens, signed by the government, and with the Independents includes provision for those other members of parliament to seek not just briefings on government policies and programs—which is, I think, what you were referring to—but to participate in the budget process, to have access to key public servants, to propose new policies and to have those policies analysed.

Senator Carr—These are not matters—

Senator BUSHBY—This is actually a question for the department. Has the department had a look at that agreement with a view to any impact to its resources in staff requirements and workloads in order to meet any such demands?

Mr Paterson—We have certainly had a look at the agreement. I think all senior public servants in this town and elsewhere would have had a look at the agreement. It is difficult to predict what the nature of the briefing demand may be. Certainly, it has had no impact on our resources at this time. Do I anticipate it being a resource-intensive exercise for us? No, I do not. But obviously it is a matter that I would have to take under review. It is an agreement that the government has entered into; therefore, the government has made commitments for briefing and participation to apply. We, along with all other agencies, would be expected to meet that commitment.

Senator BUSHBY—But at this stage, because it has not impacted on you, you cannot gauge or assess whether it is likely to have an impact?

Mr Paterson—It is not that we have not participated. We have already participated in briefings, but it has not had an impact on resources in a way that I would need to be concerned about at this stage.

Senator BUSHBY—Minister, what is your view of Dr Emerson's recent comment:

We won't cop governments cloaking protectionism in this sort of green cloak of respectability, where it's just old protectionism. It's just designed in fact to protect their own domestic industries and they say now, oh but this is all so that we can have a cleaner environment. Let's understand what this is and what motivates it.

What it actually is all those old protectionist instincts coming out ...

... let's not believe that this is all about climate change. There is a very clear ... protectionist instinct ... under this green cloak of respectability and we won't cop it.

Shouldn't that be seen by every Australian as an utter repudiation of many of the programs in your portfolio that are cloaked in green labels—most notably, the Green Car Innovation Fund that is largely used to continue to promote traditional technologies and shore up the domestic car industry?

Senator Carr—Sorry, what did you call them? I have to get these quotes straight. I hope you can repeat them as often as possible.

Senator BUSHBY—I said 'traditional technologies and shore up the domestic car industry', and if not, why not?

Senator Carr—I see. You do not support the domestic car industry?

Senator BUSHBY—I am not talking about whether we support it or not. I am talking about the cloaking of it as a green measure.

Senator Carr—That is what you just said. I just wondered whether or not the Liberal Party was now walking away from the Australian car industry.

Senator BUSHBY—Minister, I am asking you the questions; you are not asking me the questions.

Senator Carr—I am trying to help you clarify your question.

Senator WILLIAMS—You would help by answering.

Senator BUSHBY—Exactly. Do you have any comment? Feel free to defend your programs—that is what I am looking for you to do.

Senator Carr—I am more than happy to defend the program.

Senator BUSHBY—Defend the green credentials of these programs, which could be viewed by others—unlike what you suggested, I am not suggesting at all that they are—as basically protectionism in a green cloak. There has certainly been commentary about it. Dr Emerson was certainly very keen to make sure that that does not occur.

Senator Carr—I think you will find that Dr Emerson was actually talking about some matters that are occurring in Europe in relation to some border protection questions—tariff issues in particular.

Senator BUSHBY—So you are not going to comment on—

Senator Carr—I strongly defend the Australian automotive industry and the Australian workers it employs. It is a highly skilled and very effective group of people.

Senator BUSHBY—But isn't your defence of the industry itself, rather than the green credentials of the programs?

Senator Carr—No, you asked the question. I just wanted to contrast our approach.

Senator BUSHBY—No, I was asking about the green credentials of the programs.

Senator Carr—No, I am defending the Australian automotive industry. I have no trouble at all doing that; it is a pity the Liberal Party did not, since you are walking away from it.

Senator BUSHBY—I think that you will probably find that we did actually assist on quite a number of occasions.

Senator Carr—I am just wondering. In your state, what is the percentage of state GDP that goes to the automotive industry?

Senator BUSHBY—There is some.

Senator Carr—I am glad you are looking after it.

Senator BUSHBY—I find it interesting that your answer to that question, which is about industry protection—

Senator Carr—You asked me a question about Dr Emerson's remarks. I have indicated to you my understanding of what Dr Emerson was talking about.

Senator BUSHBY—Your defence of the programs is based on industry protection, rather than on their green credentials.

Senator Carr—If you have other matters that you want to take up about the trade portfolio, I suggest you go to that portfolio.

Senator BUSHBY—I am happy with that. I have some research questions. In the last round of estimates questions on notice the coalition asked a number of questions about an email dated 31 May 2010 that was sent to a range of stakeholders about a new so-called collaborative development program. In relation to that email, did the research division—

Senator Carr—Sorry, Senator Bushby. I understand there was some inference that you made before that perhaps I did not appreciate fully about an attack on the Green Car Innovation Fund. I am wondering if I could ask the secretary to actually inform you of what we have actually spent the money on, so that you are aware. I think you have got a misunderstanding.

Senator BUSHBY—I did not attack it; I was asking about your general approach. I used that as an example. It is a green fund.

Senator Carr—I do think it is important to get the record complete here.

Senator BUSHBY—I said I found his answer interesting in that he chose to defend the program by talking about industry protection and—

CHAIR—Senator Bushby, we are nearly at lunchtime. I am prepared to run a little bit over. Unless we want this group to come back after lunch—

Senator Carr—I think we could do it very quickly.

Mr Paterson—The Green Car Innovation Fund is, in fact, in outcome 1, which is coming up after lunch. So we can deal with that issue after lunch so as not to consume the time on research. I think it is important to be able to identify what is being done under that program.

CHAIR—Certainly. I will give you that opportunity straight after lunch.

Senator BUSHBY—Do you agree with Dr Emerson? That is the first question. Is he correct? Is that a statement that you agree with?

Senator Carr—We have dealt with that matter. You have attacked the Green Car Innovation Fund.

Senator BUSHBY—I did not attack the Green Car Innovation Fund. I was asking about the government's motivation for—

CHAIR—Minister and Senator Bushby, I think we are having a toing and froing argument rather than asking the questions here.

Senator BUSHBY—Do you agree with Dr Emerson's statement that I quoted?

Senator Carr—I think we have already dealt with the matter.

Senator BUSHBY—So, you are not saying. You mentioned that it was in the context of Europe. Nonetheless, does the principle apply to Australia?

Senator Carr—No. It is our program. The assumption for your question is wrong.

Senator BUSHBY—No; I am not talking about particular programs. The principle about protectionism—

CHAIR—Senator Bushby, Mr Paterson has said that he would, after lunch, go through the details of the program which would inform your questioning.

Senator BUSHBY—I was not going to examples—

CHAIR—Nevertheless, I think we are arguing here without agreeing on the statement. So either we ask Mr Paterson to do that statement now or we resume this discussion after lunch. I am happy to do it either way.

Senator BUSHBY—I am happy to leave it at that. Minister Carr indicated no in answer to the question. That answers my questions.

Proceedings suspended from 12.32 pm to 1.31 pm

CHAIR—We will continue the estimates hearing again with the Department of Innovation, Industry, Science and Research and outcome 1—innovation and industry.

Senator Carr—Can I just ask if the secretary might be able to draw your attention to the Green Car Innovation Fund, since that was raised in the previous session, and what the money has been spent on, which I think will help reassure Senator Bushby that his conclusions are perhaps misplaced?

CHAIR—Mr Paterson?

Mr Paterson—I will just get the two officers who are responsible for directly managing the program to provide that statement.

Senator BUSHBY—Keep it as brief as possible because I do have a lot of questions for innovation and industry.

Mr Sexton—The commitments under the fund now total almost \$300 million. There have been seven announcements to date, and there are a couple that are in the pipeline which we are expecting will be announced shortly. Four of those announcements to date relate to funding that is going to the three car companies. Two of those projects concern Toyota. The first one, which was announced some time ago, related to \$35 million for the hybrid Camry to be built in Victoria. There are employment benefits arising out of that project as well as environmental benefits. Secondly for Toyota, we had an announcement only a week or so ago of \$63 million, which relates to a new global engine line. It is a facility that will be built in

Victoria, which has been competed for around the world amongst the various Toyota facilities; a facility that has been secured for Australia with a life of at least 10 years and, once it gets into production, some 100,000 engines are to be developed out of that facility—again, with some significant environmental benefits.

There is a project supporting the Ford Motor Co., where they have been provided with some \$42 million in assistance to assist in an overall development of several hundred million dollars—\$230 million to be exact—which is very much focused on providing a new four-cylinder engine for the Falcon vehicle. Again, that secures employment for people in Victoria and again has some significant environmental benefits in terms of lower emissions.

We would all be aware of the Holden new car facility in South Australia, where \$149 million was committed. That facility will be used to fund the development of a new line for the purposes of localising the currently imported small vehicle the Holden Cruze. Again, there are significant environmental benefits and, secondly, it secures employment and jobs for those people in South Australia. And there are a number of smaller projects which have been announced relating to the supply chain in the automotive sector, the first one being for Orbital Corporation Limited over in Western Australia which received a grant of \$440,000 to develop indirect injection technology. The important thing there is that it is a joint project with the Chinese maker, Changan Automobile. So there we will see technology developed in Australia which will have application in China.

There is a grant of \$2.422 million to SMR, an organisation in South Australia. That has been provided to the company in order to set up a pilot plant to adapt some of their leading-edge technology in producing side mirrors for vehicles out of lightweight materials.

Finally, Century Yuasa, a battery manufacturer located in Queensland, has received some \$996,000, again to develop improved lead acid starting, lighting and ignition batteries for conventionally fuelled passenger motor vehicles. So, in most of these cases there is leading-edge technologies being supported which will have application not only in Australia, providing jobs and environmental benefits, but in some cases will have significant export potential.

Senator Carr—And so, Senator Bushby, the claim about this being a protectionist measure is demonstrably untrue.

Senator BUSHBY—I did not claim that. You want to reread *Hansard*.

Senator Carr—Well, whoever made the claim, it is demonstrably untrue.

Senator BUSHBY—Nobody made the claim. I was interested in the approach that you took to defend the program.

Senator Carr—I have just indicated to you my response.

Senator BUSHBY—While we are on that, I will ask some questions about that. You outlined how much had been spent on a number of programs, larger and smaller ones. How much of it remains uncommitted?

Mr Sexton—\$507 million remains uncommitted in the project at this time.

Senator BUSHBY—And presumably you are working on assessing further projects to actually spend that?

Mr Sexton—Interest in the program has risen in recent months and there are a number of projects in the pipeline, yes.

Senator BUSHBY—At the time that the New Car Plan for a Greener Future was announced, much of the \$6.2 billion in funding was justified on the basis of needing to help the industry cope with the onset of the GFC.

Senator Carr—That is not true. That assumption is not true.

Senator BUSHBY—You did not make any statements whatsoever that—

Senator Carr—You said ‘much’ of it. It is about transformation of the Australian automotive industry. There were a number of points that went to the reasons for that.

Senator BUSHBY—But the GFC was a part of that or not a part of that?

Senator Carr—Clearly, the new car plan has ensured that the Australian automotive industry has survived the global economic crisis.

Senator BUSHBY—We did not have a recession in Australia.

Senator Carr—I just said to you, clearly the program has allowed that to occur, but you will recall that the—

Senator BUSHBY—That is quite a big statement.

Senator Carr—It is a big statement. I believe it to be true.

Senator BUSHBY—There may well have been other factors at play that I would have thought fed into that as well.

Senator Carr—Let me hear about them.

Senator BUSHBY—Not that I necessarily agree, but I am sure the Treasurer made a few points about what might have assisted as well, quite apart from that.

Senator Carr—I am sure he would agree with what I said.

Mr Sexton—The objective of the program was quite clear, and that was to enhance R&D and commercialisation of technologies that significantly reduce fuel consumption or greenhouse gas emissions of passenger motor vehicles. That is the sole objective.

Senator WILLIAMS—Just in relation to the orbital engine and the research into new acid batteries et cetera, does the department get an update on progress being made through that research and development or is the funding just given out and then you wait for a result? Do you get updated on progress?

Mr Sexton—Indeed, Senator. The money is not handed out in advance. It is paid against milestone achievements. We keep monitoring those projects and they are only paid if they achieve the milestones under the grant.

Senator WILLIAMS—So you have seen those milestone achievements? I am especially interested in both of those: the battery and the orbital motor.

Mr Sexton—These are very early days in those projects, which were only announced earlier this year. It is very early days, but we will continue to monitor them as they incur their expenditure.

Senator BUSHBY—You mentioned there was \$507 million uncommitted in the program or in the fund. Is the fund broken up with the intention to allocate a certain amount of it in each year?

Mr Sexton—Yes, there is an expenditure profile.

Senator BUSHBY—Was all of the 2009-10 funding put into that profile spent or allocated?

Mr Sexton—The profile for 2009-10 was \$107 million, and the expenditure at the end of the year was \$108 million.

Senator BUSHBY—What about for 2010-11? What is the profile for that?

Mr Sexton—I will correct that. In 2009-10 there was a total expenditure of \$108.456 million. In 2010-11 the budget is \$104 million, and at the moment we have expenses of \$29 million and commitments of \$48 million.

Senator BUSHBY—How much does that leave uncommitted so far this financial year?

Mr Sexton—This is in 2010-11?

Senator BUSHBY—How much is uncommitted?

Mr Sexton—Uncommitted? About \$29 million.

Senator BUSHBY—So that \$29 million remains uncommitted to any contracts that the government might not have entered into or that, in terms of—

Senator Carr—There are a couple of projects in the pipeline.

Senator BUSHBY—There are some in the pipeline.

Mr Sexton—Correct.

Senator BUSHBY—But there is nothing that is committed at this point? So, theoretically, if you cut that \$29 million from the program it would not actually cause any contractual issues?

Mr Sexton—Yes, it would, because there are a number of projects in the pipeline. As I said, there are a couple which will be announced soon. They will take up some of that funding.

Senator BUSHBY—Have you entered into contracts with those projects that are in the pipeline?

Mr Sexton—We have started work on executing agreements with those companies.

Senator BUSHBY—So there might be agreements in principle or heads of agreement.

Mr Sexton—Offers have been made, and they will presumably expect us to honour those offers.

Senator BUSHBY—Have those offers been accepted?

Mr Sexton—I believe they have.

Senator BUSHBY—Will they take up all of that \$29 million?

Mr Sexton—Not at this stage, no.

Senator BUSHBY—How much would be left?

Mr Sexton—There are further applications in the pipeline. We are only in October. There will be further applications considered and, to the extent to which they are supported, the uncommitted funds will fall.

Senator BUSHBY—Minister, on 14 August 2010 Ministers Bowen, Tanner and Swan made an announcement that another \$200 million would be cut from the Green Car Innovation Fund by Labor if it were re-elected. I am yet to see any public comment from you about this cut. Have you made any public comment about it and, if so, could you confirm what you have said?

Senator Carr—I am sure I made some comment on it.

Senator BUSHBY—Are you happy with it—the \$200 million cut?

Senator Carr—I do not think that is an emotion that immediately comes to mind.

Senator BUSHBY—Have you made public comment on it?

Senator Carr—I believe I have. If it is a government decision, I would have supported it.

Senator BUSHBY—I understand that.

Senator Carr—There were comments made at Toyota. I did some interviews on this at Altona, at the Toyota plant.

Senator BUSHBY—On what date would that have been?

Senator Carr—The day we announced the new engine plant—10 September.

Senator BUSHBY—I take it from your comment—mainly directed to the officers at the table—in response to my question of whether you were happy with it, that that was not necessarily your—

Senator Carr—It was not my first reaction, I think it would be fair to say. If it is a government decision, I will be supporting it.

Senator BUSHBY—I understand. You sit in cabinet, cabinet makes a decision and you will support the decision that cabinet makes.

Senator Carr—I do not think it was made by cabinet, but it was a government announcement. It was an election commitment and it will be implemented.

Senator BUSHBY—But it is not something that you would have put forward as a proposal to—

Senator Carr—I do not want to go to the process of deliberations on election commitments any more than I am sure you would be willing to discuss with me the political processes of the Liberal Party in terms of its election commitments.

Senator BUSHBY—The \$200 million that is being cut is one of the savings that is being used to—

Senator Carr—It was announced as an offset.

Senator BUSHBY—Was the decision to make the cut only agreed to on about 13 or 14 August?

Senator Carr—I would have to take that on notice. There was an announcement. If the question is when it was announced—

Senator BUSHBY—The announcement was made on 14 August.

Senator Carr—I cannot tell you any more than that.

Senator BUSHBY—Why can't you tell me?

Senator Carr—Because it is a matter that was determined as a result of an election commitment.

Senator BUSHBY—At whose instigation was the cut made?

Senator Carr—I am not going into all of that, I am sorry.

Senator BUSHBY—When you were first—

Senator Carr—It was a decision made during the election campaign as an offset to other announcements.

Senator BUSHBY—Can I ask, then, whether the department was involved in preparing any advice or briefings about the cut? No?

Senator Carr—It is not a matter for the department.

Senator BUSHBY—I understand that. I am not pressing you on that point because I do not disagree with what you are saying. As a separate question that related to that matter—

Senator Carr—The department was not asked about it, either.

Senator BUSHBY—That is fine. As a result of the \$400 million in cuts made by Labor in the budget during the election campaign, is it correct that the Green Car Innovation Fund is now a \$900 million program?

Senator Carr—If you take \$400 million from \$1.3 million, I think that is what you get, isn't it?

Senator BUSHBY—I am just clarifying for the purposes of the record. What is the process for how applications under the Green Car Innovation Fund are assessed? I have heard there are a few in the pipeline. Presumably they are being assessed. How did they get to be in the pipeline?

Mr Sexton—We are out there promoting the program, and those applications are coming in through our state office network. We have people in those state offices who work with the companies in order to ensure that they put their best foot forward in terms of the detail in the applications. Those applications are then assessed as to eligibility and to see that they satisfy the various requirements of the program. Those applications then go to an automotive committee of the Innovation Australia board, which is a technical committee which examines

those projects and makes a consideration and makes recommendations to the program delegate. If those applications are for grants in excess of \$10 million, they go to government for consideration and a decision.

Senator BUSHBY—When you are looking at the financial circumstances of applicants, which I presume you do as part of that, to what extent are their broader financial circumstances taken into account?

Mr Sexton—The applications are judged against a series of merit criteria. They go to: the extent of the reduction in the passenger motor vehicle fuel consumption on greenhouse gas emissions that are going to be the outcomes of the particular project; the technical merit and the extent and calibre of the innovation that is to be generated; the capacity and capability of the applicant to undertake the project, including their management capability; the commercialisation potential of the outcomes of that particular project; and the contribution that the project would make to the overall sustainability and competitiveness of the Australian industry. They are the merit criteria against which we assess the projects.

Senator BUSHBY—Okay. Minister, you purportedly made a statement about the government investment in these projects to a journalist, and I want to check it with you to make sure it is an accurate statement.

Senator Carr—When did I do this?

Senator BUSHBY—I have a copy of the article here somewhere, so I will hunt it out. I will give you the quote and then you can—

Senator Carr—What is the source please?

Senator BUSHBY—I think it is actually a web based report. The quote was in respect of the formula for government investment in these projects. You are quoted as saying,

“It doesn’t have to be three-to-one. We are prepared to come lower than that ...

“There’s some flexibility on the three-to-one ...

Does that sound like something you said?

Senator Carr—That is right.

Senator BUSHBY—Can you tell us how that would work in practice?

Senator Carr—First of all, all that happens with all of these projects is that there is an assessment made by officers. It is not made at a political level; it is made independently of the government. Each project is assessed on its merits and they are in two streams. The first is applications seeking \$5 million or more, the ratio of greater than three to one, and the recommendation comes to me from the innovation board. That is an independent assessment process, so officers look at it, a recommendation is made by the innovation board as to whether or not the project should be supported and then that comes to me. The recommendations that involve spending more than \$10 million are considered by cabinet.

Senator BUSHBY—In relation to the three-to-one formula though, a fact sheet about the Green Car Innovation Fund on the AusIndustry website still quotes the three-to-one formula. If you are saying that there is a flexibility—

Senator Carr—There is some flexibility around that issue.

Senator BUSHBY—How do you actually introduce that flexibility, given that there is a requirement?

Senator Carr—I will get one of the officers to deal with the specifics of the guidelines.

Ms Kennedy—The flexibility around the one to three resides with me as the program delegate. An applicant can seek funding greater than the one-to-three ratio. To do that, they have to meet all of the five merit criteria to a very high level and put forward a business case identifying exceptional circumstances that would warrant that.

Senator BUSHBY—So is that apparent to a potential applicant who might be looking through the website seeking information?

Ms Kennedy—There is information in relation to that in the customer information guide.

Senator BUSHBY—The customer information guide explains that you can get more than three to one on those circumstances.

Ms Kennedy—That is correct, yes.

Senator BUSHBY—Thank you. How was the \$63 million figure calculated for the recently announced grant to Toyota for its Altona plant? Is that based on the old guidelines of three-to-one funding or some other calculations?

Mr Sexton—It is based on the three to one.

Senator BUSHBY—On what date was management at Toyota advised that its Altona application was successful?

Mr Sexton—We will have to take that on notice.

Mr Paterson—It was announced on 10 September.

Senator BUSHBY—I understand you will take on notice the date Toyota was advised. What date was the agreement with Toyota signed?

Mr Sexton—In relation to that particular project?

Senator BUSHBY—In relation to the Altona application.

Mr Sexton—The agreement has not been executed at this stage.

Senator BUSHBY—Minister, there are press reports that you and the Prime Minister personally met with Toyota management in the days before the announcement; is that correct?

Senator Carr—I do not think it was the day before the announcement.

Senator BUSHBY—‘In the days before’ I said.

Senator Carr—Yes, that is correct.

Senator BUSHBY—Can you tell me the date of that meeting?

Senator Carr—I would have to take that on notice, but it was some days before. If you can bear with us, we will check that.

Senator BUSHBY—Certainly.

Senator Carr—The meeting occurred on the ninth. That was the day on which we advised Toyota. The announcement was made on the 10th.

Senator BUSHBY—When was in-principle agreement reached with Toyota to provide the funding? That would have been on the ninth as well?

Senator Carr—Yes.

Senator BUSHBY—Is it true that you were first approached by Toyota to consider the Altona grant in the first half of 2010?

Senator Carr—It may well have been earlier than that. It was in 2009.

Senator BUSHBY—So early 2009 or late 2009?

Senator Carr—The gestation of this project was over two years.

Senator BUSHBY—I was going to ask about that. What was involved?

Senator Carr—The economic crisis was a major setback. Then there were other issues with regard to Toyota's global position. Senator, I am sure you would be aware that there are not too many of these plants that have been announced by companies anywhere in the world since the onset of the economic crisis. I think there might be one in India. There have been some refurbished plants in some parts. This is a very highly contested and highly competitive business. It was very fortunate that we were able to secure this program. We stuck at it for two years to secure it.

Senator BUSHBY—So you are saying that part of the time line was to actually get Toyota across the line?

Senator Carr—This is a project involving very large sums of money in a period when there is intense competition for capital investment and during a period when Toyota itself is under considerable strain. My recollection is that it was the first time on record that it actually lost money internationally. There were massive questions about the future direction of the company. There were some pretty serious issues that we had to deal with with the company. The Australian management of the company was very keen to pursue this project, but it is up against 30-odd other branches. I do not know precisely how many branches there are in Toyota, but there was considerable competition for this plant. My recollection is that there are only five places in the world that make this vehicle. This is the next generation.

Senator BUSHBY—When you say that five places make this vehicle, are you talking about the hybrid Camry?

Senator Carr—Five Camry engine plants.

Senator BUSHBY—For any Camry?

Senator Carr—Ones that will make this particular series of engines. There are a number of variations of the engine. This is a highly competitive business. It puts Australia at the leading edge of the deployment of a technology which will be a critical part of the next two models of Camry. It has huge implications in terms of future export arrangements for Toyota and as a consequence it is a major achievement of the Green Car Innovation Fund to secure this investment at this particular time in particular.

Senator BUSHBY—Thank you for explaining all of that, but I was particularly interested in the context of the time that it took from when you were first approached. I understand from your answer where you were coming from with that. Is \$63 million categorically the full

amount that the government will be providing to this project? Can you confirm that no extra money has been set aside for it, or promised to Toyota for it, or in the pipeline?

Senator Carr—No, there is no other.

Mr Sexton—The \$63 million will be the value of the deed contract we enter into.

Senator BUSHBY—Okay. Thank you.

Senator Carr—We put all the grants upfront on the public record on the website. It is a requirement of the act.

Senator BUSHBY—I also did say ‘in the pipeline’. I mean, there are some in the pipeline.

Senator Carr—Can I just give you the process that we have adopted here, which is different from some other governments’? We have no trouble with that. We argue the case out on the merits of the project and all of that is publicly declared.

Senator BUSHBY—How much is the Victorian government contributing to the Altona engine plant?

Senator Carr—That is a matter for them to determine. That is a matter for their declaration.

Senator BUSHBY—Is it part of the agreement that you have with Toyota? Is it dependent on Victoria putting in that amount of money?

Mr Sexton—No, the agreement that we will have with Toyota when it is executed will simply focus on the \$63 million that we are providing.

Senator BUSHBY—So there are no terms in there that reflect and make anything conditional in that agreement on the Victorian money?

Mr Paterson—No doubt Toyota has an agreement of that nature, Senator.

Senator BUSHBY—I beg your pardon?

Mr Paterson—I said no doubt Toyota—

Senator BUSHBY—I am sure they are pretty keen on tying them down. That is right.

Senator Carr—I might just make clear, from the terms of the correspondence on this issue, that we do require coinvestment but the extent of the coinvestment is a confidential matter. Contracts that we enter into—

Senator BUSHBY—When you say ‘coinvestment’, coinvestment by Toyota?

Senator Carr—Of course by Toyota but also by the Victorian government in this case. We have a series of these types of arrangements with state governments, because we are trying to encourage a higher level of leverage in terms of the investment and also, though, there is the point the officers have made, that the contracts go to the Commonwealth expenditure, which is the nature of those contracts. But in terms of our negotiations with Toyota, we did make it a condition that they were able to attract money from other sources.

Senator BUSHBY—So there is a condition.

Senator Carr—On the offer.

Senator BUSHBY—On the offer.

Senator Carr—But that is a different question from the deed that the officers are speaking of.

Senator BUSHBY—But it will be read into that contract if there was ever a dispute from the Commonwealth's perspective to say that Victoria did not put money in.

Senator Carr—The relationship that Toyota—that TMC—has with the Victorian government—

Senator BUSHBY—I am sure the outcome is very unlikely.

Senator Carr—No, but it was conditional on—

Senator BUSHBY—You mentioned that you were trying to tie other state governments in.

Senator Carr—The same principles.

Senator BUSHBY—Are state governments contributing to any of the other programs?

Senator Carr—Yes.

Senator BUSHBY—Which projects?

Senator Carr—Holden—General Motors-Holden's, for instance.

Senator BUSHBY—I am happy if you take that on notice, if you like.

Senator Carr—I can just say to you that there has been a series of them. As I say, as a general principle I try to encourage partnerships across the industry and across government. That is the policy intent and my recollection is that most of the major projects do involve coinvestments from state governments.

Senator BUSHBY—Okay. Do any not?

Senator Carr—I cannot recall any of the major ones. We just have to check, but there were others.

Mr Paterson—We will respond in writing, Senator—

Senator BUSHBY—Thank you.

Mr Paterson—on which do and which do not, but I think from a layman's point of view, if we use the Toyota hybrid engine plant as an example, we have an agreement with Toyota. Toyota has an agreement with the Victorians. Toyota is obligated to meet its milestones of investment and the like with us to get access to the Commonwealth resources.

For some reason, were the unlikely event—in your words—to occur and were the Victorians not to put their money in, that is a matter for Toyota and the Victorians because that is a separate agreement to this one. For the Commonwealth to make the offer in the first instance it needed to be satisfied that there was co-investment, but the deed only applies in relation to the Commonwealth resources and is a deed between the Commonwealth and Toyota.

Senator BUSHBY—Just to get that straight, if the deed between Toyota and Victoria fell over for any reason, that initial offer requiring co-investment has been superseded by this agreement?

Mr Paterson—No. That would then be a separate legal matter that Toyota would need to deal with because no doubt it will have a deed with the Victorian government about them providing money to Toyota on certain conditions. So there will be two separate legal instruments—that is, the Victorian and the Commonwealth. We are not a party to theirs; they are not a party to ours.

Senator BUSHBY—I understand they are separate legal agreements, but the initial offer forms an agreement as well.

Mr Paterson—But before the offers have been made in the first instance the government required co-investment, and no doubt that was the position taken by the Victorian government.

Senator BUSHBY—I could go into that a little bit more, but I am conscious of the time and other things that need to be asked about. So I am going to move on to ‘cash for clunkers’.

Mr Paterson—We have no such program.

Senator BUSHBY—I know, but I am going to ask some questions at least of the minister and the department about where you may be in assessing the election promise in that regard. First of all, is it correct that the department provided the minister with a brief on the idea of implementing a ‘cash for clunkers’-type scheme in Australia during his first term?

Senator Carr—No, not on the implementation of such a scheme.

Senator BUSHBY—The idea of developing such a scheme?

Senator Carr—No. I am going on memory now, but I receive from time to time advice on international developments in the automotive industry.

Senator BUSHBY—Obviously there were similar schemes internationally but in terms of—

Mr Paterson—Can I answer that. I think the question is: did the department provide advice to the minister for consideration on the implementation of a ‘cash for clunkers’, in your words, program in Australia? The answer to that question is no.

Senator BUSHBY—Okay.

Mr Paterson—Have we advised the minister in relation to programs of that nature that operate in other places? Yes.

Senator BUSHBY—But not with a view to the feasibility of doing something like that in Australia?

Mr Paterson—We have not put forward a proposition for the adoption of a scheme of that nature.

Senator BUSHBY—You have not put a proposition forward. Have you responded to a request from the minister?

Senator Carr—No.

Mr Paterson—For a scheme of that nature?

Senator BUSHBY—To examine the feasibility of such a scheme in Australia?

Mr Paterson—No, we have not.

Senator Carr—No.

Senator BUSHBY—Since the election, have you undertaken any briefing work on the feasibility of such a scheme in Australia?

Mr Paterson—Since the election? The government during the election campaign made an election commitment to introduce a clean car rebate scheme and we have been given the responsibility for the administration of that scheme. So have we provided advice on the potential implementation of that announced scheme?

Senator BUSHBY—Yes.

Mr Paterson—The answer to that question is yes.

Senator BUSHBY—When was that brief provided to the minister?

Mr Paterson—On 18 October.

Senator BUSHBY—Presumably that brief would have had advice in it about the total cost to government of developing and running such a scheme?

Mr Paterson—I think there was an earlier brief on 8 October as well. So we have done at least two briefs—one on 8 October and one on 18 October. These are briefs associated with the announced design of the scheme and the issues that we need to consider in terms of how the scheme might be implemented.

Senator BUSHBY—Okay. So those two briefs were the first time you provided advice to the minister about a scheme of this type?

Senator Carr—Was that 8 October?

Senator BUSHBY—It is 8 October and 18 October?

Senator Carr—I have not seen 18 October.

Senator BUSHBY—It is 8.

Senator Carr—I do not think I have read 18 October yet.

Mr Paterson—That was, in fairness, two days ago.

Senator Carr—Yes. I have been at estimates for the last two days, so there is a good chance I would not have read that particular—

CHAIR—You should be doing your work back in your office.

Senator BUSHBY—What are you doing between 11 o'clock and six o'clock in the morning?

Senator Carr—But there is a document from 8 October.

Senator BUSHBY—Okay. That is right.

Senator Carr—I am not at liberty to discuss that with you yet, Senator.

Senator BUSHBY—I am going to quote your favourite source of information for the Liberal Party and that is the media.

Senator Carr—Which paper is this?

Senator BUSHBY—This is actually a website news report, goauto.com.au, of 25 March 2009. It has a nice picture of you.

Senator Carr—Yes.

Senator BUSHBY—It states:

Industry minister says tax break will work better than expensive scrappage scheme.

Senator Carr—Yes.

Senator BUSHBY—If you read through that, it actually talks about how your department has estimated the cost of the scrappage scheme at about \$1 million, depending on the age cut-off and the amount offered, which suggests that some advice has been given to you about a pilot scheme.

Senator Carr—There would have been discussions about the equivalent types. It was based on international experience, if I remember that quote. What I was doing there was contrasting the proposition that was being put to me, if my memory serves me correctly, by some motoring organisation that wanted to follow a similar course. I think that was the context. We said that the investment allowances that we had introduced at the time—and I think that was the context of those remarks—were more effective.

Senator BUSHBY—Yes. ‘Industry minister says tax break will work better than expensive scrappage scheme’ is the headline. It states further:

“The difficulty is that it’s extremely expensive and there are finite resources for the government,” Mr Carr told GoAuto this week.

Senator Carr—What? Do you think that is wrong?

Senator BUSHBY—It states further:

It provides a benefit for a tradesman.

No, what I am saying is that you rejected outright a scheme which, basically, has the government—

Senator Carr—No, what I said was that, in the context of the investment allowances, it was a more effective way to pursue at that time.

Senator BUSHBY—So what has changed since then? Nothing?

Senator Carr—It is an entirely different matter now. There are differences between—

Senator BUSHBY—Between what? You mentioned an organisation—I think it was the Motor Traders’ Association of New South Wales. You are saying that there are differences between what the motor traders were calling for.

Senator Carr—There are different circumstances.

Senator BUSHBY—Different circumstances—or you did not consider or your department did not consider at that time a program that has characteristics of the one that you are looking at developing now?

Senator Carr—I do not think there is more that I can add that is not already on the public record.

Senator BUSHBY—The public record suggests that at that time you rejected the concept of a government paying for, basically, the scrapping of cars in order to promote a desirable outcome.

Senator Carr—In the context of whether it was better to invest through the investment allowance—

Senator BUSHBY—I do not think that the motor traders association was saying when they called for it, ‘Scrap the investment allowance and give us this.’ They were just saying, ‘Give us this.’

Senator Carr—No, I think they made the call before the investment allowance. That is what I was saying—that the investment allowance was more effective at the time.

Senator BUSHBY—And does that investment allowance still continue?

Senator Carr—No.

Mr Paterson—No, it was a time limited one. It was not within our portfolio, as I recall.

Senator Carr—I think it ended on 30 June—

Mr Paterson—This year.

Senator Carr—This year or last year? 2009? I think it was 30 June 2009. I will stand corrected on that; it was not a program administered by this portfolio, but it was an announcement of the government at the time to support the industry by providing a tax break at the time to encourage the purchase of vehicles.

Senator BUSHBY—Given the similarity between the Cleaner Car Rebate program, as announced during the election campaign, and calls for similar types of programs that had occurred earlier, which the minister had made comments about that were not that endearing, were you consulted about the announcement?

Senator Carr—I am sorry; I cannot go into the processes of election commitments, preparations or announcements.

Senator BUSHBY—So you are not prepared to say whether you were—

Senator Carr—No, I am afraid that is not a proper matter for the estimates committee as to what the Labor Party did during the election campaign in regard to its election announcements.

Senator BUSHBY—The reports suggest that you were absolutely livid when you found out that the Prime Minister was going to announce it.

Senator Carr—Lots of reports in lots of newspapers that we have discussed on many occasions. Senator, I would be surprised if you suddenly become a convert to the view that because it is in a newspaper it is right.

Senator BUSHBY—No, but they often indicate and point you in very interesting directions. So were you happy with the announcement when it was made?

Senator Carr—I do not think there is anything further to be added to this line of inquiry.

Senator BUSHBY—For Labor to introduce this kind of program after it was what I would term comprehensively rejected by the minister responsible only last year—

Senator Carr—Well, no, I was not responsible. At the time the commitments were made it was a matter for the department of the environment—or is it Climate Change?

Senator BUSHBY—When the Motor Trades Association was calling for it, I would have thought it was thinking more about it from an industry support level.

Senator Carr—The undertakings were made as part of the climate change program.

Senator BUSHBY—In the election campaign?

Senator Carr—Yes.

Senator BUSHBY—So why are we talking about it here today?

Senator Carr—Well, you are the one who raised it.

Senator BUSHBY—But isn't it going to be run through your department?

Mr Paterson—Can I help on this? We clearly were not involved in any of the issues associated with the announcements during the election campaign. At the time the announcement was made, this was a program where the policy responsibility was to be with the department of climate change, and AusIndustry was going to deliver the program.

Senator BUSHBY—Right.

Mr Paterson—Since that time the policy responsibility for this program has come to us, so we will have policy responsibility for it as well as the administration of the program.

Senator BUSHBY—Is that something that you sought, Minister? You wanted the policy responsibility to go with the administration for neatness reasons or other reasons?

Mr Paterson—I know that was a question to the minister but—

Senator BUSHBY—No, it was for the minister. I was wondering whether he asked for it all to be brought to him.

Senator Carr—I do not recall an invitation being sought on this matter.

Mr Paterson—To clarify a point you made earlier, Senator, you drew similarities between this program and programs that had been discussed at earlier times—

Senator BUSHBY—Yes.

Mr Paterson—that you described with a different label to the program that we have responsibility for administering. But there are differences between those programs. The program announced was essentially directed towards the cleaner and safer outcomes associated with these. This program has a defined green star rating for eligibility. We still haven't worked through all the operational details of the program, but it is clearly focused not as an industry measure but as a measure associated with trying to change the construction of the fleet, if I can call it that.

Senator BUSHBY—And yet it is being run now through AusIndustry.

Mr Paterson—We run a variety of programs both for our own department and for other departments. You cannot draw things from the fact that AusIndustry is delivering the program. It is a delivery capacity that is available to the government and we deliver programs for other departments. That was the original intention. It is just that with the machinery-of-government activities that have taken place since the outcome of the election, we now have responsibility for it. But it is not an industry program or to be described in that way. It is about changing the nature of the car fleet.

Senator WILLIAMS—Just on this cash for clunkers, how much is the budget for this program to proceed?

Mr Paterson—I am happy to respond to your question, Senator, but—

Senator WILLIAMS—You are not too sure as yet?

Mr Paterson—No, we know what the budget profile is for the program, but I made the point with Senator Bushby earlier that we do not run a cash-for-clunkers program. What we do run is a Cleaner Car Rebate program. If the question is associated with the Cleaner Car Rebate program—

Senator BUSHBY—Mr Paterson, you have got to keep up.

Mr Paterson—No, I am not being obtuse, but they are different programs and a lot of things are attributed to this program by association with a program that was adopted in the United States, and they are different.

Senator WILLIAMS—Mr Paterson, I was just thinking the other night about what part of a motor vehicle is made from renewable resources. I thought if the carpet were made out of wool that would be renewable. If the seats were made out of leather with the constant slaughter of cattle et cetera that is renewable. But I could not think of anything else in a motor vehicle made from—

Mr Paterson—By way of example, an Australian company has developed technology which uses former PET bottles to make carpet which goes into motor vehicles—

Senator WILLIAMS—What sorts of bottles?

Mr Paterson—PET—these sorts of bottles. They are recycled into fibres which are then made into automotive carpets.

Senator WILLIAMS—Do those bottles come from a finite resource?

Mr Paterson—The fact that they are a renewable—

Senator WILLIAMS—You are turning over another resource, but it still comes from a finite resource.

Mr Paterson—If you adopt that definition, then everything is a finite resource, even renewable resources. Trees are a finite resource.

Senator WILLIAMS—I disagree with you totally there. We have renewable resources and we have resources that can turn over all the time. Growing food, growing vegetables, livestock et cetera—they are not finite resources. If something is dug out of the ground or pumped out of the ground, such as minerals or rock or whatever, they are finite resources.

They will run out in time. The point I make is this: this policy is about getting vehicles off the road and wrecking them and using up more finite resources. I know that Lotus has made a car out of Indian hemp. It does not smoke. But hemp is a very good product as far as renewable resources is concerned. You can use it for building products and everything. We are doing some work in the Ashford community at the moment. They were growing hemp last year and it has been very successful. When you look at a car, except for the woollen carpet or the leather seats, I cannot think of anything else that comes from a continuing resource; the rest of the vehicle comes from a finite resource. The more you crush up and throw in the bin, the more you are using up finite resources that will one day run out. You cannot keep digging the hole in the ground and expect it to go on forever.

Mr Paterson—Some of the issues that we are dealing with in the design of the program go to the nature of the recycling activity that is undertaken in relation to the vehicles that are scrapped and how you can develop a program that makes sure that when the vehicle is taken off the road there is a recycling plan available and where those recycling facilities might be available. So we have to work through that operational detail.

Senator WILLIAMS—No doubt this policy will put a floor on the value of a second-hand car, will it not?

Mr Paterson—There is no doubt that any intervention in the marketplace can have an impact on relative prices.

Senator WILLIAMS—So school leavers heading off to university, particularly those from regional areas, who perhaps have to have a motor vehicle may well pay more for their motor vehicles as a result of this.

Mr Paterson—Not really. There will be some impact on relative prices. But, depending on how the scheme finally operates, this does not have to become just a trade-in value. There will be an opportunity to identify the scrappage of a vehicle for a price with an appropriate recycling facility and then get the government rebate off the purchase price of a vehicle. So those transactions can take place separately in the marketplace.

Senator WILLIAMS—I will watch this one with interest, Mr Paterson. I think this might even overrun the ceiling batts program.

Mr Paterson—I can assure you that, if we have responsibility for running this program, you will not need to hold that fear.

Senator WILLIAMS—Time will tell.

Mr Paterson—Time will.

Senator PRATT—The Supplier Access to Major Projects program is delivered through the Industry Capability Network. I understand that there has been a funding boost to that program. I am particularly interested to know about how that program is intended to assist Australian companies find opportunities within liquefied natural gas projects in Western Australia.

Mr Lawson—The Industry Capability Network is a network run by each of the states, with Commonwealth support to provide the national framework, national board and the IT system. There has been a SAMP program for some time, a competitive grants program that the ICNs

have applied to for assistance. The Western Australian ICN has been supported in getting money for working on the LNG, oil and gas projects.

More recently, there was, as you say, the increase in resourcing for the SAMP program provided for the state based ICNs to employ sector managers in various sectors. One of those sector managers is in the oil and gas sector and is appointed in Western Australia. Part of the exercise is that they should operate nationally, and in this area collaborate with Queensland and New South Wales in particular. So a specialist has been appointed with Commonwealth funding to the state based ICNs to focus on this area to ensure that the activities of the ICNs around the states work collaboratively to do that.

The sort of activity that they do is collect information on Australian industry capabilities. That is put up on a website so it is available to all of the experts around the country. They engage with the major project proponents to find out about their needs, and they also explain to the major project proponents issues about the structure of Australian industry so that their tender packages can be structured in a way so that Australian industry can compete effectively for those tender packages. If they structure them too big or too small, so they do not suit the capabilities in Australia, it can mean that people who should have opportunities do not have opportunities.

Senator PRATT—Can you give some examples of what kind of work companies might be bidding for as part of the liquefied natural gas projects in Western Australia? I can certainly think of examples myself, but I am interested in some of what has taken place. A large amount of what the Australian companies are doing is stuff that can only be done in Australia because of the logistics, and then there is a cohort of work that is being competed for internationally. It seems to me that it has been quite difficult for Australian companies to compete effectively for that work, so I am interested in what framework will actually assist Australian companies to enhance their competitiveness for that kind of work.

Mr Lawson—The focus has been on trying to target that contestable work because, as you say, there will be some material that of its nature will happen in Australia and there will be some that probably through intellectual property ownership is only going to happen offshore. There are always aspects where there is contestable work. Sometimes they are the subsets of broader functional units. Often the home team has an advantage in the whole-of-life maintenance of projects in getting them partnered with original equipment suppliers from offshore, so they get involved increasingly in that sort of work.

The ICN activity is about trying to match the opportunity and capability. It works in collaboration with Enterprise Connect, which is the program that assists Australian industry to boost their capabilities. That provides a series of business reviews and ongoing support for companies to improve their competitiveness and their capabilities.

Senator PRATT—What are the major challenges for companies who are seeking to bid competitively for work in this industry?

Mr Lawson—Some of them need to innovate more. There are some sectors that need to increase their capabilities. A number of them in the metal fabrication area have quite a bit of work to do on lean manufacturing.

Senator PRATT—On what?

Mr Lawson—Lean manufacturing—that is, being really efficient in their manufacturing processes so they can achieve the price points that are necessary.

Senator PRATT—So what kind of strategy needs to be put into place to help such companies that are bidding for specifically that kind of work to reach those benchmarks?

Mr Lawson—That is where the Enterprise Connect link provides that capability. We have the supplier advocates visiting companies and indicating to them as a business leader—you really need to lift your game—

Senator PRATT—So Enterprise Connect will work through with those companies exactly what they are going to need to do to look as competitive as the kinds of company they are likely to be competing against?

Mr Lawson—Precisely. I am not the Enterprise Connect person—and I will get in trouble—but we work with them. These various aspects need to be interlinked so that you get a whole-of-government response to the needs of the companies. A review is done by a business adviser on the issue that company is facing. It identifies the particular issues of that particular company. On some occasions they also do some international benchmarking on how they compete within their sector.

Senator PRATT—How does the international benchmarking process work? I have certainly seen that as an issue in the past.

Ms Zielke—The work that Enterprise Connect does with individual businesses is actually to go into the business, work with them over a period of time to identify what their strengths and weaknesses are and actually come up with a plan on how to improve their capabilities. Largely there is a focus on their management capability but, as my colleague said, also a focus on things such as lean manufacturing. It might be how they are managing their cash flow. Do they have an understanding of what their market opportunities et cetera are in that regard?

In relation to market opportunities, the program does assist in providing some advice, possibly from Austrade, for example, in relation to what opportunities there might be overseas, or by using ICN in relation to what their opportunities are here in Australia that then lead to overseas opportunities as well. Of course, the program is targeted at increasing their competitiveness generally across the firm.

Senator PRATT—How competitive is Australian industry in bidding for these projects currently?

Mr Lawson—It is highly variable. I think companies exist rather than industries. Some of them are very competitive and some are very uncompetitive. That is reflected in their success and otherwise in those exercises. That is a thing about companies.

Senator PRATT—I know that my next question is a little bit outside this portfolio, but it is certainly linked. One of the issues we consistently come across in Western Australia is skills shortages. Indeed, the large natural gas projects poach skills out of other parts of industry. It could be pipeline industries or any number of different trades. In part some of that is being perpetuated by the failure of Western Australian companies, for example, to successfully bid

for this work so there are more people getting trade skills and apprenticeships going through the system.

Ms Zielke—Another facet of what Enterprise Connect does is also encourage collaboration between firms, hence our connection with ICN as well in that regard. An example I can give you is a group of Tasmanian engineering firms. They have been involved in producing underground mining equipment—trucks—for various players. There have been some changes in the market in that area and as a result we are now working with those firms to look at what they can do in the defence industry and actually get them working with companies from the defence sector to understand what their capability requirements are and to see what new opportunities there are in that regard.

We are doing the same with some companies in the mining sector going into defence and vice versa as well. What we are trying to do is look at where capabilities and skill sets are similar across sectors and get companies to work as networks in relation to improving their capability. We are finding that that is opening up new opportunities for them as well.

Senator PRATT—Just one last question. Have you been doing similar work to that at the Australian Marine Complex in Western Australia? I am happy for you to take that on notice, but what can you tell me about whether there is any support through Enterprise Connect or SAMP for projects that might come forward through AMC?

Mr Lawson—I think we will have to take it on notice. I am pretty sure somebody at least has visited them a couple of times, including myself in the past. But what we have been doing recently I need to take on notice.

Senator BUSHBY—I had not finished questions about the cash for clunkers. I just have a couple of questions more.

Senator PRATT—I did not mean to delve into Enterprise Connect specifically.

Senator BUSHBY—No, that is all right. I mention the Clean Car Rebate scheme. Earlier you were talking about the environmental benefits of the scheme, and that is how it was originally set up. Given that the price of carbon abatement under the Rudd government's shelved ETS was less than \$30 per tonne, I would like to do a comparison of how cost effective this scheme would be environmentally. Can you tell me what the price per tonne would be under the clean car initiative?

Mr Paterson—I think the final design of the scheme will influence that. We have not settled the final design of the scheme with government at this stage, Senator.

Senator BUSHBY—Are you aware of any publicly released assessments of what the cost might be per tonne?

Mr Paterson—I think there has been some public commentary in relation to it. I do not believe there have been any publicly released assessments.

Senator BUSHBY—In terms of that public commentary, have you had a look at any of the analyses that have been included in that?

Mr Paterson—I am conscious that there has been some work done in this area. There was a question raised in the climate change estimates in relation to modelling on this issue which I

am aware is a question that was taken on notice in those estimates. To the extent that there has been modelling undertaken on the cost per tonne of emissions that might be abated in that context, I think it would be appropriate for us to wait for that response to the question on notice.

Senator BUSHBY—Obviously some of the public comment and analysis that has been conducted by other than you, or probably from the climate change department, suggests it is somewhere around the \$400 per tonne mark.

Mr Paterson—I am aware of commentary that has asserted that.

Senator BUSHBY—Do you think, from what you understand and what you have done and the program that you are putting together, that is a likely outcome or a possible outcome?

Mr Paterson—It does depend very much on the end design of the program.

Senator BUSHBY—That is right. So how far down the path are you in terms of designing it?

Mr Paterson—We are raising a number of questions about the design and implementation. I do not want to go into the detail of those because they are matters in relation to which the minister has not yet, by his own evidence today, even read the most recent brief. He has not yet seen it. So there are matters of design that we are seeking guidance on, and until those design issues are finally settled it would be difficult for us to predict what the abatement costs might be. But there were a number of objectives identified at the announcement of the program. Emissions reduction, by its very name—the Cleaner Car Rebate—is a key objective in relation to the program but not the only one.

Senator BUSHBY—Absolutely, and the minister made that point earlier—that the main objective was environmental rather than industry support. We will look forward to the modelling coming back within the time lines from the climate change department. I have a final question on this. A number of observers have pointed out that there is very limited incentive for potential sellers to simply get \$2,000 for their car to make a deal viable. This is particularly the case given that used cars in Australia tend to have a much higher value for a similar car of similar year than they do in a lot of other Western nations particularly. That is a bit of a bee in my bonnet, but it has to do with some of our car import rules and a number of other matters. But, given that cars do hold their value better—it sort of touches on what Senator Williams asked earlier—will \$2,000 actually provide sufficient incentive for people to go and trade in their car when most older cars in reasonable condition are probably worth that in a trade-in anyway?

Mr Paterson—As I said in response to Senator Williams's observations earlier, it does not automatically align the scrappage from the transaction with the purchase of the new car. So depending on the design of the scheme you can have a scrappage arrangement for which the vendor gets the payment from the scrapper and then pursues a transaction with the new vehicle, and as long as they meet the requirements of the scheme then the incentive can be there. It will be a matter for individuals to make a judgment as to whether the vehicle that they have—

Senator BUSHBY—It will be, but people have to make a commercial judgment and you need to provide them with an incentive to actually make that decision.

Mr Paterson—All elements of that chain will make a commercial judgment. If a 15-year-old vehicle is worth more than \$2,000 and it is not worth their while in relation to scrappage, then this program will not be for them. But I am sure there is a suite of vehicles out there that are worth less than \$2,000.

Senator BUSHBY—In other countries obviously with different schemes the administrators of those schemes found that they had to increase the amount payable to actually make it worthwhile, and in those countries the second-hand price of cars is probably not as robust as it is here.

Mr Paterson—They had different objectives in relation to their schemes. If you reflect on the scheme that you have often referred to as cash for clunkers, that was a scheme brought on in the United States in the middle of the global financial crisis when there was a collapse in sales of motor vehicles in the United States and it was about encouraging the purchase of motor vehicles and it was not a capped scheme. The scheme that we are being asked to examine is a capped scheme. So there has been a lot of speculation about the capacity for the scheme to blow out. The scheme cannot blow out because there is a capped number of grants that could be given under the scheme and a defined amount of money that has been provided for in relation to this.

Senator BUSHBY—I would like to ask questions about how you are actually going to administer that, but I will not now because I only have about another 10 minutes before we have to move into the small business side of this session. I will quickly ask some questions about Building the Education Revolution. Did the department have any direct involvement with the development of the guidelines for that program?

Mr Paterson—Building the Education Revolution is a responsibility of the Department of Education, Employment and Workplace Relations.

Senator BUSHBY—I understand it is its responsibility, but did you have any involvement with the development of the guidelines?

Mr Paterson—For which element of BER? BER is a complex series of arrangements. If you are talking about the expenditure in relation to school buildings and the like, the answer is no.

Senator BUSHBY—Okay; thank you. Were you at any stage consulted or asked for input at all into the program or into that aspect of the program?

Mr Paterson—No.

Senator BUSHBY—So neither the department nor the minister or his office had any involvement in drawing up things like the procurement guides or the lists of recommended suppliers or sourcing where they might have been made for the participating schools?

Mr Paterson—Not that I am aware of.

Senator BUSHBY—You had no involvement in deciding which companies were awarded contracts obviously?

Mr Paterson—Correct.

Senator BUSHBY—Some people could interpret that as a bit odd given that the government has claimed over and over again that the Building the Education Revolution was all about protecting and supporting jobs in a range of Australian industries like, say, the building and construction industry, the TCF industry and so on. Against that background, I want to ask you if you are aware of a company in my home state called Tascott Templeton, which is based in north-west Tasmania.

Mr Paterson—Yes, I am aware of the company.

Senator BUSHBY—Are you aware that the company is a unique Australian carpeting business but that it has gone into administration and is expected to close by Christmas?

Mr Paterson—Yes, I am aware of that.

Senator BUSHBY—Are you also aware that it sought to win a range of contracts under the Building the Education Revolution program that might have gone a long way to ensuring its survival? Notwithstanding that there were thousands of schools involved in this program, a large proportion of which would have had carpet as part of what they were purchasing, are you also aware of claims that Tascott was awarded a mere handful of those contracts and that only a fraction of the carpeting contracts under the Building the Education Revolution favoured Australian companies over foreign competition?

Mr Paterson—There are three questions I think in that last bit, Senator. The answer to those three questions is no, no and no.

Senator BUSHBY—So you obviously were not aware, but do you think that involvement by the department may well have helped to achieve some of the stated targets or stated aims of the Building the Education Revolution which were to promote economic activity in Australian businesses?

Mr Paterson—I do not think it is appropriate for officers to comment on the government's Administrative Arrangements Orders. It determines that different departments of state are responsible for different activities. There were other parts of the stimulus program that were administered by other departments—for example, the one that has already been referred to: the Home Insulation Program. That was not administered by us. The BER was administered by the Department of Education, Employment and Workplace Relations and it is appropriate for questions to be put to them.

Senator BUSHBY—Mr Paterson, I am sure you would acknowledge that you have within your department a high degree of expertise in the area of Australian industry and what it can do. Surely it would have made some sense for that expertise to have been tapped into as part of the development of the stimulus package as a whole, but in particular in this case, the Building the Education Revolution.

Mr Paterson—That is an opinion.

Senator BUSHBY—Minister, would you care to comment on that?

Senator Carr—I think it is quite clear that the administrative arrangements for the BER are the responsibility of the department of education. All I can suggest is that if you—

Senator BUSHBY—You like to have lots of nice ivory towers and not talk to each other.

Senator Carr—No.

Senator BUSHBY—Minister, you have expertise at your disposal that could have actually gone a long way, with just a little bit of thought, to actually ensuring that the taxpayers' money you are spending achieved the aims in a far better way.

Senator Carr—I do appreciate the fact that you are now acknowledging the BER was an important part of the economic stimulus. That is a big breakthrough and I look forward to seeing that in the *Canberra Times* tomorrow.

Senator BUSHBY—It is not timely, it is not targeted and it is certainly not temporary. It fails the Treasury's test in all three.

Senator Carr—It would be a delight, wouldn't it? It would be a delight to see a Liberal senator acknowledge that the BER was an important economic stimulus measure.

Senator BUSHBY—Maybe if your department had been involved we might have acknowledged that. We might have got a bit more value for your money.

Senator Carr—If you have any questions about the administration of that program, all I can do is suggest that you go and speak to the department of education.

Senator WILLIAMS—The New South Wales government. Look at the way they handled it.

Senator BUSHBY—In the couple of minutes I have left, I will ask some quick questions about the research and development tax credit.

Senator Carr—I am delighted.

Senator BUSHBY—Do you accept that the closure of the 175 per cent premium concession will save around 30 to 35 per cent of the current cost of the program?

Mr Pettifer—The R&D expenditure by program element proportion under the current R&D tax benefit arrangements has the premium providing—and this is for the year ended 30 June 2010—59 per cent of the benefits. My colleague has just pointed out that that is total expenditure, not the benefit that is actually provided underneath the program. The number of firms that would benefit under the premium is about 19 per cent.

Senator BUSHBY—I am happy for you to look at the question and take it on notice and maybe analyse it a bit and get back to us.

Mr Pettifer—Yes, that would be helpful.

Senator Carr—The fact is that there is not a reduction; there is not a saving—

Senator BUSHBY—I know that it is revenue neutral in terms of the overall.

Senator Carr—In terms of the costings, \$1.6 billion is the figure. There is not a reduction in terms of revenue foregone.

Senator BUSHBY—No, it is a reallocation of how you use it. I understand that and they are some of the questions I would like to ask but time is very short now so I will not get into all of it.

One of the things that has been the government's refrain on this legislation is that it wants to reduce some of the larger claims by some of the larger companies basically because—and I think you might even have used these terms—you want to reduce some of the rorted claims.

Senator Carr—We do not use that term 'rorting'. I am saying that there have been whole of project claims which are inappropriate that are more properly described as business as usual claims. What we want to do is fund genuine R&D.

Senator BUSHBY—What kind of analysis has the department done about whether the introduction of a cap, say, of \$20 million per project or \$100 million per company, might not be a better way to achieve what you are trying to achieve in that sense—that is, reducing the larger claims by larger companies—than the current changes to the legislation?

Mr Pettifer—We have talked about this before. Our view on that is that putting caps or thresholds in is not a good approach to policy because you get all sorts of inequities and inefficiencies created by those circumstances. What we want to do is reward genuine R&D, whatever its level, and reward it in a more attractive way than we do at the moment. We have looked at those sorts of general options and decided that they are not the best policy approach.

Mr Paterson—Beyond that, we have also looked internationally at the experience around the globe of the best approaches in this area. The design of the R&D tax credit reflects that international experience and it reflects the experience and guidance of the OECD. It was a recommendation of the review of the national innovation system that we move away from a tax concession to a tax credit arrangement.

Senator BUSHBY—But I do not think the bulk of the criticism of this bill, which does exist—and it exists from unions and some industry—is related to the fact that you are moving to a tax credit. It is to do with other things, including definitions and the actual way you deal with it at more particular levels.

Mr Paterson—It would be fair to say that the bulk of the criticism that has come in relation to this change is from the beneficiaries of an existing arrangement who do not want to see a change in the definitions impacting on their individual business. But the government's objectives, clearly stated in the bill and in all of the consultations to date, have been to design a scheme that rewards research and development activity.

Senator BUSHBY—The move to the tax credit scheme is basically welcomed by just about everyone. It is the details of how you are doing it and other aspects within the bill that attract criticism. In terms of criticism—and I was involved in the economics committee inquiry into this—we had joint submissions from unions, the Australian Industry Group and academics who were all working together to highlight what they saw as serious flaws with this legislation.

Senator Carr—And we responded to the report.

Senator BUSHBY—In a minor way.

Senator Carr—Not in a minor way; in a very significant way. I do acknowledge that you have a more positive attitude to this than some other members of your party. The fact is that we have responded to the Senate committee report. The bill is in the House at the moment. I

trust it will be supported by the House and we will have an opportunity to discuss it again across the floor in the chamber.

Senator BUSHBY—We may well do.

CHAIR—I notice Senator Sherry is here. I understand there is a going to be a quick changeover of minister and we will go to the small business area. Welcome, Senator Sherry. I think Senator Ryan is starting off the questioning.

Senator RYAN—Welcome, Senator Sherry. I would like to turn to the issue of independent contractors. 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—Wrong.

Senator RYAN—There were no such meetings?

Senator Sherry—No.

Senator RYAN—Were there any meetings with you and a selection of those unions?

Senator Sherry—I meet with a considerable range of business—small, large—union officials et cetera but the import of that report is just wrong. In fact, whoever wrote it, and I cannot recall the journalist, did not even check with me or my office to verify the accuracy. It was wrong.

Senator RYAN—So there have been no meetings with you and a group of unions and other ministers where the tax treatment of independent contractors has been discussed and a potential government crackdown was outlined?

Senator Sherry—No. The report of a potential government crackdown that you refer to is just wrong. It is inaccurate.

Senator RYAN—I am trying to ascertain whether there were meetings that involved you and a number of trade unions under the ambit of whatever group—

Senator Sherry—Who I meet with and what I discuss is a matter for those people that I meet with.

Senator RYAN—I am not asking for it verbatim.

Senator Sherry—I have given you the answer.

Senator RYAN—So you are not going to tell us here today whether you have had meetings with the unions in response to this article that discussed changes to tax treatment—

Senator Sherry—I have already said to you that the details as outlined in that article are wrong—end of story. They are wrong.

Senator RYAN—I am not challenging what you have said there, but, as you know, the article contains a number of allegations. What I am trying to ascertain is whether have you been involved—whether it be under the auspices of the Labor Advisory Council or under the

auspices of informal meetings—with meetings with trade unions or representatives of trade unions to discuss the tax treatment of independent contractors.

Senator Sherry—Who I meet with and what is discussed—and I meet with a vast range of individuals and organisations—is a matter for those organisations and me—that’s it.

Senator RYAN—I would have thought it was a matter for—

CHAIR—Senator Ryan.

Senator Sherry—You will not find any minister who is going to give you a report on meetings between individuals and organisations unless they issue some sort of public pronouncement by agreement with the parties that you meet with.

Senator RYAN—I have not asked for a report; I have asked whether a meeting took place and whether this issue has been discussed.

Senator Sherry—I have answered your questions.

Senator RYAN—I will take that as a refusal to answer my question on whether or not a meeting took place.

Senator Sherry—You can take it any way you like.

CHAIR—Senator Ryan, you are just going to invite responses if you make that kind of comment. We will get further delayed.

Senator RYAN—I think Senator Sherry is trying to characterise my question in a way that is not accurate. I am not asking for details of everything that happened at all of the meetings. I am asking whether he has had discussions with trade unions about the tax treatment of independent contractors, because there has been a significant amount of media commentary about this.

CHAIR—The minister has answered.

Senator Sherry—As I have indicated to you, that report is highly inaccurate, as indeed have been a number of other reports by media commentators about this issue—and I might say that not one of them had the journalistic ethics to contact me and ask me to verify the accuracy of what they were reporting. In fact, I would put it in the category of ‘inventive journalism’.

Senator RYAN—I think you would be familiar with this article where there are significant quotes from a representative of a trade union that says they were involved in such discussions.

Senator Sherry—I have answered your question.

Senator RYAN—You have previously stated—sorry, the government has previously stated—that the existing personal services income tax laws are a threat to the integrity of the taxation system and to the working conditions of employees. Did you make that statement?

Senator Sherry—Sorry, are you referring to a statement I made or one the government made? Could you reference the date?

Senator RYAN—I just realised I do not have the reference handy.

Senator Sherry—That would be useful.

Senator RYAN—I am sure it would be.

Senator Sherry—I do recall issuing a press release, which I do not have with me because it was not issued as Minister for Small Business; it was issued as Assistant Treasurer. I do recall issuing a press release—which, as I say, I do not have here—which was issued when I released a report by the Board of Taxation into these issues.

Senator RYAN—That press release, as I understand it, was a press release made upon receiving the Board of Taxation report.

Senator Sherry—Correct—and releasing it publicly for comment.

Senator RYAN—Do you stand by that statement? Do you believe that the existing personal services income tax laws are a threat to the integrity of the taxation system?

Senator Sherry—Let me firstly make this point: this policy area falls within the Assistant Treasurer's portfolio. I am respectfully not going to respond to those issues here today because they are not my ministerial responsibility. They fall within the Assistant Treasurer's portfolio. If you want to go to these issues, the appropriate place to raise them is in another section of the economics committee. It is not in the area of small business.

Senator RYAN—They will be asked in another section of the economics committee estimates, but the small business portfolio ranges across a number of areas of government and, I would expect, your constituent groups.

Senator Sherry—However, I make the point that the issues to which you are referring—the Board of Taxation does not fall within my current ministerial responsibilities; it is AT.

Senator RYAN—Since you have taken on this new role, have you made any representations to the Assistant Treasurer or to others within government regarding the tax treatment of personal—

Senator Sherry—You well know that discussions about any matter of policy between ministers and, for that matter, I referred earlier to individuals and other organisations—I am not going to go there.

Senator RYAN—It is a choice; it is not a rule.

Senator Sherry—I am not going to go there. I have already given you a response.

Senator RYAN—So you are not willing to outline whether you have made representations on the issue as the Minister for Small Business?

Senator Sherry—What I can say is that, beyond the press release publicly releasing the Board of Taxation's examination of this issue, I have taken no further action.

Senator RYAN—That partly answers the question. Thank you very much. In the interests of time, I would now like to move to the issue of paid parental leave. You may have some similar answers. This question I will be asking to an agency at another committee, but I was interested in your particular views, given the impact upon small business. The Centrelink employer engagement plan recognises that 'a major potential constraint for many employers will be the readiness of their payroll and accounting software to implement the scheme.' By this I mean the government's PPL scheme. It continues:

This may impede our—

the government's—

advocacy of early adoption and, in the worst-case scenario, could cause severe disruption in the lead-up to the mandatory employer role from 1 July 2011.

I would like to know whether or not, on behalf of the small business community that is going to face this new burden as a result of the government's plan, you have undertaken any advocacy within government to reduce this burden upon small business.

Senator Sherry—Not to date.

Senator RYAN—Do you intend to?

Senator Sherry—The issue does not fall within my portfolio responsibilities.

Senator RYAN—No, but I—

Senator Sherry—I have personally had some representations on the issue, but beyond that I cannot add anything further here today.

Senator RYAN—So when groups like the independent contractors or the Council of Small Business come to see you—presumably they would make representations on matters like this to you as the Minister for Small Business—do you simply say to them, 'This is not a matter in my portfolio area'?

Senator Sherry—What I discuss with those organisations, as I have already said to you on a number of occasions, is a matter between me and those organisations and individuals. But, as I have indicated, I have had commentary from a range of individuals in small businesses about the Paid Parental Leave scheme.

Senator RYAN—Have they received the same answer I have—that it is not in your portfolio area?

Senator Sherry—Beyond what I have indicated, as I have said to you—and I think this will be the fourth occasion—I do not go into an explanation and detail of discussions I have with individuals and organisations; I never have and I never will.

Senator RYAN—I am asking about discussions you may have had within government. Have you made representations on behalf of those groups within government?

Senator Sherry—Let me make a couple of points on the matter you raise. Firstly, paid parental leave does not fall within my ministerial responsibilities. If you want to raise it, the design of the scheme, its impact et cetera, there is another estimates area that is responsible—

Senator BUSHBY—Have you had any input into the design?

Senator Sherry—Can I finish? I had not finished, Senator. As far as the government's Paid Parental Leave scheme is concerned, firstly, I would make the point that it is the first comprehensive parental leave initiative designed to support working families. It encourages workforce participation, which will benefit small business by helping them to retain skilled staff. It will fund paid parental leave for working parents whether they work in the private or the public sector, are contractors or are self-employed. The government will support small business by making sure that all paid parental leave money is supplied ahead of their employees' pay cycle. That is an important design feature which I know is a benefit to small business. There is a phase-in period of six months to allow small business employers time to

transition to the new arrangements. They are aspects of the Paid Parental Leave scheme that I believe are very positive and, in the context of small business, broadly important.

Senator RYAN—So you are aware of the significant opposition from small business and other employer groups to this particular burden that is being placed upon business?

Senator Sherry—The policy and indeed the legislation have been determined.

Senator RYAN—I am asking a question.

Senator Sherry—You are asking a question and I am giving you my answer.

Senator RYAN—Senator Sherry, it is like I am asking you what the weather is and you are telling me what football team you barrack for.

Senator Sherry—Geelong, actually. We had a pretty tough year, but I have answered your question.

Senator WILLIAMS—Point of order, Chair.

CHAIR—I have a point of order.

Senator WILLIAMS—Chair, the minister specifically asked to be allowed to finish his answer when Senator Bushby interjected. Now we have Senator Ryan trying to ask and complete his question with the minister speaking all over Senator Ryan, which I think is double standards. Will you see that one speaks at a time, please, and Senator Ryan is allowed to complete his question?

CHAIR—I was not taking a great deal of notice of the interaction so I think we will just continue with questioning.

Senator WILLIAMS—Senator Sherry is being a bully—that is what I am saying.

Senator RYAN—Senator Williams, they need to be bigger than Senator Sherry.

Senator WILLIAMS—What I am saying is that it is double standards.

Senator Sherry—That is the first time I have ever been accused of being a bully on either side of the table at Senate estimates, I have to say.

Senator RYAN—The point I am making is that you have received representations from employer groups and small business representative organisations. Are you aware of their opposition to this element of the government's plan?

Senator Sherry—This would be I think the sixth occasion on which I have told you that the conversations I have with individuals, organisations, businesses or, for that matter, any—

Senator RYAN—It does not have to have been a conversation; it could have been a written submission.

Senator Sherry—I will add 'written' to it. The conversations or those things written are a matter for me and those organisations and individuals.

Senator RYAN—You are creating a new historic definition of the narrowness of Senate estimates committees, as I understand it, Senator Sherry. I will take that as yet another refusal to answer a pretty basic question. But I appreciate your keenness not to have this on the public record coming out of your mouth because I do not think anyone else in this room is in doubt

of small business's view with respect to the burdens being placed upon them by Labor's scheme. If I could turn now to an issue which I think is within your portfolio, Senator Sherry, which is business enterprise centres—

Senator Sherry—Yes, that does fall within my direct responsibility.

Senator RYAN—I think many small businesses would think that a number of other issues did, too, but we will leave that for the chamber. What were the criteria for determining business enterprise centres that were funding recipients in the 2008-09 budget? What criteria were used? I am happy for you to take elements on notice and provide them later if that is an easier thing.

Senator Sherry—Do you want it now?

Senator RYAN—I would be happy to have it now.

Senator Sherry—Okay.

Mr Sexton—Senator, the funding for these business enterprise centres—

Senator RYAN—All the locations.

Mr Sexton—The locations were election commitments.

Senator RYAN—So all the locations were actually election commitments?

Mr Sexton—Correct.

Senator RYAN—Okay. That answers the rest of my information on that. Chair, I can put the rest of my questions on notice.

CHAIR—Thank you. We have until 3.15. Are there any more questions in that area of outcome 1 that we could usefully go to?

Senator RYAN—Can I just check the Superannuation Clearing House? I assume that is also another matter that is not in your portfolio?

Senator Sherry—You know it is, Senator, and you can tackle me on that I think tomorrow when I am representing the minister for financial services and superannuation. I will be more than happy to talk loquaciously and in great detail on that matter with the officers at the table.

Senator RYAN—I just thought I would check.

Senator Sherry—It is not for this Senate estimates. It is not a small business responsibility, Senator.

Senator BUSHBY—Minister, I find it curious the attitude you have taken to questions that impact on small business today. I understand that, as small business minister, you would have certain programs the delivery of which you are specifically responsible for.

Senator Sherry—Yes.

Senator BUSHBY—But I would also have thought—and correct me if I am wrong—that as minister for small business you would also have an interest in influencing decisions of government made in other departments that impact on small business. Is that not the case?

Senator Sherry—I think that is generally right, Senator Bushby. Certainly in the consultations I have had with small business over the last couple of weeks—very extensive, I

might say, in terms of individuals and organisations—they do raise a considerable range of issues that are not specifically my ministerial responsibility.

Senator BUSHBY—No, but as a member of government you have an—

Senator Sherry—Yes, they do—

Senator BUSHBY—And I would presume—

Senator Sherry—And they raise a vast range of issues—the complexity of superannuation choice, which has been touched on here, vis-a-vis the clearing house, finance for small business, regulatory issues, regulatory burdens, industrial relations issues. There is a wide range of issues that are raised with me.

Senator BUSHBY—Absolutely. In the context of where government is making a decision or looking at implementing a program that may have some impact on small business, even though it is being administered or the policy oversight of that program may be other than with you, presumably at times you would be asked for your input into that?

Senator Sherry—Yes.

Senator BUSHBY—And at other times you would seek to impose your input into some of those things.

Senator Sherry—Yes. Certainly this department—and the small business area—would be consulted on a wide range of policy initiatives by government and, indeed, legislation by government. It has certainly been the case in the past. That is certainly true.

Senator BUSHBY—And in the case of programs Senator Ryan mentioned such as the Superannuation Clearing House or the Paid Parental Leave—presumably those things that would impact on small business—you—

Senator Sherry—Not me specifically but my predecessors.

Senator BUSHBY—And the departmental people assisting you.

Senator Sherry—Yes.

Senator BUSHBY—Would have had some input?

Senator Sherry—Yes, but the policy responsibility sits with whichever department, minister and obviously estimates committee has the policy responsibility for that area.

Senator BUSHBY—That is right, but when you are sitting before us, if we ask questions about whether you have had input into that, then those are legitimate questions.

Senator Sherry—I have already indicated what the past practice has been, and that will continue. But in terms of answering and responding, as you would well know, Senator Bushby, there is a recognised process for dealing with that policy and legislation at the appropriate estimates committee. I think it is useful you have raised this because that is the approach that my predecessor, Senator Carr, took.

Senator RYAN—Can I tell you that I have asked in this department today questions about programs being administered by other departments, and the input that this department has had into that, and I have got some degree of satisfaction—not as much as I would like but some degree of satisfaction and far more than we were getting in respect of small business today.

Senator Sherry—I have indicated to you what my approach as minister will be in this regard.

Senator RYAN—Thank you, Chair.

CHAIR—If that is all, we will take a short break and return at 3.30 pm with the Resources, Energy and Tourism portfolio. I would like to thank officers from the Department of Innovation, Industry, Science and Research for attending this today.

Proceedings suspended from 3.12 pm to 3.31 pm

RESOURCES, ENERGY AND TOURISM PORTFOLIO**In Attendance**

Senator Sherry, Minister Assisting on Deregulation, Minister for Small Business, 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

Ms Kristina Anastasi, Manager, Montara Response Team

Mr Patrick Davoren, Manager, Radioactive Waste Section, Fuels and Uranium Branch

Mr Richard Niven, Manager, Transport Fuels Section, Fuels and Uranium Branch

Ms Nicole Hinton, Manager, Uranium Industry and Nuclear 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

Ms Louise Vickery, Acting General Manager, Industrial Energy Efficiency Branch

Mr Rick Miles, Manager, Asia Pacific Partnership Secretariat, Environment Branch

Ms Lisa Di Paolo, Acting Manager, Renewable Energy Section, Environment Branch

Clean Energy Division

Ms Margaret Sewell, Head of Division and Chief Executive Officer, Australian Centre for Renewable Energy

Mr John Karas, Acting General Manager, Low Emissions Coal and CO2 Storage Branch

Ms Sarah Clough, Deputy Chief Executive Officer, Australian Centre for Renewable Energy

Mr Gary James, Acting General Manager, Energy Futures Branch

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 Vic Dobos, General Manager, National Tourism Policy Branch
Mr Wayne Calder, General Manager, Tourism Research Australia

Geoscience Australia

Dr Chris Pigram, Chief Executive Officer
Dr Clinton Foster, Chief, Petroleum and Marine Division
Dr James Johnson, Chief, Offshore Energy and Minerals Division
Dr Barry Drummond, Group Leader, Earth Monitoring Group
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 (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 expenditure for 2010-11 and related documents for the Innovation, Industry, Science and Research, Resources, Energy and Tourism, and Treasury portfolios. The committee has set Monday, 25 October as the date by which senators are to submit written questions on notice and has set Friday, 10 December 2010 as the day by which answers to questions on notice are to be returned.

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*.

I welcome Senator Sherry, representing the Minister for Resources and Energy, and officers of the department. Minister, is there an opening statement?

Mr Clarke—I have no opening statement, thank you, Chair.

CHAIR—We will go straight to questions then. Senator Brandis.

Senator BRANDIS—In the *Sydney Morning Herald* newspaper on 15 October this year, that is a few days ago, your minister, Mr Ferguson, was quoted in direct speech as telling a Queensland Resources Council function in Brisbane—and the context is addressing the minerals resource rent tax and in particular the rebating of state royalties:

The government's position on this issue is clear—royalty rates that applied or changes to royalty rates that were scheduled to apply in the future, as at 2 May 2010, will be credited ... Any increases outside these parameters will be a matter between miners and state and territory governments.

Mr Clarke, is that the government's position?

Mr Clarke—I have nothing to add in terms of the government's position to what my minister has stated.

Senator BRANDIS—May we take it then that the quote I read you in direct speech, attributed to the minister, states the government's position as you understand it?

Mr Clarke—Correct.

Senator BRANDIS—In this morning's *Australian* newspaper on page 1 in a story by Matt Chambers, a term of the heads of agreement between the Commonwealth and BHP, Rio Tinto and Xstrata is quoted. That term provides that 'all state and territory royalties will be creditable against the resources tax liability'. Is that an accurate expression of a term of the heads of agreement?

Mr Clarke—Yes, I believe it is.

Senator BRANDIS—Mr Clarke, there appears to be an inconsistency between that term of the heads of agreement and the minister's statement insofar as the minister's statement appears to say that the tax credits available in respect of state and territory royalties would apply as the state and territory royalties stood or had been announced as at 2 May 2010—that is, as you would be aware, the date on which the resources super profits tax was first announced by Mr Rudd's government—and the term from the heads of agreement, which imposes no such limitation on the capacity of taxpayers paying the minerals resource rent tax to claim a credit in respect of future state and territory royalties or state and territory royalties as they may be varied in the future. Which is it, Mr Clarke? Is it the case that under the existing arrangements with the three big companies all future movements in state and territory royalties will be able to be claimed as a credit or will it only be the state and territory royalties as they applied on or had been announced as at 2 May 2010?

Mr Clarke—That question will be one addressed by the policy transition group, co-chaired by Minister Ferguson and Mr Argus, duly reporting to the government, and a decision will be made in due course. I cannot tell you what the answer is today. That is an issue that is clearly alive in front of the PTG and is the subject of intensive consultation and debate.

Senator BRANDIS—You acknowledge that there is an inconsistency between those two positions. Either it takes into account future movements in the level of state and territory royalties or it does not.

Mr Clarke—Well, I acknowledge that they are not the same positions.

Senator BRANDIS—Right. So they are inconsistent positions. The heads of agreement says one thing. Minister Ferguson has said another thing.

Mr Clarke—No, I do not accept that. I have acknowledged the two positions when you summarise them as—

Senator BRANDIS—No, I am not summarising them. I am reading you quotes in direct speech which at each instance you have confirmed.

Mr Clarke—Yes.

Senator BRANDIS—And you have also agreed with me they are inconsistent.

Mr Clarke—Well, the question of which will be the policy outcome is a live issue today and will be addressed by the PTG, and the government will make its decision on the final position after receiving the report of the policy transition group.

Senator BRANDIS—I would have thought that the companies dealing with the government in good faith when they signed the heads of agreement were entitled to expect that the government would honour those terms. You have now told us that this is still a matter of live consideration and no final decision has been made.

Mr Clarke—And you have quoted to me the government's position on the—

Senator BRANDIS—I have quoted to you two positions—one, the heads of agreement position and, two, Mr Ferguson's position, which you have acknowledged to be inconsistent.

Mr Clarke—I am referring to the most recent statement by my minister, which I acknowledge is an accurate representation of his remarks—

Senator BRANDIS—So the story by Mr Chambers in this morning's *Australian* that the government is proposing to walk away from that key provision of the heads of agreement would appear to be accurate?

Mr Clarke—I have answered the question. The issue is a matter of consideration. What the final position will be I do not know.

Senator BRANDIS—But isn't a deal a deal? The government did a deal with these three mining companies for better or for worse when it signed the heads of agreement announced by the Prime Minister on 2 July. Might I remind you, Mr Clarke, that in her press conference with your minister standing by her side the Prime Minister said:

Last night we sat down to settle the final agreement, and I can now announce we've reached agreement on the basic structure of minerals taxation for the future.

She went on to state:

I'm delighted that last night we were able to sign a Heads of Agreement with some of our major mining companies.

One of the terms of that heads of agreement, Mr Clarke, you have told us, was the term quoted in this morning's *Australian* newspaper, but you have also told us that that is still a matter that is up for discussion. The government is walking away from this agreement, isn't it, Senator Sherry?

Senator Sherry—I do not accept that we are walking away from the agreement. As has been indicated by Mr Clarke, the policy transition group headed by my colleague Minister Ferguson, together with Mr Argus, are discussing all of these issues and they will report back to the government by the end of the year.

Senator BRANDIS—Senator Sherry, when the Prime Minister also at her press conference of 2 July announced that the heads of agreement had been signed—and, to remind you of her words again, 'an agreement had been reached'—she announced the establishment of this policy transition group and said that its purpose would be—to use her words again—'to consult with industry and advise the government on implementation of the new mineral resources rent tax and the petroleum resources rent tax'. It is one thing to have a policy

transition group to consult in relation to implementation issues; it is quite a different thing to say, as you appear now to be saying, Minister, that this policy transition group does not consider itself bound by the terms of the heads of agreement. Does the policy transition group consider itself to be bound by the terms of the heads of agreement, or are the terms of the heads of agreement themselves up for grabs in the policy transition group process?

Senator Sherry—I think where there is a difference *prima facie*, as there appears to be—I would accept there appears to be a difference *prima facie*—it is appropriate that the policy transition group led by Mr Argus and Mr Ferguson should discuss these issues.

Senator BRANDIS—Senator Sherry, the only reason there is a difference is that, in Brisbane on 14 October, the minister made an announcement at variance with one of the core terms of the heads of agreement. It is your government that created the difference through the words of your own minister.

Senator Sherry—I am not sure that I can add anything beyond what has been said.

Senator BRANDIS—Perhaps you cannot.

Senator Sherry—Where there has been a differing view, as there is—*prima facie* there is a differing view—it will be the task of the policy transition group to consult on this matter.

Senator BRANDIS—There is now a differing view because, as Mr Clarke has told us, the government's position, as lately articulated by the minister, is at variance with the government's position agreed to in the heads of agreement, which was signed on the evening of 1 July. That is right, isn't it?

Senator Sherry—I have already acknowledged that, and you have made the point. But that is part and parcel of the role of the policy transition group.

Senator BRANDIS—If that is the case, Minister, are you telling us that the policy transition group is at liberty to reopen any one of the terms of the heads of agreement? Is that what you consider its legitimate role to be?

Mr Clarke—I think a more accurate interpretation would be that the policy transition group's job is to interpret the heads of agreement in its terms of reference and provide advice to the government on its implementation. The question of the treatment of state royalties in existence at the time of the original announcement and any that may arise post that announcement is clearly a live issue, a relevant consideration, and the PTG will, I am sure, report on it.

Senator BRANDIS—It is clearly, Mr Clarke, with respect, an important issue to be considered in the design of this tax. But the outlines of the design of the tax were settled, the Prime Minister told us at a press conference on 2 July, by the heads of agreement and this issue was dealt with. It was dealt with in the term that I quoted to you and that you have affirmed. The term I quoted to you imposed no limitation on the capacity of the taxpayers to claim the tax credit in respect of state and territory royalties if those royalties varied in the future.

Mr Clarke—I fear we are going down a track of me repeating myself in terms of my capacity to respond to you.

Senator BRANDIS—I am trying to draw you out, Mr Clarke. I am not criticising you.

Mr Clarke—No, I appreciate that.

Senator BRANDIS—I am not saying you are not being responsive, but this is a terribly important matter and I want to make sure we give it a thorough canvass here.

Mr Clarke—I appreciate that, Senator. I am acknowledging, I hope directly, that there is a disagreement on this important matter. The origin of the disagreement, which your questioning of me has not to date emphasised, is of course that the original agreement to which you referred—back on 2 May when the RSPT was originally announced—did have this qualification about the effective date of rebating of royalties.

Senator BRANDIS—Except that the 2 May position was an announcement, wasn't it?

Mr Clarke—Yes.

Senator BRANDIS—Not an agreement.

Mr Clarke—Sorry, an announcement, yes.

Senator BRANDIS—There was not a 2 May heads of agreement. There was only a heads of agreement announced on 2 July—

Mr Clarke—Correct.

Senator BRANDIS—and that dealt with the matter in a way different from, as you rightly say, the RSPT announcement did. Now, would you acknowledge that the minister is back where the government was on 2 May—that is, that future variations in the level of state and territory royalties will not be covered by the tax offset or the tax credit provisions?

Mr Clarke—I acknowledge that the interpretation of the heads of agreement that the minister has stated as his position going into the consultation is the interpretation the government announced on 2 May.

Senator BRANDIS—It has been pointed out to me that, in the same story in the *Sydney Morning Herald* that I quoted to you before, the minister said that this issue is outside the jurisdiction of the policy transition group. He says that any increases outside these parameters will be a matter between miners and state and territory governments. So he has really foreclosed the position, hasn't he?

Mr Clarke—No. I believe that he has stated his interpretation, his understanding, of the position going in. Contrary to that assertion, I believe that the matter is one for consultation, consideration, reporting and subsequently decision.

Senator BRANDIS—This is a very grave matter, Mr Clarke, because three of the biggest companies in the world thought they had a deal with the Australian government and one of the terms of that deal was the treatment of future variations in state and territory royalties in a particular way so as to enable them to claim the tax credit. Now the minister has said that that is not part of the deal as we interpret it, and we are back to where we were on 2 May. Only the existing state and territory royalty regime counts for these purposes and, as the minister said, 'Any increases outside these parameters will be a matter between miners and state and territory governments.' That is the government's position, is it?

Mr Clarke—I do not regard it as extraordinary that the next level of implementation detail of the heads of agreement is proving contentious and that there are different interpretations on it. The very purpose of the policy transition group was to identify all of the issues in turning the heads of agreement into actual tax legislation, and that is the process that is currently happening.

Senator BRANDIS—You keep saying it is an implementation issue, but I keep reminding you that this had been agreed in the term of the heads of agreement that you have confirmed. How is it an implementation issue whether or not future variations in state and territory royalties will or will not be taken into account for the purposes of the tax offset? How can that be an implementation issue? It is a fundamental term of this agreement, isn't it?

Mr Clarke—I have given you my answer.

Senator BRANDIS—Perhaps that is what you feel bound to say. Mr Clarke, you are familiar, I guess, with the provisions of section 51(ii) and section 99 of the Constitution which respectively prohibit discriminatory taxation and prohibit preferential treatment of states for revenue purposes?

Mr Clarke—Yes.

Senator BRANDIS—Are you aware that Treasury took advice from the Australian Government Solicitor in relation to the possible implications of those constitutional provisions for the RSPT?

Mr Clarke—Yes.

Senator BRANDIS—Did your department take advice as well?

Mr Clarke—No, I do not believe we did.

Senator BRANDIS—Were you copied that advice by Treasury?

Mr Clarke—I will ask my colleague to respond to that.

Mr Wilson—At the time, no. RET was not copied that advice, nor have we seen it or been provided it. The only copy of that advice we have seen is the excerpt that was released under freedom of information that has been posted on the *West Australian* newspaper website.

Senator BRANDIS—Let me give you a copy of it.

Mr Clarke—We have a copy of the FOI version.

Senator BRANDIS—I just want to make sure we are going from the same document, so let me give you a copy. I will provide copies to members of the committee. This is, as you rightly anticipate, the FOI extract. It was provided in response to a request by Dr Parker, a Treasury officer, under cover of a letter of transmittal of 1 October. For ease of reference, let me take you through the document. You will see the first two pages of the document I have put before you is a minute, and it has been confirmed at the Attorney-General's estimates that that was a Treasury minute. There are two attachments. Attachment A is not part of the Treasury's document but is extracts from the Australian Government Solicitor's advice, and that is in a sans serif typeface. The second attachment, which is the last part of the bundle I have given you, attachment B, is headed 'How the tax would operate', and that is a document generated in Treasury. So the Australian Government Solicitor's advice is on pages 3 to 7 of

the bundle of documents that I have put in front of you. Are you now familiar with that advice?

Mr Clarke—I have read the advice.

Senator BRANDIS—You haven't?

Mr Clarke—I have.

Senator BRANDIS—You have. So you are familiar with it?

Mr Clarke—Yes.

Senator BRANDIS—When did your department first become aware of the existence of that advice?

Mr Wilson—It would have been Monday morning, when I read the articles in the paper referring to the freedom of information release.

Senator BRANDIS—Mr Clarke, would there have been another officer of your department who would have been familiar with the advice at an earlier time?

Mr Clarke—I do not believe so.

Senator BRANDIS—When did the—

Mr Clarke—Senator, acknowledging the tenor of your question, I am not surprised by that. This is—

Senator BRANDIS—Just follow my questions, Mr Clarke, if you would be so good. Mr Wilson, when did the policy transition group have its first meeting?

Mr Wilson—I believe that was on 20 September.

Senator BRANDIS—How many meetings have there been between 20 September and Monday of this week?

Mr Wilson—Meetings of the group proper?

Senator BRANDIS—Yes.

Mr Wilson—They have had the one formal meeting and then there have been a series of consultations in Perth and Brisbane since then.

Senator BRANDIS—Roughly how many consultations?

Mr Wilson—Four days worth.

Senator BRANDIS—So you have had one plenary meeting, if we can call it that, and four days of consultations between 20 September and last Monday, the day before yesterday.

Mr Wilson—There has also been interim phone contact between members since then.

Senator BRANDIS—We have now learned that those consultations were held in ignorance of this advice; is that right?

Mr Wilson—The PTG was not aware of this advice.

Senator BRANDIS—But we have just heard Mr Clarke and the minister at the table tell us that the rebatability of future variations in state and territory royalties is an implementation

issue and we know that the policy transition group is the body, as the Prime Minister announced, responsible for implementation. Those propositions are correct, aren't they?

Mr Wilson—That is correct.

Senator BRANDIS—I find it almost beyond belief, particularly for a tax measure of this magnitude, that the body charged by the government with implementation should have conducted its consultations so far in ignorance of the fact that another department of the government—that is, Treasury—had been provided with advice on this very topic which raised questions about the constitutional validity of the tax itself for that reason. I suppose, as Mr Jones would say on *Q&A*, you can take that as a comment. You are aware, I suppose, if you have read the advice, that the author of the advice—and we have not established a date yet—does raise serious questions as to whether or not the RSPT is constitutionally valid or whether, because of the potentially different liability contingent on different state and territory royalty regimes, it might fly in the face of the constitutional prohibitions in section 51(ii) and section 99. May we take it that you are aware of that, having read the advice? May we take it as well that you would be aware that the author of the advice thinks the issue would be more serious if the level at which a tax offset is claimable were capped or fixed on a certain date than if that were not the case? I take you to paragraphs 59, 60, 61 and 62.

Mr Clarke—Senator, so far your questions on this matter have related to process, and we have responded frankly. You are now asking us questions about legal interpretation and we are not the department that can respond to these questions.

Senator BRANDIS—I am not asking you about legal interpretation; I am merely asking you whether you are aware that the substance of the advice is to that effect.

Mr Clarke—We have told you when we received the advice and we have read the advice. We note that it is not definitive advice. We note that there is qualified language in there, but we are not competent to prosecute the legal argument. We do not write tax law. That is a matter for the Treasury and the tax office on advice from the Government Solicitor.

Senator BRANDIS—You do not have to be a lawyer, though, to understand this conclusion. Let me quote to you paragraph 66 of the Australian Government Solicitor's opinion. The author stated:

For this reason, we consider there is a risk that a court would find that the law discriminated between states for the purposes of section 51(ii) and was therefore outside the scope of the taxation power. It follows that it would also be possible to argue that, to the extent that the law in effect permitted a mining operator to receive a more favourable tax treatment in one state over another, it constitutes a preference for section 99 purposes.

Mr Clarke, as I said, you do not have to be a lawyer to understand that the author of this advice is saying that there is, to use his or her word, a 'risk' that this tax is unconstitutional for at least one if not two reasons.

Mr Clarke—Senator, you are inviting me to give an interpretation of legal advice that I am not competent or responsible to do.

Senator BRANDIS—I am not saying you are a lawyer, Mr Clarke. I am saying that a reasonably intelligent layman, which I am sure you are—

Mr Clarke—I read it at face value.

CHAIR—Senator Brandis, I think you are asking Mr Clarke to give an opinion, and it is an opinion that he says is not within his competency.

Senator BRANDIS—No, I am not asking him to give an opinion, as a matter of fact.

CHAIR—I think it is very close to that.

Senator Sherry—You are, Senator. With due respect you are, and Mr Clarke has indicated that Treasury, Tax Design and Attorney-General's are the areas to probe these issues. It is not the resources area that has responsibility in respect of these matters that you are raising. You are asking for a view and it is not properly the remit of this area.

Senator BRANDIS—Senator Sherry, let me rephrase my question to meet your objection. You have read this document, haven't you, Mr Clarke?

Mr Clarke—I have.

Senator BRANDIS—When you read it, did you form a view that it looked as if there might be a constitutional problem according to the—

Senator Sherry—Senator!

Senator BRANDIS—No, let me finish my question.

Senator Sherry—Senator, you are asking the same question.

Senator BRANDIS—Did you form a view as to what the effect of this document was? Did you form a view?

CHAIR—Senator Brandis, if I could intervene, I think 'form a view' is as close to asking for an opinion, in my view, as we can get. Again, I would say that you are asking a public servant for an opinion.

Mr Clarke—The view I formed is that the drafting of this legislation will require very careful attention. I have seen advice of this nature in areas where I do have responsibility many times over the years as a bureaucrat. You ask for a legal opinion on the design of turning policy into law. You get cautious advice from the AGS. You go back and debate the advice. You get further advice. You work through a process and eventually you present a law to the parliament. So my reaction was: this is yet another typical case of complex issues needing to be dealt with carefully by competent lawyers.

Senator BRANDIS—Given what you have just told us about your experience in dealing with legal advice, I do not feel that I am embarrassing you at all in putting it to you that you read that there is a risk that this might be unconstitutional, and you do not have to be a lawyer to know that the Australian Government Solicitor was advising Treasury that there was a risk it might be unconstitutional.

Mr Clarke—I cannot respond to that. That is an observation, with respect.

Senator BRANDIS—Mr Clarke and Mr Wilson, when you became aware through a newspaper that Treasury had obtained this advice from the Australian Government Solicitor at some yet to be identified time in the past—but presumably before the RSPT had been

replaced by the MRRT, on 2 July—and had not told you about it, what did you think? What was your reaction?

Mr Clarke—My reaction was that of course they had got legal advice on the design of how to turn policy into tax law. That is their job. It goes to my earlier intervention when you were developing this line of questioning. I am not surprised. It is their job to get this advice and it will be dealt with in the normal, proper legal and drafting process.

Senator PRATT—Senator Brandis, you are asking the wrong department this line of questioning and you have been indulged for quite some time.

Senator BRANDIS—I will ask my own questions, thanks.

Senator Sherry—Senator, it is your right to ask your own questions of the right department. We have made that point a couple of times.

Senator BRANDIS—All of my questions will be confined to this department, Senator Sherry. Let me reassure you.

Senator Sherry—The drafting of the legislation is within the remit of both A-G's and Treasury; it is not within the resources area. That point has been made very clear.

Senator BRANDIS—But, Minister, as you have been at pains to say, and as Mr Clarke and Mr Wilson have both told the committee, yours is the department concerned with implementation issues.

Mr Clarke—No; sorry, Senator—that is not correct.

Senator BRANDIS—Well, you said the policy transition group, which Mr Wilson convenes, is the implementation body.

Mr Clarke—The policy transition group is not my department. It is a body chaired jointly by Minister Ferguson and Mr Argus. It is staffed by officers from Treasury, my department and the tax office.

Senator BRANDIS—That is fine. I think I knew that, Mr Clarke. So your department forms part of the policy transition group and the secretary of the policy transition group, Mr Wilson, appears here in your estimates. So I think I am entitled to ask questions of his policy transition group.

Mr Clarke—Indeed. I was correcting the assertion that the PTG was my department.

Senator BRANDIS—Mr Clarke, you become aware, and the officers of your department concerned in the policy transition group become aware, through a newspaper story that Treasury had obtained advice some time ago that there was a risk that the RSPT was unconstitutional. You become aware of that for the first time on Monday. You told me a moment ago that you were not surprised that the Treasury had obtained such advice. I am sure that is true. Were you surprised that you had not been told about it?

Mr Clarke—Not especially.

Senator BRANDIS—The policy transition group, under the auspices of Mr Wilson over here, has been seeking to come to terms with what you have characterised as an implementation issue—that is, the effect on the tax offset of future variations in state and

territory royalties. You have had four days of close consultations, one plenary meeting and lots of informal discussions, and now, for the first time, you have become aware that another department of the government has said, 'For this very reason this RSPT is at risk of being unconstitutional.'

Mr Clarke—Senator, I do not believe the inference behind the question you have just put to me is reasonable. My take on what is happening is that there is a policy statement on which legal advice has been obtained. You are looking at a single piece of advice relevant to this and, as is of course your prerogative—

Senator BRANDIS—That is the advice that has been produced by the government.

Mr Clarke—We do not know the entire story on this. We are not at—

Senator BRANDIS—Obviously you do not know anything about it. You would have had to read the Western Australian newspapers to find out about it.

Senator Sherry—Let him finish, Senator Brandis.

Mr Clarke—That is not fair, Senator Brandis. That is not where I was going. The policy transition group is turning the heads of agreement into the next level of detail. After that has been considered by government, it will be turned into legislation and the legal and constitutional issues around the legislation will be addressed by the relevant department, which, as Mr Sherry said, is not mine. So the fact that legal advice is being sought and legal matters are being addressed in another department is exactly as I would expect.

Senator BRANDIS—Let me put it to you in summary form. It amounts to this: the minister made a statement on 14 October which you have told us represents the policy of the government and which you have described as an implementation issue—correct?

Mr Clarke—It represents the policy of the government going into the implementation task.

Senator BRANDIS—And it is an implementation issue.

Mr Clarke—Yes.

Senator BRANDIS—Right. You learned on Monday that Treasury had advice on this very issue—whether the future movements in state and territory royalties might mean that the tax was at risk of being struck down as unconstitutional—and you learned of that fact for the first time on Monday, did you not?

Mr Clarke—Yes.

Senator BRANDIS—Meanwhile, since the policy transition group was first convened on 20 September, the policy transition group had been dealing with that, among other issues, had it not?

Mr Clarke—It had been dealing with the policy aspects of it—correct.

Senator BRANDIS—Of that issue.

Mr Clarke—Yes.

Senator BRANDIS—All right.

Mr Clarke—The policy aspects, not the legal aspects.

Senator BRANDIS—I heard you the first time; thank you. Did you contact Treasury and ask for a copy of the advice?

Mr Clarke—No, I did not.

Senator BRANDIS—Has anyone in your department done so?

Mr Wilson—Senator, the secretariat made an inquiry to Treasury as to whether we could get a copy of that advice, yes.

Senator BRANDIS—When was that inquiry made, please?

Mr Wilson—That was made yesterday.

Senator BRANDIS—Yesterday—has it been responded to yet?

Mr Wilson—Yes.

Senator BRANDIS—And what was the response, please?

Mr Wilson—The response was that there was concern about releasing the actual advice, because the AGS believes that this is protected by client-lawyer privilege.

Senator BRANDIS—That was waived when Treasury produced it under freedom of information.

Mr Wilson—We then got a copy of the information that was provided under freedom of information.

Senator BRANDIS—So do I understand you to be saying that Treasury declined to provide you with a copy of the advice?

Mr Wilson—Treasury took it on notice and gave us an initial view, considered the position and then released to us the information that had been provided under freedom of information.

Senator BRANDIS—So Treasury has not provided you with a complete copy of the advice?

Mr Wilson—I do not know what Treasury holds.

Senator BRANDIS—Mr Wilson—

Mr Clarke—Senator, may I interrupt?

Senator BRANDIS—I just want to know whether you have been given the advice or not.

Mr Clarke—And Mr Wilson has answered the question. The inference, though, that you are driving at is that this is somehow an extraordinary event, and I have already said on a number of occasions that the PTG is not responsible for the drafting of the legislation.

Senator BRANDIS—I am merely interested in establishing the facts.

Senator PRATT—Mr Clarke's advice is entirely consistent with this document.

Senator BRANDIS—Mr Wilson, are you the person who made the inquiry of Treasury?

Mr Wilson—We have Treasury officers in the secretariat who went back to Treasury.

Senator BRANDIS—I see. You will see from the document that I have put before you—that is, that part of it that extracts the AGS advice—that, for a start, it is described as an extract in the title. You will see that it extracts paragraphs 6 to 8—because there are numbered paragraphs—21 through to 24 and 50 through to 72. So it is plain from the face of the document that this is not the complete advice; there are some parts that have not been given to you. You requested the advice and you were supplied with those portions of the advice that had been published in response to the FOI inquiry but not the rest of it. Is that what it amounts to?

Mr Wilson—That is a fact, Senator, yes.

Senator BRANDIS—Okay. Have you protested to Treasury that, particularly since the policy transition group is seized with this issue, it would be a good idea for you to be furnished with the whole of the advice, given that the redacted parts may be relevant to this issue?

Mr Wilson—Just to go back on a point made by Mr Clarke, it is actually quite common for departments that get legal advice not to release that advice because of the—

Senator BRANDIS—To other departments?

Mr Wilson—Yes, that is not uncommon because of the client-lawyer issue.

Senator BRANDIS—I understand that.

Mr Wilson—The PTG secretariat has received this extract. We are reviewing it and looking at it, considering it against the terms of reference in our task, and we will see whether or not we think we require further information. We are yet to make that consideration. We are currently looking at it.

Senator BRANDIS—So have you not yet made a decision whether or not to seek the balance of this advice from Treasury?

Mr Wilson—That is correct.

Senator BRANDIS—You would be aware, if you have read the advice, that the advice also refers to an opinion by the Solicitor-General, Mr Gageler, on these constitutional issues. Have you asked for that?

Mr Wilson—No, Senator.

Senator BRANDIS—Treasury and your department are among the Commonwealth departments comprising the policy transition group.

Mr Clarke—Secretariat.

Senator BRANDIS—Policy transition secretariat. I am sorry; you correct me, Mr Clarke. Yet it seems that the left hand does not know what the right hand is doing. The Treasury officers who form part of the secretariat know what the government's legal advice is in relation to the constitutionality of the RSPT and you knew nothing of it before Tuesday, or at least Monday when you saw the *West Australian* website, and even now you know that there is more legal advice which you have not been provided with. I just do not understand how you can do your job, having been blindsided by this—

Mr Clarke—Their job is not to draft legislation. Their job is to translate the heads of agreement—the policy—into a design which others will then turn into legislation.

Senator BRANDIS—But surely when you are told that there is, to use the word of the author of the advice, a ‘risk’ and that this provision in relation to rebating or crediting state royalties is unconstitutional, that is an important matter for you.

Mr Clarke—And I have said that in my experience in turning policy into legislation it is not unusual to get qualified advice of this nature at the early stage of the process and the matter will be dealt with in the drafting.

Senator BRANDIS—I will tell you what, Mr Clarke: the Treasury are coming before this estimates committee later on. I will ask them if they would be good enough to give you a copy of the advice they have obtained from the Australian Government Solicitor. Mr Clarke, although the AGS advice was directed to the RSPT and not the MRRT, in relation to this design feature—that is, the availability of a tax credit or offset in respect of state and territory royalties—the MRRT, at least as described by Minister Ferguson on 14 October in the statement I have read to you, and the RSPT were identical, were they not?

Mr Clarke—I am not confident to give you a direct answer to that question. I am not trying to avoid the issue.

Senator BRANDIS—Are you aware of any material difference between that aspect of the design feature of the two tax proposals?

Mr Clarke—The royalty rebate element, other than the matter that we have previously canvassed of course—

Senator BRANDIS—Well, including the matter we have previously canvassed.

Mr Clarke—Well, incorporating it. No, I am not aware.

Senator BRANDIS—Okay, thank you. Will you bear with me for a moment.

Senator PRATT—Mr Clarke, in answering Senator Brandis’s questions, you have just said that it is not unusual to get qualified advice of this nature that has one opinion and then solutions, that is then worked through until it reaches the legislative stage.

I appreciate it is not actually your job to have opinions about such legislation. I am just pointing to the fact that the document that Senator Brandis has provided actually points to such solutions. I think it is on page 7. So this document is entirely consistent with what you have said, which is that advice is provided, responses are made and then it is worked through until it reaches a legislative stage.

Mr Clarke—Indeed, I also note that in the covering minute, which we understand to be Treasury’s advice over the top of the AGS advice, it notes, ‘Options are available in order to avoid this risk.’

Senator PRATT—Okay. So it would be possible to ‘revise the proposal to avoid the risk that the law could be held to be invalid on section 51(ii) or section 99 grounds. Specifically, as noted above, we do not consider that there would be a risk that the law would be invalid if it did not include a cap on the refund credit which discriminated between the states.’ That is just one example of that.

Mr Clarke—It is an example and I would imagine it is not beyond the wit of constitutional lawyers to find other ways of addressing the problem. As I observed earlier, I regard this as a normal part of the legislative design process.

Senator PRATT—Thank you, Mr Clarke.

Senator BRANDIS—Mr Clarke, or perhaps Minister Sherry is the appropriate person to ask this question of: when, if at all, does the government intend to release the heads of agreement?

Senator Sherry—I would have to take that on notice and ask Minister Ferguson.

Senator BRANDIS—Why have the heads of agreement not been released?

Senator Sherry—I think in answering your first question I have obviously answered the second one.

Senator BRANDIS—No, we know they have not been released. You have taken on notice the question of when they will be released, if at all. Now I am asking why they have not been released so far.

Senator Sherry—Again, I will have to take that on notice.

Senator BRANDIS—You do not know?

Senator Sherry—No, I do not.

Senator BRANDIS—Aren't you involved in the discussions in relation to this, Senator Sherry?

Senator Sherry—No.

Senator BRANDIS—You are not?

Senator Sherry—Not at all.

Senator BRANDIS—Mr Clarke, did your department provide any input or data for Treasury's modelling of either the RSPT or the MRRT?

Mr Clarke—Will you allow me a moment to confer?

Senator BRANDIS—Yes, sure.

Mr Clarke—Senator, we provided data in regard to the offshore oil and gas industry as it relates to the now PRRT, and that advice would also have been in play and provided during the development of the RSPT. So my answer is, in part, yes we did provide some advice but it was limited to the operation of the petroleum taxation regime and that sector.

Senator BRANDIS—Okay. And that is it? And that is the only category of advice you provided?

Mr Clarke—In regard to the modelling question—and that is the precise terms of your question—that is my understanding.

Senator BRANDIS—All right. Thank you. Has your department analysed the modelling used by Treasury to forecast revenue from the MRRT?

Mr Clarke—No, Senator. That is not our job.

Senator BRANDIS—And I take it, therefore, not for the RSPT either?

Mr Clarke—Correct.

Senator BRANDIS—Are you familiar with the price and volume assumptions used by Treasury in its modelling for either the RSPT or the MRRT?

Mr Clarke—No, I do not have a close and intimate knowledge of the factors that have been used in those modellings on those two variables.

Senator BRANDIS—Those are the key variables, aren't they? If we are going to work out how much revenue is going to be generated by this tax—

Mr Clarke—They are two of the key variables, yes—the design of the tax being the obvious other one.

Senator BRANDIS—I am sorry; let me express myself a little more precisely. They are the two key quantitative variables. There will be qualitative variables as well, I assume.

Mr Clarke—They are the two key externalities to the design of the tax, yes.

Senator BRANDIS—All right. Thank you. Has your advice been sought or the advice of any officer of your department been sought by Treasury in relation to those assumptions—that is, the price and volume assumptions?

Mr Clarke—Bear with me one moment again, Senator.

Ms Constable—In the context of the modelling, we provide policy advice on the petroleum resource rent tax as it relates to the offshore oil and gas industry. The officers who assist in the policy development in relation to the PRRT have provided information to Treasury and within the PTG. We have those staff situated in the PTG and have provided some volume information as it relates to offshore oil and gas.

Senator BRANDIS—All right. But, presumably, that can only be for comparative purposes or to show the way a particular model might work. It does not bear directly on the price or volume assumptions for minerals, does it?

Ms Constable—That is correct.

Senator BRANDIS—Because we know, Mr Clarke, that the Treasury model must have depended, among other things, upon assumptions about, respectively, price and volume.

Mr Clarke—They are critical inputs.

Senator BRANDIS—So the data must have come to Treasury from somewhere. It did not come from your department; is that right?

Mr Clarke—Correct, other than volume with regard to offshore oil and gas.

Senator BRANDIS—But, other than oil and gas, which is a different matter, the data in relation to minerals did not come from your department.

Mr Clarke—Correct.

Senator Sherry—If I could just add to an earlier answer, apparently the heads of agreement have been tabled and they are available on the website. I have just been informed.

Senator BRANDIS—Thank you. Are you aware, Mr Clarke—I think we know that the MRRT framework was developed by the government in cooperation with Rio Tinto, BHP Billiton and Xstrata. I do not think that is controversial.

Mr Clarke—I am aware that they were the three companies that were consulted with in the development of that heads of agreement, yes.

Senator BRANDIS—Are you aware that those companies provided price and volume assumptions to the government?

Mr Clarke—I do not have intimate knowledge of what the information flow between those two parties was.

Senator BRANDIS—I am not asking you about the intimacy of your knowledge; I am asking whether you know.

Mr Clarke—I do not know.

Senator BRANDIS—Do you know, Mr Wilson? Does anyone know? Ms Constable, do you know?

Ms Constable—Discussions were held between companies and the Treasury portfolio and ministers. Information was provided to them about production levels and volumes in relation to iron ore and coal. That is as much information as I have.

Senator BRANDIS—That information, of the character you described, was provided to government by respectively BHP Billiton, Xstrata and Rio Tinto, was it?

Ms Constable—Information was provided by those companies, yes.

Senator BRANDIS—The government has declined to publish the price and volume assumptions on which the modelling was based. I ask that that data be provided to the committee please, Mr Clarke.

Senator Sherry—We will take it on notice.

CHAIR—Senator Brandis, I understand that Senator Ludlam has some questions and Senator Pratt has some further questions.

Senator BRANDIS—I will not be very much longer on this, Madam Chair. Are you aware, Mr Clarke, that Mr Sam Walsh from Rio Tinto Iron Ore said recently, ‘The government expects higher revenues from the MRRT than the companies expect to pay because the government is using different assumptions in its modelling from the companies.’ Are you aware of that statement?

Mr Clarke—I am not aware of that direct quote.

Senator BRANDIS—Are you aware that words to that effect have been said or, in fact, are being observed within the industry?

Mr Clarke—Like you, Senator, I have read all of the media coverage on this issue.

Senator BRANDIS—Do you agree with that statement?

Mr Clarke—I have no basis for agreeing or disagreeing. I do not know.

Senator BRANDIS—I am not now asking about the policy transition group; I am asking about the period prior to the convening of the policy transition group. What input, if any, did officers of your department have in the development and design of respectively the RSPT and the MRRT?

Mr Clarke—I answered the latter part of your question at length in the previous estimates when the committee asked exactly what involvement my department had had in the RSPT development. I could paraphrase previous answers if—

Senator BRANDIS—You were not asked by me, I do not think.

Mr Clarke—No, it was not you, Senator.

Senator BRANDIS—If it is already on the record, that is fine.

Mr Clarke—It is.

Senator BRANDIS—So, only to the extent to which it is necessary for you to explain more fully your answer to my question, can you answer my question in relation to the MRRT?

Mr Clarke—Yes. So post the RSPT and pre the MRRT and PRRT—

Senator BRANDIS—So we are talking about the period between 2 May and 2 July, effectively?

Mr Clarke—yes—officers of my department were involved in advising the government, through Minister Ferguson, on design issues in regard to resource taxation.

Senator BRANDIS—What issues did you provide advice on? I am not asking for the substance of advice, merely the categories.

Mr Clarke—Well, taxation design issues is as specific as I can be, Senator.

Senator BRANDIS—Taxation design issues. Okay. But I think you have told us you did not provide any information in relation to the modelling assumptions.

Mr Clarke—Other than in respect to offshore oil and gas, no.

Senator BRANDIS—I understand. Are you confident that the levels of revenue forecast from the MRRT are sound—that the forecasts are sound?

Mr Clarke—As we have established, I am not privy to the modelling, so I have no basis for responding to your question.

Senator BRANDIS—Okay. Finally, Mr Clarke, or perhaps you, Mr Wilson—since you are involved in the policy transition group, you might be the person to ask this question of—has the government given any private assurances to BHP Billiton, Xstrata or Rio Tinto in relation to the implementation or operation of the MRRT beyond the terms of the heads of agreement?

Mr Wilson—Senator, I do not think that I can speculate on what the government has or has not—if you mean by the government—

Senator BRANDIS—Are you aware of any?

Mr Wilson—No, I am not aware of any.

Senator BRANDIS—Are you, Mr Clarke?

Mr Clarke—No, Senator.

Senator BRANDIS—Do you know whether or not assurances have been given?

Mr Clarke—Do I know what I do not know?

Senator BRANDIS—Well, you may not know what those assurances were, but do you know whether in fact assurances have been given?

Mr Clarke—No, I do not.

Senator BRANDIS—Mr Wilson?

Mr Wilson—No.

Senator BRANDIS—Thank you.

CHAIR—Senator Ludlam, go ahead.

Senator LUDLAM—I have a couple of questions that relate to some recent announcements by the Northern Territory government relating to the Angela Pamela uranium mine.

Mr Clarke—I will just bring other officers to the table.

Senator LUDLAM—Okay. This might be fairly quick because I am really just seeking some procedural advice, strictly about how the Commonwealth interacts with the Territory on mining approvals. So in this case we are talking about a uranium mine. First of all, is there any difference in the way that the Commonwealth would handle a uranium mining licensing and approval process from how it would handle any other kind of mineral project?

Ms Constable—In relation to uranium mining, it is treated similarly to all other minerals. The Territory government maintains regulatory authority over all applications for exploration licences within the Northern Territory. However, in the case of uranium, the Commonwealth owns all uranium deposits in the Northern Territory, and our minister, the Minister for Resources and Energy, is consulted at the end of the Northern Territory's approval processes.

Senator LUDLAM—In addition, we have got an EPBC trigger, which I know is not your domain. I am sure it would be contested by the Aboriginal traditional owners, but for the point of this debate the Commonwealth owns all deposits of uranium in a way that we would not say that we owned all iron ore or all gold deposits in the Territory.

Ms Constable—That is correct.

Senator LUDLAM—That was a decision made not in law but—what would we call it?—an executive decision by Mr Ferguson a year or two ago, or more?

Ms Constable—No, that has been in place for many years.

Senator LUDLAM—Has it?

Ms Constable—Yes.

Senator LUDLAM—For how long? Since the 1950s when we were first mining there?

Mr Sheldrick—The Atomic Energy Act defines prescribed substances as belonging to the Crown, and prescribed substances are uranium and other similar types of substances.

Senator LUDLAM—And that goes way back?

Mr Sheldrick—I think it is 1953.

Senator LUDLAM—That sounds about right. For the purposes of this conversation, though, there was an announcement made by the Commonwealth some time ago that it would take over environmental approvals for uranium mining from the Territory. For example, the Territory government used to have a blanket opposition to uranium mining and milling new operations. That was a policy change a couple of years ago, I think. Does that make any material difference?

Ms Constable—The EPBC Act is still in place. There is a nuclear trigger within the EPBC Act which automatically refers uranium mining to the Commonwealth for consideration on environmental assessment and approvals processes. So the Commonwealth plays a very big part in relation to uranium mining—from exploration through to development—which also includes environmental approvals.

Senator LUDLAM—Just to clarify, in the process of approving exploration licences, prospecting, exploration and converting to a mining licence, the Commonwealth has no formal involvement or jurisdiction until some kind of trigger document is submitted via the EPBC Act; is that correct? What is the Commonwealth's earliest point of intervention in this process?

Mr Sheldrick—An application for a mining lease is given to the Northern Territory, and the Northern Territory minister, under various acts, is then required to consult and take the advice of the Commonwealth minister in making the decision on that application. As was stated earlier, that is not the case for an exploration permit.

Senator LUDLAM—Got it. So it is not hypothetical but entirely reasonable to suggest that, in the case of Angela Pamela mine, the Northern Territory minister, on receipt of an application for a mining licence from Cameco-Paladin in Alice Springs, might say, 'I am not interested in granting that,' but the Commonwealth could quite easily override that and say, 'Yes, you will.' Is that the case?

Mr Sheldrick—The Northern Territory minister is required to take the advice of the Commonwealth minister. What the decision is in that case—

Senator LUDLAM—You have been pretty clear: they will do what they are told.

Ms Constable—Every project is considered on its merits. There is not a carte blanche approach to these issues. The Northern Territory minister would consult with the Commonwealth minister and then a decision would be made by the Northern Territory.

Senator LUDLAM—Who is the decision-making minister? I am not trying to draw you into a hypothetical about what a minister might decide, but I want to know where final responsibility resides for the granting of a mining licence. Is it at the Territory level or the Commonwealth level?

Ms Constable—It sits with the Northern Territory, after consultation with the Commonwealth minister.

Senator LUDLAM—If the Commonwealth minister said no and the territory minister said yes, whose view would prevail?

Ms Constable—The Commonwealth minister's views are taken into account. We do not have a situation where advice has been sought by the Commonwealth and any action has been taken.

Senator LUDLAM—The advice has been sought by the Commonwealth? Who seeks the advice?

Ms Constable—It is sought by the Northern Territory government.

Senator LUDLAM—That is why I am perplexed. So the Territory minister seeks advice from the Commonwealth on whether a mining licence should be granted. Are you saying it has never been tested? What happens if there is a difference of views between those two ministers?

Ms Constable—At this stage there is nothing before the Commonwealth minister for consideration.

Senator LUDLAM—No, that is not the question that I asked you.

Mr Sheldrick—I am not aware of any case where there has been a difference.

Senator LUDLAM—We have one before us now. I am not trying to get into what people might say; I recognise it is hypothetical and I do not want to draw you down that track. But I want to know what the administrative arrangements are if there is a difference of opinion. By regulation or by law—could you point me to where it is?—whose view would prevail if there were a difference of opinion?

Ms Constable—Senator, I would like to correct you. There is nothing standing before the Commonwealth minister in terms of consultation right at this stage.

Senator LUDLAM—That is correct, yes. I stand corrected on that. There is very much the potential for that situation to arise, but it is not currently before us. You are right. Sorry, Mr Sheldrick?

Mr Sheldrick—I think your question was where is the legislation that governs this.

Senator LUDLAM—I just want to know who the decision minister is.

Mr Sheldrick—Yes. My understanding is that under the Mining Management Act the Northern Territory minister must act in accordance with the advice of the Commonwealth minister.

Senator LUDLAM—Right. So I think we have now got two contradictory views that you have put to us. One is that the mining minister decides and the other which is what you said before—that is, that the Territory minister will do what they are told. If the Commonwealth minister for mining and resources and so on says this should happen, then the Territory minister must take that advice. I am not seeking to paraphrase, but is that what you have just told us?

Mr Sheldrick—I am sorry; that is what I thought I said before. The Northern Territory minister must take the advice of the Commonwealth minister. That is consistent with what I said earlier I thought.

Senator LUDLAM—All right. So if there is a difference of opinion and the Territory minister is against the granting of a given mining licence and the Commonwealth minister is for the granting of that same licence, the licence will be granted?

Ms Constable—We have not got a situation like that. You are putting a hypothetical to us.

Senator LUDLAM—No, I am really not. Can you point me to the regulation or where it is written down? If we are getting into complexities here, I want to know what will happen when that situation arises, unless it is—

Senator Sherry—Hypothetically, Senator. It is a hypothetical.

Mr Sheldrick—Under section 34(3)(b) of the Mining Management Act.

Senator LUDLAM—Of the NT Mining Management Act?

Mr Sheldrick—Yes.

Senator LUDLAM—Have you got that section in front of you?

Mr Sheldrick—I do not have the section, but that is where I understand it says that the Northern Territory minister must act in accordance with the advice of the Commonwealth minister.

Senator LUDLAM—All right. If that is what it says, that is pretty clear and I am sorry if I have created confusion around that. So the NT government's views could well be overridden should a lease application come forward. Thank you. I think that takes care of a couple of those actually. So there would be no need for the company to appeal an NT government decision; that would just be made as such. You do not have the act in front of you, but is there any process for documentation or appeal of any of those decisions, or does it just roll out? Is it fairly simple?

Ms Constable—There is always a right of appeal on any decision that is made. But, as I said, this has not been tested.

Senator LUDLAM—No, not as yet. Thanks very much. That was eventually helpful. I have a couple of other questions for Mr Davoren, who I am sure was hoping we would not let him go home empty-handed, on radioactive waste management. Mr Davoren, nice to have you back. You have probably got a pretty clear idea of what I intend to ask you about. Could you maybe just by way of opening statement, unless you have one that you wanted to give us, provide us with an update of progress towards the national radioactive waste dump.

Mr Davoren—I think you would be aware that the National Radioactive Waste Management Bill 2010, which the government introduced in February of this year, was not passed in the last parliament and the government has said that it will be reintroduced in the current sittings. As the government has said, it is not going to act under the existing legislation from the Howard government. There has been no substantive action on that project.

Senator LUDLAM—Great, and that is welcome and appropriate, I should add. I think that is a wise course of action. Is it your understanding that that will in fact be introduced into the House tomorrow? Is that still the intention?

Mr Davoren—I understand that under the government's agreement with your party and the Independents you are consulted on the introduction, so you may know more about it than I do.

Senator LUDLAM—Okay; touche. You have got no information that would contradict the idea that it is being introduced into the House of Representatives tomorrow?

Mr Davoren—I know it will be introduced in the current sittings.

Senator LUDLAM—If I knew I would not ask you. Honestly, I would not want to waste your time.

Mr Davoren—I am not going to comment on it, Senator.

Senator LUDLAM—Okay. In June, which I think was the last time we spoke, you reported on attending a meeting of the Muckaty Aboriginal Corporation to give a presentation on the radioactive waste dump process. You gave us a bit of detail at the time about what had happened there. Has there been any further correspondence between the department and the MAC and/or the Northern Land Council to discuss procedural developments or any other issues relating to the Muckaty proposal?

Mr Davoren—No.

Senator LUDLAM—No other correspondence?

Mr Davoren—No.

Senator LUDLAM—No further meetings?

Mr Davoren—No meetings.

Senator LUDLAM—Calls? No? Okay. That was for the land council as well as for the corporation.

Mr Davoren—That is right. We are, of course, in frequent contact with officers of the Northern Land Council as we are parties to current litigation in the Federal Court, as you would be aware.

Senator LUDLAM—That is right. That probably does actually cross into the issues that I was raising. So you have been in touch with the land council fairly regularly about the Muckaty proposal?

Mr Davoren—Under that situation, where we are both in the same litigation, you would imagine we would be in very frequent contact.

Senator LUDLAM—Sure. Are there further consultation meetings planned with traditional owners, the NLC or other stakeholder groups that are unrelated to that Federal Court action?

Mr Davoren—No. We are waiting until the bill is in place or an act is in place before we proceed.

Senator LUDLAM—Does the department provide regular—or irregular—briefings or updates to the Northern Territory government or any Northern Territory government departments on the process that is under way?

Mr Davoren—Not at all. I think you know the attitude of the Northern Territory government to this project.

Senator LUDLAM—Yes.

Mr Davoren—I deal with them on a host of other issues—Rum Jungle and matters like that—and the question is never raised.

Senator LUDLAM—I would have thought you could take a contrary position on the process but still be required to brief them, or communicate.

Mr Davoren—They have not sought such a briefing.

Senator LUDLAM—That is fine. Has the department requested any information from the Northern Territory government to assist with the site selection process? Have you sought any information from them?

Mr Davoren—A lot of that work on the site selection process was done by Parsons Brinckerhoff, and I understand that a number of Northern Territory agencies cooperated in providing information, as they would to any business.

Senator LUDLAM—That was concluded a good long time ago now.

Mr Davoren—It was. That is right.

Senator LUDLAM—So nothing since then?

Mr Davoren—Nothing since then.

Senator LUDLAM—On site selection. So that does not just relate to Muckaty. Are there any other Northern Territory sites under any form of scrutiny, observation or research as potential sites?

Mr Davoren—No active consideration at this stage, Senator.

Senator LUDLAM—Sorry, no active—

Mr Davoren—No active consideration at this stage.

Senator LUDLAM—So there might have been some consideration in the past but you are not currently identifying or considering any other sites?

Mr Davoren—There were sites brought to our attention but none are being considered at the moment.

Senator LUDLAM—Okay. Fine. Has the department at any time briefed the department of everything—the Department of Sustainability, Environment, Water, Population and Communities—or the minister on the current state of work in this issue? I realise they will be involved when it is referred, I guess, through the EPBC down the track, but have you done any preliminary work with that department?

Mr Davoren—Yes, we keep them abreast of developments, Senator.

Senator LUDLAM—Great.

Mr Davoren—They get correspondence on the matter. We help them to respond to such correspondence. We assist them with their briefing.

Senator LUDLAM—What does that actually look like? Have they sought a briefing from your department or did you offer that?

Mr Davoren—It is mainly in written briefs and there is an exchange of that sort of briefing material.

Senator LUDLAM—Is that in advance of formal environmental impact assessment that they have requested information from you?

Mr Davoren—It is more on the policy position, when their minister gets questions. It is nothing to do with assessment under the EPBC Act.

Senator LUDLAM—Has there been any instruction or can you provide us with any advice at all—either from the minister or from the department's side—that waste produced by states and territories, as opposed to Commonwealth obligated or Commonwealth produced waste, may also be taken to the proposed facility?

Mr Davoren—It was clear in the statements by the minister in his second reading speech that the government was intent on a national approach. So at some stage that would involve a facility that could accept waste from other states and the Territory.

Senator LUDLAM—What about the design that you are putting together at the moment? Is it just designed for future expansion, or what are you actually putting together at the moment?

Mr Davoren—I think it is fairly well known that the bulk of the national inventory comes from the Commonwealth, so within the constraints of the Commonwealth inventory, the state inventory is quite small.

Senator LUDLAM—If the bill is passed unamended reasonably soon according to whatever parliamentary timetable we end up with, what happens then? What does your work program look like?

Mr Davoren—As I have said to you before, we will be having further consultations with the Northern Land Council. You will be aware that their chair, Mr Kim Hill, indicated an interest in discussing the deed under which the previous site was volunteered, so I think the first thing we would do is revisit that deed with the Northern Land Council.

Senator LUDLAM—'Not a done deal,' I think were the words that he used. Lastly, there was one recommendation of the Legal and Constitutional Affairs Legislation Committee that I thought was worthwhile, recommendation 1, which said that before any further action was taken on this matter, the minister should sit down and meet with the traditional owners who have raised concerns over a period of five years or so. Has that occurred to your knowledge?

Mr Davoren—He did have a meeting with the traditional owners of the nominated site.

Senator LUDLAM—No, the traditional owners who dissent, the traditional owners who do not want the stuff dumped up there. Has he met with them?

Mr Davoren—As far as I am aware, he has not consulted those people, but if you need information—

Senator LUDLAM—Sorry?

Mr Davoren—As far as I am aware, he has not consulted those people, but if you want information on who the minister has consulted, I think you had best direct that to him.

Senator Sherry—I will take that on notice.

Senator LUDLAM—If you could, Minister. These folk have been phoning, they have been writing letters, they visited his office a couple of times, they visited here in the House and they have invited him on a number of occasions to meet with him in Tennant or somewhere close to there, or anywhere actually, over a period of about five years. If you can respond with any indication at all that the minister has even once taken the slightest interest in those invitations that would be great.

Senator Sherry—I can only take it on notice.

Senator LUDLAM—That is okay. I understand. Thanks, Chair. That is all I have got.

Senator PRATT—I understand that the National Mine Safety Framework has been under development since 2002 and that there has been some commitment of funds to implementation in the current budget. Where is the framework up to in terms of its implementation? Will it be concluded in time for it to come into operation at a time that will make it consistent with the rest of the national occupational health and safety regime?

Mr Stamford—The National Mine Safety Framework was established under an implementation plan that was passed through COAG in May last year. At the moment, it is on track to meeting the deadlines in the timetable contained in that implementation plan.

Senator PRATT—I beg your pardon?

Mr Stamford—There was an implementation plan which was passed through COAG in May last year. The timetable in that plan is currently being adhered to in bringing forward the National Mine Safety Framework.

Senator PRATT—How is it going in terms of the working groups with Queensland, New South Wales and Western Australia?

Mr Stamford—The National Mine Safety Framework regulations drafting instructions were provided to the MCMPR, which is a ministerial council, and then those drafting instructions were passed through to the BRCWG, which is looking after the broader regulatory structure for the Safe Work Australia legislation under the new Workplace Health and Safety Act. They went through by 30 June this year.

New South Wales, Queensland and Western Australia have legislation or parts of legislation which are separate to their overarching occupational health and safety legislation. They are currently together in a working group underneath their ministers as part of the MCMPR. They are currently considering additional legislation to make sure that their legislation, firstly, is consistent with the OH&S legislation as it is coming through and, secondly, where additional detail has been identified by those states, it is consistent between those states.

Senator PRATT—So each jurisdiction is forming its own legislative instruments but they will be nationally consistent as agreed by that process. Is that what you have said?

Mr Stamford—They will be nationally consistent through that process, yes.

Senator PRATT—How will mining regulations progress under that model?

Mr Stamford—There will be mining regulations ultimately brought forward under the work health and safety act, the WHS legislation. The three states that we have been discussing—New South Wales, Queensland and WA—will be bringing forward separate consistent legislation which takes account of what is contained in the WHS legislation. There will be additional regulations that they will be bringing forward to meet their own additional requirements as mining states and to make sure that their own mining legislation, which is separate to their OH&S legislation, is also consistent.

Senator PRATT—I have another question on a different topic. It is with regard to the offshore petroleum safety regulatory inquiry reports. One is entitled *Offshore petroleum safety regulation: better practice and the effectiveness of the National Offshore Petroleum Safety Authority*, NOPSA; the other is *Offshore petroleum safety regulation: marine issues* and the 2008 review of NOPSA's operational activities. What steps are being undertaken to implement recommendations in these reports, both in terms of what NOPSA is doing and indeed the department?

Mr Squire—The minister released his final response to those various reports at the South East Asian Australia Offshore Conference on 23 September. There are a significant number of those recommendations which relate to the National Offshore Petroleum Safety Authority, or NOPSA. NOPSA has provided the minister some advice in terms of how it intends to respond to those particular recommendations. NOPSA is due to report to the minister by the end of this year on progress in implementing those recommendations.

Senator PRATT—You received responses to the government's draft response, as I understand it. I am interested to know where the Western Australian Department of Mines and Petroleum is up to.

Mr Squire—I am sorry, Senator. I do not quite follow your question.

Senator PRATT—I am interested in the nature of their response, but you are welcome to take that on notice. As I understand it, NOPSA has said that there are about 28 matters related to the authority that it is responsible for and that it is going to report progress at the end of this year; is that correct?

Mr Squire—That is correct.

Senator BRANDIS—Mr Clarke, I have one more question arising out of some of the answers that you and Mr Wilson gave me. You will recall earlier I asked you a series of questions about the effect of variations in state and territory royalties on the offsetting of the MRRT. I understood both you and Mr Wilson to be telling me that this was an 'implementation issue'—that was your phrase—and that it was for Mr Wilson's policy transition group to deal with. Is that right?

Mr Clarke—My response and my understanding is that the PTG will indeed address this matter in their report to government.

Senator BRANDIS—I think I gave you the wrong reference to Minister Ferguson's speech in Brisbane on 14 October, because elsewhere in the report—and this is the passage I omitted by mistake to read to you—it says this:

Mr Ferguson said that although companies had raised the issue of crediting royalties during consultation, it was outside the scope of the policy transition group.

Do you want to change your earlier answers in view of what I can now tell you that Minister Ferguson said in Brisbane last Friday—that it is outside the scope of the policy transition group?

Mr Clarke—I have nothing further to add to my earlier answers.

Senator BRANDIS—Thank you.

Senator BUSHBY—I just have a couple of questions about the Global Carbon Capture and Storage Institute. How much money has Australia committed to this organisation?

Mr Clarke—One moment. I will bring the relevant officer to the table.

Ms Sewell—The Australian government has committed \$400 million to the global institute and, as part of the election outcome, the global institute lost \$45 million.

Senator BUSHBY—It lost \$45 million?

Ms Sewell—The funding was reduced by \$45 million.

Senator BUSHBY—Yes, that is one of the savings they were using to offset new spending. Okay. How much has actually been paid to the institute?

Ms Sewell—To date \$100 million has been paid.

Senator BUSHBY—How much has been paid to the institute from other countries to date?

Ms Sewell—Five hundred thousand dollars was announced as a funding contribution from the United States last week.

Senator BUSHBY—Has that been paid?

Ms Sewell—I am afraid that is a question that you would have to direct to the institute. It was certainly announced as a formal commitment by the United States.

Senator BUSHBY—That was announced on 9 October—would that be correct?

Ms Sewell—Last Saturday or Saturday week.

Senator BUSHBY—How much project funding has been allocated by the institute?

Ms Sewell—As at 30 June the institute had spent and committed—this is a total figure—\$59,900,000.

Senator BUSHBY—So it had spent and committed \$59 million. How much of that was committed for projects in Australia?

Ms Sewell—The institute announced funding for two Australian projects last week. That was a total of \$2.5 million for Carbon Net, a Victorian project, and \$1.83 million for the Callide A oxyfuel retrofit project in Queensland.

Senator BUSHBY—That is a total of about \$4.1 million for Australian initiatives so far.

Ms Sewell—Yes.

Senator BUSHBY—What about overseas projects? How much has been committed to overseas projects?

Ms Sewell—Can I make a distinction there: these are specific announcements about specific CCS projects, as distinct from funding that the institute has otherwise committed to, for example, capacity-building exercises, workshops—

Senator BUSHBY—No, specific projects are probably what I am actually interested in.

Ms Sewell—At the same time the institute announced funding for four projects overseas: \$2.2 million for the Rotterdam port hub development; \$2.55 million for a feasibility study for a CCS plant in Romania; and two projects in the United States associated with the Tenaska company—\$8.03 million to undertake the concept definition for a new coal-fired power plant and \$825,000 for a retrofit of another Tenaska plant.

Senator BUSHBY—We have had a commitment of \$500,000. I am not sure how much has been paid by the US, but it has committed \$500,000. We have put in \$100 million, with potentially another \$236 million. Of the money that we have actually committed so far, most has gone to countries that have not put any money in. As I understand it, the US committed \$500,000 and a couple of days later there was an announcement saying that multimillion-dollar projects were being announced in the US.

Mr Clarke—The suggestion in your question is that these two variables are linked. Your question explicitly links them. We cannot accept the premise of your question.

Senator BUSHBY—I am not saying that one drives the other, but what I am saying is that Australian taxpayers are putting a lot of money into this institute. There will be a whole host of reasons, I am sure, in terms of capabilities and expertise, why it might be going elsewhere. Nonetheless, the bulk of money is going elsewhere than into Australian industry.

Mr Clarke—That outcome at this stage is exactly as would have been expected. It is the inference that this is somehow an inappropriate position for the institute to be in that I am challenging.

Senator BUSHBY—It is for the parliament and the people of Australia to decide whether they are happy that this is how their taxpayer funds are being spent. What I am trying to do is ensure that people have the full information so that they can make that decision in an informed way.

Mr Clarke—Nothing that Ms Sewell has said to you is not on the public record—excuse the double negative. It is all on the public record. The point is that the institute is a global institute. It is not an Australian institute; it is a global institute. During its initial years it was almost fully funded by the Australian government. That is by design. It is performing as intended and by design. The point—and our funding agreement with them drives this—is that the expenditure of the funds is against the global good of deployment of CCS technology. Their judgment as to which projects will best support that global good is exactly what we have set them up to do.

Senator BUSHBY—Is there an intention that more money will be sought from other countries?

Mr Clarke—In terms of the question of diversification of funding beyond its initial years—where it started as 100 per cent Australia and now the US has made the first material contribution into it—now is the time for the institute to start looking at diversification of its funding sources. The issue was discussed at their most recent members meeting last week. They are starting that process, yes.

Senator BUSHBY—I will leave it at that. In view of the time, I want to ask a couple of questions of Geoscience.

CHAIR—Thank you to the officers of the Department of Resources, Energy and Tourism involved with outcome 1.

[5.10 pm]

Geoscience Australia

CHAIR—Dr Pigram, do you have an opening statement that you would like to make?

Dr Pigram—I do not have an opening statement.

Senator BUSHBY—I have only a few questions, so we will not hold you for too long. In your answer to question on notice No. BR 4 you quoted Dr Trevor Powell in the report *Discovering Australia's future petroleum resources: the strategic geoscience information role of government*, saying that Australia has over 50 sedimentary basins of which only 12 are producing oil or gas. In your assessment of the remaining 38 basins, do they have oil and gas prospectivity and, if so, how high?

Dr Pigram—We have not examined all of those basins and a number of them we are working on, and part of our task is to examine the potential in the frontier basins of Australia with a view to attracting exploration activity to test that potential.

Senator BUSHBY—You say you have not examined or assessed all of them. Have you assessed any of them?

Dr Pigram—We have not examined all 38. We are in the process of examining some of them.

Senator BUSHBY—So beyond the 12 that are currently producing gas, are any of those 38 ones that you have actually assessed to your satisfaction at this point?

Dr Pigram—We think some of them have potential and they are part of the acreage release program and they have attracted exploration investment. So there is a process underway to test that potential.

Senator BUSHBY—I want to get a sense of potentially what is out there. If you have looked at 10, did you find that five of them looked pretty good or did you find eight or two? Of those 38 that are not currently producing, how many have you actually looked at in more detail? Of those, in how many did you find a high degree of prospectivity?

Dr Pigram—Can I take it on notice and I will provide you with a more detailed explanation of where we have been and where we think the potential is?

Senator BUSHBY—Okay; thank you. You also note from the same report that by area less than a quarter of Australia's onshore and offshore basins have received exploration activity. In respect of the quarter that have, what prospect exists for those basins to produce oil and gas?

Dr Pigram—I will take it on notice again and provide you with a detailed answer.

Senator BUSHBY—You will probably have to do the same with the next one. With respect to the remaining 75 per cent that have not received exploration activity, what is your assessment of their prospectivity? Is it as good or equivalent to those with proven prospectivity or those already producing? I am also interested in why they have not been explored yet.

Dr Pigram—I can answer that one more generally for you. Essentially those basins tend to be older rocks. They are the ones that we believe have far less potential, and clearly that assessment is shared by the industry because they have not chosen to go to those areas. So I think the prognosis longer term is that they do not have great potential and unless there is some development in understanding of the geosciences whereby some unconventional resources exist they have very little potential.

Senator BUSHBY—So that is the absolute answer in that sense? I recall Geoscience Australia giving some evidence a few years back about how there were a handful of test rules in the Great Australian Bight that have been put in but in an area the same size in the Gulf of Mexico there were 2,500 or something like that. Is it just that we have not got to it yet or that the industry has not got to it or is it because, as you say, it really does not look like it holds out the prospects that other areas around the world do?

Dr Pigram—It is a combination of all of those factors. The geological history as we understand it would suggest that they do not have great potential, but they have not been tested fully. Again, for the industry to test them they have to have enough information to see that there is some potential and something that is worth testing.

Senator BUSHBY—And in some of those areas you have not got to it yet.

Dr Pigram—We have not or the industry in their own assessment have decided that it is not appropriate either. Either they are very old and the wrong sorts of rocks or they are just not the right environments to have good potential.

Senator BUSHBY—You mentioned the acreage release program a minute ago, and I have read that in some other things. How does that actually work? I am not sure how you release it. Do you identify areas that you release or does the industry come to you and ask?

Dr Pigram—In the offshore area it is a consultative process. We listen to industry about what they might be interested in having released. It is an annual process. The minister releases the areas at the APPEA conference each year, usually around April or May. The process for selecting the areas that go up for release is based on work that we have done in the precompetitive role that we have and we identify areas where industry is not active or we think there may be potential and we put those forward for industry to consider.

Senator BUSHBY—So there is no limit imposed on what you are releasing other than the information that you know about the areas essentially?

Dr Pigram—Yes. There has to be sufficient information for it to be attractive for the industry then to do their own due diligence on whether or not they may want to invest in those areas.

Senator BUSHBY—So a basin out there that has not been explored and has not been properly assessed by you is unlikely to be released because nobody knows anything about it, not because you are holding it in reserve or you are—

Dr Pigram—There are very few basins that we do not know something about; I would suggest none, in fact. We have some sense of what the potential is. Part of the recent program that we have undertaken has been in those very remote frontier areas, because in terms of a lot of the shallower near-shore basins we have done a substantial body of work in them and we do have a good understanding of them. The ones that are in the deeper water or more remote areas are the ones that we have been targeting for exactly those reasons because we have not been there previously.

Senator BUSHBY—Just a final question from the perspective of a Tasmanian senator. With regard to the Sorell Basin, is that one that is being looked at at all by you?

Dr Pigram—It has.

Senator BUSHBY—It has been looked at?

Dr Pigram—It has been looked at.

Senator BUSHBY—What did you decide in terms of its prospectivity?

Dr Pigram—It has been subject to the acreage release process that has been put into the system and put in front of companies as a potential site for a future—

Senator BUSHBY—Is there any interest?

Dr Pigram—I would have to take that on notice, Senator, if I could. I could tell you the outcome of that process.

Senator BUSHBY—Good. Thank you.

CHAIR—That is it for Geoscience. Thank you, Dr Pigram.

Dr Pigram—Thank you.

[5.17 pm]

Tourism Australia

CHAIR—Thank you for coming in this evening.

Senator PRATT—Could the committee have an update on the progress of the There's Nothing Like Australia and the No Leave, No Life campaigns?

Mr McEvoy—As you know, in March this year we launched There's Nothing Like Australia to Australian people to get them involved and 30,000 Australians signed up and uploaded images and 25 words on why there is nothing like our great country, which was quite exceptional, in about 28 days. What we did with those entries was that 3½ thousand have been translated into 16 different languages and launched around the world, so it is almost like postcards from Australians to the world to come to visit our country. On 31 May

this year in Adelaide at the Australian Tourism Exchange we launched the full campaign to the travel industry—2,200 delegates from 40 countries—and since then the ad campaign, including broadcast advertising, magazine, print and that big digital presence, has been launched around the world. I think we have launched into at least 17 countries around the world now and there are a number of others releasing in November—another 12 or so that are launching.

So, how do you measure it early on? Certainly web traffic has increased markedly. One of the big measures for us is that the industry has really bought into it. We have more than 40 partners who have bought in, including states and territories, airlines, travel wholesalers and retailers. As campaigns go, it has certainly been very well accepted by an industry who wants to put their money with our money to do better. That is There's Nothing Like Australia. That is where we are at. I think the Oprah Winfrey program is another example of demonstrating why There's Nothing Like Australia has been a great success. That is all to come and that will be a big demonstration of the campaign.

Senator PRATT—With respect to the There's Nothing Like Australia campaign and the partners involved, does its success in part come from its multimedia platform and the social media aspect of it that enables a wide-ranging participation in it?

Mr McEvoy—Yes, definitely. It has been very much built with new media in mind and building social advocacy. Forever our industry has been built around the idea that word of mouth is the strongest way that people get recommendation. You trust a friend or relative and now with the way Facebook, Twitter and Beebo in places like Japan are going, people can recommend to each other. What we try to do is provide them with the tools to give best recommendation, and those uploads by Australians are great images and words to do that. To your point, the ad has been downloaded more than 100,000 times on YouTube. We have a YouTube channel for our country. We have more than 800,000 Facebook fans in the world now. It is the largest destination Facebook site in the world and it is growing by somewhere between 40,000 and 50,000 fans every week. So that is quite phenomenal. So to your point, it is social advocacy. People passing on recommendations about great places is really important and There's Nothing Like Australia is right at the heart of it.

Senator PRATT—What is the strategy for penetrating social media in other language groups where we do not have our own Australian people participating in that?

Mr McEvoy—At the core of it, of the stuff that Australians uploaded we did translate 3,500 of those experiences into 16 different languages. While Facebook is very strong throughout the world in many places, it is not as strong as some other social media sites in certain countries.

As an example, in Japan there is a more popular site, and we are very involved in that and building communities of interest in our country, locals telling their stories about our country. So it is a good point. And, again, every market is a little bit different, but the one thing that is common is that social media is much more important in terms of building recommendation for our country. We are up to our neck in that now and it is going very well.

Senator PRATT—Terrific. You did, I think, begin to reference the No Leave No Life campaign. Do you have any sense of whether Australians are indeed starting to use their leave?

Mr McEvoy—Yes. Well, look, we do a survey every year on the big numbers of how many leave days have been stockpiled. I think the global financial crisis is part of this reason, but I will give you some numbers. In March 2009 when it was launched, 123 million days had been stockpiled. Back at I think 30 June this year that had been reduced to 117 million days. I think during the GFC a lot of companies used that as an opportunity to retain employment but get people to take more leave, which was good, but from our point of view I think we have had some role to play.

More than 800 companies now who represent more than a million employees have taken this No Leave No Life concept into their company. We did some survey work on people who understand and were aware of the campaign, and, of those people who are aware, about two-thirds of them are more likely to take an Australian holiday based on the campaign. It is early days and it is a big issue, and it is an issue that only gets solved if employers take a real interest in it and encourage their workers to replenish and holiday.

Senator PRATT—I suppose the strong Australian dollar means that there are unfortunately probably more Australians heading overseas for their holidays. What is the strategy for strengthening the local tourism market in that context?

Mr McEvoy—The dollar is interesting. You are right, Australians are very aware of what our currency buys offshore. Outbound travel has been very strong for many years now in Australia, since probably about 2004, and the dollar is not the only reason. Competitive airfares, low-cost carriers and more destinations have really helped drive that. That has sort of put a bit of a hold on domestic. It has been a tough environment. The dollar is not probably helping at the moment, as Australians look for more value offshore.

The states and territories predominantly do the marketing of Australia to Australians, where 90 per cent of our budget and our effort is inbound, bringing more internationals in, and we are doing that hopefully well and those numbers are growing. More internationals are coming this year than ever before. The likelihood is that we will reach more than six million visitors for the first time this year. So inbound is improving, and that is a good thing for the Australian industry. Domestically it is those programs, No Leave No Life and also what we have done with the campaign, There's Nothing Like Australia. Getting people to upload those images was quite amazing. We had more than 1.2 million downloads of those images by Australians looking at their own country and all we can do is continue to do that. The states and territories are heavily into that and they are working hard, but certainly it is a difficult environment.

Senator PRATT—You did mention the Oprah effect and the growth in inbound passengers. Can I ask you what US studies have shown about the effect of an Oprah endorsement?

Mr McEvoy—It is sort of a phenomenon they call the Oprah effect. I think perhaps her book club is one of the best examples, where authors who have sold a few copies get to be featured on the book club and they become *New York Times* bestsellers pretty quickly. So it is that sort of impact that she is well known for. Why did we target the program? The program

goes to 145 countries around the world. I think there are 40 million viewers in the US alone and probably that again in those countries around the world.

Really importantly for us, it is watched by predominantly 25- to 54-year-old women who have a household income of more than US\$75,000. It is the highest proportion of viewers in that target segment of any program in that market around the world. Those people are the decision makers in travel and tourism. So women 25 to 54 are right at the heart of the audience that we want to try to influence. That is the Oprah effect. We want to see if that can rub off on Australia a bit. Harpo Productions, her production company, have committed to making at least two hours of television about our country. Three hundred audience members will come and experience our country and Oprah and her correspondents will go as far and wide in Australia as good stories do make and broadcast that to the world.

Senator PRATT—Can I ask who Tourism Australia consulted with about the visit?

Mr McEvoy—Yes, sure. We have many partners in the program—major partners including Qantas as an airline, the Sydney Opera House, Tourism New South Wales, Victoria, Queensland—and now also all the other states and territories have an involvement. Where appropriate, these people were consulted to get it across the line.

Senator PRATT—I note you have said ‘and now also the other states and territories’. I am a Western Australian senator. You would be very aware that there has been a campaign from Western Australia to ask the tour to visit Western Australia. Was Western Australia consulted at the inception of this tour proposal?

Mr McEvoy—We had to work with Harpo around issues of nondisclosure in a commercial way, so when we could let Western Australia know we did let Western Australia know. It is really important to note that no decisions were made about the television programming that is being made until after it was announced, and that is really the opportunity. What we have done since the announcement—and prior to the announcement we did discuss it with Tourism Western Australia—is we have given not just Western Australia but every state and territory the opportunity to pitch directly to Harpo Productions about their story ideas. For what it is worth, we would like to see Oprah or her correspondents get to Western Australia also. The intention of Tourism Australia since the beginning has very much been to get as much national coverage as possible about our wonderful country.

CHAIR—On behalf of South Australia as well—

Senator Sherry—I had better put my bid in, too.

CHAIR—Is there a commitment with Harpo to go and see a minimum number of states?

Mr McEvoy—They will make the best television they can make and they will hold that pretty dear to themselves. The spirit of the agreement is that they will go as far and as wide in Australia to make the good stories.

CHAIR—But are they locked into certain states now?

Mr McEvoy—They are locked in on the audience, for sure. I suppose one of the parts of the deal is we had to bring 300 audience members out and give them an experience. One of the criteria was that they have travelled a long way—they have come from Chicago but also all over America through LA to Australia—so they wanted us to keep them relatively close to

home to begin with. But as we talked to them, we certainly pitched in a lot of other ideas and the states and territories have directly, and I think they are very interested in those ideas. They will make those final decisions, but certainly I think we will get a lot of great national coverage.

CHAIR—So there is no final decision yet about where they will start?

Mr McEvoy—That is correct. They will be here in early December to make the programming. Frankly, it is an organic process and they will be deciding right up until then what they will film.

CHAIR—Have you consulted with the department of tourism regarding this?

Mr McEvoy—Yes.

CHAIR—And you have got advice from them about where to go and what to pitch?

Mr McEvoy—Not so much about where to go—just keeping the department and the minister informed as we go. There have been thousands and thousands of ideas put forward, which we have dutifully talked to Harpo about. They will be the final arbiter of what stories they make and where they go, because that is TV programming which they are holding close to themselves.

Mr Clarke—Our interest in the department, which TA fully embraced and already had, was that all jurisdictions have an opportunity to put their best case forward to the production company. But at the end of the day it is a matter for the production company to decide.

Senator PRATT—It does seem that at the outset there were only a couple of states involved and that it is only in hindsight that all states now have an opportunity.

Senator BUSHBY—Exactly. When did the states have that opportunity to put their case? When did you actually provide that to them? How far into the development of this huge production was it before you actually introduced the states to that opportunity?

Mr McEvoy—The states got the opportunity when Harpo Productions were thinking about what stories to make. As soon as they started thinking, ‘What television do we make?’ was when the states got that opportunity.

Senator BUSHBY—That was well after you had locked them into coming.

Mr McEvoy—Yes. The first part of it was held pretty tight at the request of Harpo absolutely, because the whole idea of this program is a surprise or a reveal for the US audience and the global audience so the fewer people who knew about it, according to Harpo, the better. They have done these things before and they hold them pretty close to themselves.

Senator PRATT—So does that mean that we will have to wait and see if our states get a guernsey?

Mr McEvoy—Yes. We are in there talking, as are the states and territories, and all will be revealed. They will make a lot of great television for our country.

Senator FIFIELD—It would be fair to say that each state has the opportunity to audition. It is kind of like *The X Factor* for states.

Mr McEvoy—Yes.

Senator PRATT—So you can tell the Western Australian newspaper, who I am sure are visiting, to keep their campaign going?

Mr McEvoy—I think some of the stuff that has been coming out of all the states and territories has been fun, and I think Harpo are really watching with great interest and they are looking—

Senator Sherry—I might even send them a copy of this estimates hearing. That would really get them interested in coming to Canberra!

Mr McEvoy—There have been more than 11,000 stories written—

CHAIR—That is just inviting me to talk about the joys of the Barossa, the Flinders Ranges and Kangaroo Island.

Senator PRATT—The Ningaloo Reef and the Kimberley are waiting for them. I did have some other tourism questions. I wanted some advice about the National Long-Term Tourism Strategy. I have heard a bit about where we are at now and about the emergence of things like social media. What does the long-term picture for Australia look like?

Ms Madden—Minister Ferguson late last year, on 15 December, announced the National Long-Term Tourism Strategy and an implementation plan that was agreed with all states and territories through a ministerial council. It has proceeded since December last year with the establishment of nine major working groups, the majority of which are headed by states and territories but include Commonwealth, state and territory and industry representation. As you implied, this work on the strategy is supplementing the work on marketing that Tourism Australia is leading but is looking particularly at the supply side or productive capacity of the industry.

You all know that tourism is our largest services export industry. Arguably perhaps, we have not looked behind the scenes at some of the issues like investment, infrastructure, labour and skills as much as we might. So they are some of the key working groups. The work is advancing through the ministerial council leadership. There is an up-to-date summary of each working group which is available on our website, or I can go into specific details if you like. The next ministerial council will receive a full update and be making some decisions in relation to future directions when it meets this Friday in Sydney.

Senator PRATT—When you talk about product quality, would that be things like if particular tourism regions have had a majority of investment at a certain time and place then suddenly their tourism product can start to get out of date? So you have to keep certain tourism regions with a product that is going to suit the current market. Is it that kind of strategy you are talking about?

Ms Madden—Yes, certainly. The work of the strategy is informed by research. In fact, one of the key priorities under the strategy is to improve research—what we are actually looking into and how we are taking forward areas of improvement. For example, the domestic visitor survey, which is conducted by Tourism Research Australia, looks into satisfaction levels and, where there is action, that can come forward in terms of specific measures.

Mr Clarke—The nature of the work being done in this strategy is deep and fundamental. It is called a long-term strategy because it is not going out and suddenly creating some new

attraction or facility or piece of infrastructure. It is more looking at what are the impediments to investment in infrastructure that supports the tourism sector, be it regulatory or other matters. What are the impediments to growth in labour in the sector and to getting the appropriate skills? How can you do destination planning more effectively, rather than picking which destination should actually benefit from that?

Senator PRATT—Where does the TQUAL grants program fit into all of that?

Ms Madden—TQUAL was announced for this year by the minister last December and we are rolling out successfully 70 projects. Then, as part of the election commitments, the Labor government did announce that there would be \$40 million of new funding made available to TQUAL that will commence from 1 July 2011. So early planning is underway in relation to that. What we have tried to do based on feedback is have a full evaluation of tourism grants to date.

We have consulted very closely with industry and recipients, as well as states and territories and other stakeholders, to inform the planning of the next phase of TQUAL, and the summary of that evaluation is available on our website. But one of the key principles is that some of the grants really have to underpin the strategic approach to tourism more effectively. So that will be an important element of the next round of TQUAL in that it will actually underpin some of those key challenges in the strategy like investment, quality, labour and skills more effectively than has perhaps occurred in the past.

Senator PRATT—All right. That is terrific. Thank you very much.

Senator BUSHBY—A number of the questions I was going to ask have been asked. In fact, I think that Senator Pratt must have stolen my questions about Oprah Winfrey in respect of Tasmania, but basically she has asked everything I was going to ask on that. She has also touched on a few things like the National Long-Term Tourism Strategy. At the June estimates in respect of a number of programs being run through the department I asked how much of the department's resources are actually spent on each of those programs to which Ms Madden indicated that those details would be provided on notice. In BR10 and a number of other questions on notice the department tells me that it does not allocate internally in a formal budgetary manner how much time is done in kind by its officers for each of the various activities that they undertake. I accept that, but does the department as a management tool or otherwise allocate less formally or keep track of the time actually expended for each of these various activities? In asking that, I note that in BR11, BR12, BR13 and BR14 some breakdown of staff costs for working on some of these activities is provided but not wholly. How is that possible unless there is some way that you actually do it in an informal sense?

Mr Clarke—I recall well your question and I took it on notice and we are now following up. The extent to which we have been able to answer your question reflects the extent to which those goals that were put in the PBS tie directly to the structure of the department. So the resource allocation within the department is through divisions, branches and sections and we can tell you exactly where they go, but they do not always match exactly those higher level objectives that are articulated in the PBS. Some are aligned. Those we were able to give you. Some did not align as well and it would be necessary to take estimates—

Senator BUSHBY—You do not actually have internal management processes that keep track of the resources, human and otherwise, that are being used in particular programs from within the department?

Mr Clarke—We know where all of the people and money goes; it is the mapping of that to those higher level objectives that were outlined in the portfolio budget statement and we have not institutionalised that mapping in our accounting system.

Senator BUSHBY—I will leave it at that for the moment. Also looking back at the last estimates, in BR29 TA indicated that there were only four changes in appropriation to TA's budget and listed them. This does not appear to explain the apparent fall in real terms that I was asking about in that context. How does TA explain the fall from \$142 million this year from \$137.5 million last year, including the \$9 million brought forward from next year, which, if you deduct from this year, leaves a figure some \$6.5 million short of last year's budget, and next year it is predicted to be \$123 million? The figures just do not seem to add up in the sense that you are saying that there has been no change to the budget. If there has been no change other than outlined in BR29 to the government allocation, is the difference accounted for by variations in the actual and predicted revenue sourced from outside of the government?

Mr McEvoy—The two areas of difference from last year are the \$9 million brought forward and also the fact that Tourism Research Australia went from Tourism Australia across to the department. So they are the two amounts of money that make up—

Senator BUSHBY—Which was outlined in the answer to the question on notice.

Mr McEvoy—In terms of next year and your figure of \$123 million, we just want to have a look at that. We do not think that is right. I think our budget in forward estimates returns to—I have been advised that \$123 million is this year, 2010-11. It returns to—

Senator BUSHBY—I may have written my notes—

Mr McEvoy—Yes, the \$9 million is returned in next year's budget.

Senator BUSHBY—So \$123 million this year. I was getting my years wrong, but if we shift it back one year and talk about \$123 million this year, how does that compare with the \$142 million and the \$137.5 million?

Mr McEvoy—So the \$141.62 million, which was last year's budget, includes \$9 million brought forward out of this year's and also includes Tourism Research Australia which was part of Tourism Australia in that fiscal year. If you move into this year, there is \$9 million out which was brought forward and the full effect of Tourism Research Australia has moved across to the department.

Senator BUSHBY—And that accounts entirely for that difference? I could do a simple sum and it would add up?

Mr Le Loux—There are some other minor variations, but that relates to wage cost increases that are applied to the appropriations. Apart from those major changes, everything is the same.

Mr McEvoy—The budget goes to 133,385, which is that 122 plus the nine million returned. That should add up.

Senator BUSHBY—In BR31, TA notes that expenditure on other domestic activity will fall from \$1.5 million in 2009-10 to \$0.5 million in 2010-11. Can you tell me what activities that covers and what activities will be cut to explain that million dollar reduction?

Mr McEvoy—We will take that on notice.

Senator BUSHBY—Thank you. What partnerships do you currently have with private enterprise, for example the airlines?

Mr McEvoy—We have some major partnership with airlines. A good example of that is a three-year \$44 million partnership with Qantas. We have major partnerships with other airlines like Emirates, Singapore Airlines—in fact many, many airlines. We also have some other partnerships around our cooperative marketing campaigns with travel wholesalers and agents around the world and also the states and territories. We have a number of partnerships. Grant is just pointing out to me some of the major airline partnerships. They are Qantas, Emirates, Singapore Airlines and then a whole bunch of others which make up some additional support. There are two ways we account for it. One is that we are the banker and the money comes through us. The other way is that we support them in some of the things they are doing.

Senator BUSHBY—When you say ‘partnerships’, you have an agreement with them where they spend money through you? Is that the guts of what is involved?

Mr McEvoy—The example would be ‘There’s Nothing Like Australia’, which is the line. That can be demonstrated through an ad in the UK with, say, Emirates. There is a message from them and a message from us about the destination.

Senator BUSHBY—And you will place that ad?

Mr McEvoy—Not always. It will depend on a whole bunch of things. Who can buy the media most cost-effectively is one of the key things. That is a discussion that we have with those airlines.

Senator BUSHBY—But ultimately the partnerships involve a private enterprise partner, like an airline, seeing an advantage in associating with TA and paying you money as a result of that. They anticipate that they will get a commercial run on that money that they are giving you through patronage and you use that money to advance the cause of TA in general but specifically focusing on those partners?

Mr McEvoy—Sure, they are commercial entities and they are looking for commercial return. There is no doubt about that. From our perspective, we do it because it leverages our money and gets a strong and impactful message to the consumer. If you look at the way people make travel decisions, airlines are very important in that—the price of a fare. But also their websites et cetera in many markets are often one of the first ports of call when people are thinking about that. They are very good partners for us.

Senator BUSHBY—In June I was asking about how you were going to cover for the \$9 million this year that was brought forward from last year. You indicated that some of those

private partnerships were raising enough money and you were fairly confident that they would cover that \$9 million but you had not got there yet. Have you got there now?

Mr McEvoy—There are two things that have perhaps worked in our favour. One is that a strong dollar actually works well when you are buying in foreign markets. We have been able to buy better offshore in foreign currencies because our dollar has gone further. That has helped make up that. The second one is to your point that the campaign is working well and a lot more partners have joined up, either directly or indirectly. So I would say that there is as much, if not more, noise being made about Australia now than there was—

Senator BUSHBY—Will you have the same degree of funding? Will you make up the full \$9 million shortfall?

Mr McEvoy—I think we do pretty much in currency.

Senator BUSHBY—You thought you would in June but you did not.

Mr McEvoy—I am pretty confident that we have.

Senator BUSHBY—Could you take that on notice and confirm that?

Mr McEvoy—Absolutely.

Senator BUSHBY—You also talked about a forecast of making \$9 million on currency gains. You were fairly confident that that was going well and you were going to meet the budget. In terms of currency gains, what were you hedging against—an increase in the Australian dollar?

Mr McEvoy—We do not hedge; we get given a rate through Treasury. The dollar is strong and it is buying better offshore.

Senator BUSHBY—In terms of currency gains, that is what you were talking about?

Mr McEvoy—Absolutely.

Senator BUSHBY—So you actually put that in as a line item of value in your budget, that you expect—

Mr Le Loux—Our overall results reflect either a gain or a loss in terms of bringing in a surplus or a loss in terms of our accounts. The way that we manage internally is against the standard or the set rates. Our external accounts will reflect either a gain or a loss, which either we give back to government or get refunded.

Senator BUSHBY—So if the currency does something different from what you were given by Treasury, that would actually show up in your books?

Mr Le Loux—In our financial statements, yes.

Senator BUSHBY—In your financial statements. Okay. I note—and you have mentioned it already tonight—that the transfer of TRA has been completed and that it has gone back to the department. You previously advised that it came with a straight transfer of funding. It was also noted that it is part government funded and sources funded from elsewhere. Where are the funds from elsewhere sourced? Has there been an impact on the non-government sourced funds for TRA that has affected the revenue neutrality of the transfer? Has it actually in

practice effectively been a revenue-neutral transfer or, because of the currency fluctuations or other aspects, has it ended up with either a shortfall or a windfall for the department?

Ms Madden—It has been a neutral transfer, as we mentioned in the previous estimates.

Senator BUSHBY—That was the intention. But there are factors that are outside the department's or TRA's control.

Ms Madden—Yes, I am just getting to those, Senator. The other funding for Tourism Research Australia comes from cooperative arrangements with the states and territories that are addressed through individual service level agreements. Those service level agreements are in place with all the states and territories. So there has been no disruption to Tourism Research Australia's funding stream as a result of the transfer back to the department.

Senator BUSHBY—Okay.

Senator FIFIELD—Mr McEvoy, I have some questions about the Australian Tourism Directions conference, which I think is scheduled for 15 November—in this building, I think. Are you able to tell me what the budget is for the conference?

Mr McEvoy—It is about \$120,000.

Senator FIFIELD—Okay. I notice that you have some good speakers there—Professor Ian Harper, who is always good value.

Senator Sherry—Who is he?

Senator FIFIELD—He has held some interesting and important roles in the public sector.

Senator Sherry—I have heard of him and of his background.

Senator FIFIELD—Indeed, he is a good person and also Mr Christopher Sanderson, who is the co-founder of the Future Laboratory, which is responsible for delivering consumer insight, trend forecasting and brand strategy to a client list that includes American Express, the *New Yorker*, Veuve Clicquot, the Gap, Nokia and British *Vogue*. He sounds like another very interesting chap. I was just wondering what the budget is that has been allocated for the costs associated with the travel, the accommodation and the fees for Mr Sanderson.

Mr McEvoy—Sure. We will take it on notice. I could not give you the exact numbers now.

Senator FIFIELD—It is not something that you have to hand?

Mr McEvoy—Not at top of mind, no.

Senator FIFIELD—Okay. Is there one of your colleagues there who could just have a ballpark stab of what percentage of the \$120,000 is allocated for speakers' fees and costs?

Mr McEvoy—Sorry; I will just have to take it on notice. I do not have the numbers in front of me.

Senator FIFIELD—Okay. If you could that would be good. I am just wondering if there was any consideration given to bringing an Australian based expert on consumer insight, trend forecasting and brand strategy to the conference.

Mr McEvoy—There were certainly a number of speakers considered, including Australian based speakers, and through a mix of timing and all sorts of things the committee settled on Chris Sanderson from the Future Laboratory.

Senator FIFIELD—If you do not know, could you also take on notice the costs associated for the travel, accommodation and other fees for other presenters? I think Ellen Fanning is going to be moderating the session.

Mr McEvoy—Correct.

Senator FIFIELD—So if you could also take that on notice as well. Is there any part of the conference which will be dedicated to accessible tourism and the accessible tourism market? I am asking in my capacity as the shadow minister for disabilities.

Mr McEvoy—Not specifically, Senator, but I guess the whole idea of the conference is to look at future opportunities in both supply and demand. It is about setting some long-term aspirations for an industry and thinking about what the future consumer is looking for. So, not specifically, but in that context it is quite possible that it would come up.

Senator FIFIELD—Do you know what percentage of the market in Australia would be represented by people with a disability?

Mr McEvoy—From a product point of view, Senator?

Senator FIFIELD—Yes.

Mr McEvoy—I have seen an audit a few years ago of the number of operators that are capable of handling people with disability and it is a low percentage—although I know that many, many more have had to come into line with that. So I would not be able to put a percentage on it.

Senator FIFIELD—Thank you. The generally accepted figure in terms of the population who have a disability ranges between 10 and 20 per cent, which is a significant section of the community. That is why I am asking: because they are a potential market for tourism operators and they are a segment of the community who like to get out and do things as much as anyone. You might be aware that New Zealand recently held a conference focusing on accessible tourism and developing that market. Is that something that you are aware of?

Mr McEvoy—I was not aware of the New Zealand conference, Senator, no.

Senator FIFIELD—To my understanding it is the first government auspiced conference focusing on accessible tourism. Does Tourism Australia have any specific initiatives or ideas in mind to try to develop that market, both for the benefit of tourism operators to tap into a section of the community who might find it difficult to buy their products but also for the benefit of that segment of consumers?

Mr McEvoy—It is a good question, Senator. Our aim is to get people to come to the country or through the country. One of the big things that underpins a lot of what we do is the Australian Tourism Data Warehouse which is, as you may be aware, a database of I think more than 22,000 records of the Australian business operators in tourism throughout the country. One of the sections on that talks about their ability to handle people with disability of

all types. So through that, through our network of promoting our country to the world with that as an underpinning database, is where it comes into play.

Senator FIFIELD—Is there the capacity at the Tourism Directions Conference for some discussion or for the moderator to guide discussion to cover that topic in the course of the proceedings?

Mr McEvoy—I think so, Senator. I think this one is an opening day to get this idea of a once-annually stake-in-the-sand conference for the industry underway. The aim, I think, Jane, in the future is to hold it some time mid year each year, and I think that is the opportunity to get all sorts of papers up about the future of tourism in all its capacity and all its interests, absolutely.

Senator FIFIELD—So it is something that could be looked at for future tourism direction conferences as well as having it as a formal part of the proceedings?

Mr Clarke—Senator, your question certainly goes to the intent of this conference and, as Mr McEvoy has said, this is the first. Holding this sort of conference was actually one of the outcomes of the Jackson committee that spawned the national long-term tourism strategy and this was one of the other outcomes. It is pretty much unashamedly modelled on the ABARE outlook conferences that were very effective in providing that economic review of the sectors that that organisation was responsible for doing the research for. So the intent is to develop this as an economic futures conference. It is not a marketing event; it is the industry talking amongst itself about where the industry is going and how the industry could do better. So particular interests, like disabilities and other special interests, are exactly the sort of thing that we would see this conference evolving into addressing—those sorts of opportunities.

Senator FIFIELD—I know what you mean and I am not being critical, but ‘special interest’ is probably not quite the right term.

Mr Clarke—I am struggling for the right term.

Senator FIFIELD—I appreciate that, because I think it is not just disabilities but also people who are ageing.

Mr Clarke—Yes.

Senator FIFIELD—There are particular things which can be done to open up products for those people.

Mr Clarke—That supply side perspective—what developments on the product side does the industry need to invest in and what are the impediments to those investments?—is exactly the sort of thing that we are trying to work through in this strategy and conference.

Senator BUSHBY—You mentioned people who are ageing. The first baby boomers turn 65 next year and there will be a massive increase in the number of labour market exits, to put it technically—the number of people who are retiring over the next five, 10, 15 years. All indications are that they are going to have a very different attitude to their retirement from the one our parents had when they were thinking about retiring. They will want to get out there and spend money and do things. This conference is obviously aimed in some sense at making sure we have products that are suitable for them. In a broader sense, given the opportunities

over the next decade as baby boomers start to retire, how have you approached the opportunities there?

Ms Madden—At the Tourism Directions conference, the government will also be launching the inaugural state of the industry report for tourism. One of the key focus points of this state of the industry report will be some of the megatrends that industry and small businesses, which comprise the majority of the tourism sector, need to take into account. Certainly, as you have identified, the ageing of the population and what that could mean for businesses in the supply chain is one of the topics that will be addressed in the report.

Senator BUSHBY—That demographic change will have a huge impact on not just tourism; it will have a fundamental impact on the way a lot of our economy operates. It will have a lot of impacts at both ends. Those people will be reasonably wealthy on the whole and have an ability to spend and they will not want to sit at home, which is how we traditionally think of retired people.

Mr McEvoy—It is very much alive and with us now.

Senator BUSHBY—I am sure it is because some of them would have been retiring already, but technically they will hit that retirement age at 65. It is a milestone in a way.

Senator Sherry—The average retirement age in Australia is just over 60, so it is cutting in a bit earlier than 65.

Senator BUSHBY—I know, but 65 has been the traditional age.

Mr McEvoy—In markets like Japan there is a segment called the Jukunen, which is an over-55s market, which is Senator Sherry's point. They have maybe cut out of work but they have time, they have money, they have travelled and they are looking for things that satisfy their interests. So you are right: it is a trend today and tomorrow.

Senator BUSHBY—I just interrupted there. I might come back with some more questions later, but I think Senator Birmingham has some questions.

Senator BIRMINGHAM—The statistics indicate fairly strong continued growth in overseas travel by Australians. Obviously I know the dollar has been canvassed to some extent. To what extent do we now have a gap between the number of Australians travelling overseas versus the number of international visitors to Australia?

Mr McEvoy—You know this number, Senator, and so do I but I have not got it with me. I could take it on notice. It is one that is often publicised by the TTF—the value of the number of people coming in versus those going out. It has shifted in favour of outbound expenditure.

Senator Sherry—Do you want the number of people or the expenditure?

Senator BIRMINGHAM—I was looking at people.

Senator Sherry—That is irrelevant.

Senator BIRMINGHAM—Either would be—and I realise in the end expenditure is. However, I suspect—

Mr Clarke—It is one of these big trends, as you say. I will see if we can bring it for you.

Mr Calder—There has been a general trend over recent years of increasing outbound visitation by Australians. I do not have the exact number with me for last year—I could not find it in my pack—but it did exceed the number of inbound arrivals in Australia. Last year there were around about 5.6 million inbound arrivals to Australia and that was slightly exceeded by the number of outbound.

Senator BIRMINGHAM—Slightly exceeded by the number of outbound?

Ms Madden—Outbound was 6.3 million, so the difference there is 0.7 million between outbound and inbound.

Senator BIRMINGHAM—Last year being the last financial year?

Ms Madden—The full 2009 calendar year.

Senator BIRMINGHAM—Fantastic. Insofar as you do collate data on expenditure—because, obviously, I know we keep reasonable data on expenditure for inbound; I am not sure how much data you collate for outbound—is there a comparison—

Mr Calder—The primary source for measuring the trade imbalance for tourism is the Australian tourism satellite accounts. The latest edition of that is the data for 2008-09, so it is still lagging behind at this point. So we do not have the most current data coming up to the 2009-10 figures as yet.

Senator BIRMINGHAM—In the end, I accept that that type of netting-out figure is of relatively little value to the key objective, which is getting more people to holiday in Australia and then the other objective of getting Australians to holiday at home. Just because they are also holidaying overseas does not mean that they are not doing so here, but are we seeing a continued decline in the spend on tourism and travel in the domestic market by Australians that is in line with this continued growth in overseas travel?

Mr Calder—Domestic tourism has been struggling for about 20 years now. There has been a weakness in that particular market. I do not have that particular number here, but there have been generalised falls. In 2009 overnight trips by Australian residents fell by 6.3 per cent and visitor nights fell by 5.6 per cent. Total domestic expenditure fell by 3.5 per cent, but the daytrip component of domestic travel increased by 6.5 per cent during that time. So there has been some substituting for trips of shorter duration.

Senator BIRMINGHAM—Okay.

Ms Madden—Senator, there has been quite a lot of documentation, including the Jackson report that my colleagues referred to, that outlined these trends and, as I mentioned, the government will be releasing the state of the industry report. These form the context for the National Long-Term Tourism Strategy and some of the marketing efforts that Tourism Australia has outlined today as well. But certainly, from a policy viewpoint, these challenges about domestic travel are the reasons we are looking in a concerted way at some of the factors that go into making up our domestic tourism industry—the investment, the labour and skills—and this is the very context in which we are currently operating.

Senator BIRMINGHAM—Okay. Important though the work of TA is in promoting the domestic market, there are another group of players who are particularly critical, and they are the state agencies.

Ms Madden—Yes.

Senator BIRMINGHAM—As we have passed through the budget rounds for all of the states, have the states maintained their investment or improved their investment in tourism marketing activities and particularly, of course, in domestic tourism marketing?

Mr McEvoy—It varies. I would have to take on notice to have a look if you want an exact answer to that, but it varies. By and large, I think they have pretty much maintained their overall budgetary effort. How they use that either domestically or internationally I would not know but, by and large, I think it has been maintained. The growth for us has come in inbound this year. We have had about a five or six per cent growth in inbound. So that has been the good news for the Australian tourism sector.

Senator BIRMINGHAM—As I said, while everybody from the industry can take some credit for that, full marks to TA for their role in that. It is the case, obviously, that extraneous factors like the dollar are going to both help and hinder in these ways, and you have explained that already in terms of your marketing dollars versus the impact on travellers to Australia and the attraction for Australians of travelling overseas.

I promised Senator Williams a bit of time before we move on, so I want to jump through a couple of quick budget specifics. We often find at the budget estimates that TA have not set their own internal budget. We will go through a couple of program lines. I might work backwards from program 1.3, which is primarily the marketing budget line. We see a fair dip in the budget for 2010-11. Is that dip going to be made up by the dollar fluctuations now—by good fortune?

Mr McEvoy—We have certainly been fortunate in a year where \$9 million was brought forward. That was a really useful program. We brought \$9 million forward for marketing campaigns from the March-June quarter. We spent \$9 million in the industry and \$11 million, \$20 million, on almost 60 campaigns at a time when we really needed it, and that was useful. This year, because our dollar is buying more strongly, without putting a finite number on it, yes, we are buying better. The Australian dollar is more powerful and we can afford more marketing dollars offshore. It has been a fortunate time to be in that situation.

Senator BIRMINGHAM—Aside from investments in offshore marketing, advertising and promotion, have other sectors of TA funded out of this budget line, such as Business Events in Australia, maintained their budgets?

Mr McEvoy—They have been maintained and we have exact numbers there. We have maintained that effort. Again, there have been good partnerships with industry. We are collectively tackling the association business. We have got 16 convention bureau partners involved with us. There has been a slight decrease in the business events funding. It is still up over \$3 million. It was at \$3.5 million at one point. There has been a bit of a loss there, but, again, we are buying better offshore. I would argue that we have more partners involved with us than perhaps we did last year as well.

Senator BIRMINGHAM—Is the business events sector feeding into the growth in inbound tourism that the industry has enjoyed?

Mr McEvoy—It has been a good story. They were most affected last year. There was more than a 20 per cent decline in business event visitors last year. As you would understand, with the global financial crisis, business events, corporate meetings and incentives were some of the first things cut by corporates. This year we are seeing a return to growth. The latest figures show—and I am not sure we have got them—14 to 16 per cent growth in business event visitors this year. Certainly, that industry is feeling more buoyant. The corporates globally are looking to reward both employees and contractors a lot more again in the incentives area and are holding their corporate meetings offshore again. We have seen a return in the business events sector.

Senator BIRMINGHAM—The dollar does not help you so much in terms of making up in program budget lines 1.1 and 1.2. Have you had to take cuts to programs in either of those areas?

Mr McEvoy—In the interests of time, I will take that on notice.

Senator BIRMINGHAM—I will place some other questions on notice as well and give Senator Williams his promised five minutes.

Senator WILLIAMS—You keep statistics on those who come to Australia. Do you keep them on how many actually visit regional areas?

Mr McEvoy—We do. We were talking about that before offline. Something like 46c in every dollar spent by international tourists goes to regional Australia. I think it is something like six in 10 international visitors go to a regional area and just under 50c in every dollar is spent regionally. It is a good industry for regional Australia.

Senator WILLIAMS—That is good, because I heard figures years ago—it could have been 10 or 15 years ago—that something like 91 per cent of people who visited Australia would have liked to go regional areas but only about 17 per cent did. That is one sector of the tourism industry that has improved, would you say?

Mr McEvoy—I do not know those figures you are quoting, but certainly in my history in tourism—which is about 15 years—regional Australia has always been one of the major beneficiaries. That is why I think we certainly invest in this sector, because regional Australia does benefit from tourism—tourism jobs and tourism visitation.

Senator WILLIAMS—When people do visit regional Australia, do you have a breakdown of whether it is coastal or inland? I imagine that many people who come to Australia land in Sydney and might travel to Cairns, Coffs Harbour, the Gold Coast or especially the North Coast of New South Wales. Do you have any figures of those who travel inland, west of the divide for example in New South Wales?

Mr McEvoy—We do. I think Tourism Research Australia keeps good figures on dispersal.

Mr Calder—We have our international visitor survey, which we publish on a quarterly basis, which will collate the data on where visitors go based on tourism regions. We also have our national visitor survey, which looks at domestic tourism, and also breaks it down by tourism regions. Those surveys were last released on 8 and 15 September. So we are gearing up now for our September quarterly release to come out in December.

Senator WILLIAMS—With the global financial crisis of the last couple of years, as well as the high Australian dollar we are facing now, what is your anticipation? Do you do modelling of tourists coming to Australia? My concern is regional Australia. Do you see this industry suffering much of a decline in the near future or are you optimistic that we can maintain the levels and grow them?

Mr McEvoy—Sure. Smarter people than me do forecasting as part of the Tourism Forecasting Committee, which I sit on and Jane Madden sits on. Certainly Wayne Calder has some input into it, but also economists and other people look at this. I think in November the next Tourism Forecasting Committee numbers will come out. Certainly there is optimism that there is a growth in inbound and the area that is perhaps—

Senator WILLIAMS—Even with the higher exchange rate?

Mr McEvoy—Yes, absolutely. A lot of it also comes down to airline capacity, and there is certainly airline capacity growth. When airlines put more capacity into Australia, fares become competitive. It is not just about the currency; it is also about the perception and the reality that fares are more competitive. There is a lot of pent-up demand for our country. People want to come. So when the fares are right, when there is good competition and good capacity, we tend to do better. The future of aviation capacity is strong for our country.

Senator WILLIAMS—In the past, tourism was about our third largest export earner for our nation. That has obviously dropped back somewhat now?

Ms Madden—It is the largest services export, but I think it currently ranks sixth overall in terms of goods and services exported from Australia.

Senator WILLIAMS—It is behind education I would imagine.

Ms Madden—It is a definitional challenge. Tourism, as defined by the Australian Bureau of Statistics Tourism Satellite Account, includes education, which is a stay of 12 months or less. Under that definition, tourism is ahead of education, yes. Exports totalled \$24 billion last year.

CHAIR—That brings us to the dinner break. I thank the officers from the Department of Resources, Energy and Tourism, and specifically for this section the officers from Tourism Australia.

Proceedings suspended from 6.14 pm to 7.16 pm

TREASURY PORTFOLIO**In Attendance**

Senator Wong, Minister for Finance and Deregulation

Senator Sherry, Minister Assisting on Deregulation, Minister for Small Business, Minister Assisting the Minister for Tourism

Department of the Treasury**Fiscal Group**

Mr Nigel Ray, Executive Director, Fiscal Group

Mr Tony Webster, Senior Advisor, Industry Environment and Defence Division

Industry, Environment and Defence Division

Mr Steve French, General Manager, Industry Environment and Defence Division

Mr Russ Campbell, Principal Advisor

Ms Natalie Horvat, Manager, Climate Change and Environment Unit

Mr Scott Rogers, Manager, Environment and Agriculture Team

Ms Jenny Allen, Manager, Industry Policy Unit

Mr Kurt Hockey, Manager, National Security Unit

Ms Meghan Quinn, General Manager, Macroeconomic Modelling Division

Budget Policy Division

Ms Luise McCulloch, General Manager, Sustainable Population Strategy Taskforce

Ms Jan Harris, General Manager, Budget Policy Division

Mr Jason Allford, Principal Adviser, Budget Policy Division

Commonwealth, State Relations Division

Ms Sue Vroombout, General Manager, Commonwealth State Relations Division

Social Policy Division

Ms Peta Furnell, General Manager, Social Policy Division

Mr Peter Robinson, Principal Adviser

Mr Chris Foster, Principal Adviser

Mr Damien White, Principal Adviser

Markets Group

Mr Jim Murphy, Executive Director, Markets Group

Mr Brad Archer, Acting General Manager, Infrastructure, Competition and Consumer Division

Mr Paul McBride, Principal Adviser

Mr Simon Writer, Manager

Mr Andrew Deitz, Manager

Mr Ian Laurance, Senior Adviser

Corporations and Financial Services Division

Mr Geoff Miller, General Manager

Ms Vicki Wilkinson, Principal Adviser

Ms Alix Gallo, Manager, Markets Integrity Unit

Mr Tim Beale, Manager, Investor Protection Unit

Mr Richard Sandlant, Manager, Financial Services Taskforce

Mr Mark Sewell, Corporate Reporting and Accountability Unit

Mr Christian Mikula, Manager, Consumer Credit Unit

Mr Daniel McAuliffe, Acting Manager, Governance and Insolvency Unit

Foreign Investment and Trade Policy Division

Mr Patrick Colmer, General Manager, Foreign Investment and Trade Policy Division

Mr Frank Di Giorgio, Principal Adviser

Financial System Division

Mr John Lonsdale, General Manager

Mr Justin Douglas, Principal Adviser, Banking Units

Ms Kanwaljit Kaur, Manager, Insurance Markets Unit

Mr Jonathan Rollings, Principal Adviser, Superannuation Unit

Australian Government Actuary

Mr Peter Martin

Mr Michael Burt

Standard Business Reporting

Mr Geoff Turner, Standard Business Reporting Management Group

Revenue Group

Mr David Parker, Executive Director, Revenue Group

Indirect Tax Division

Ms Brenda Berkeley, General Manager, Indirect Tax Division

Mr Glen McCrea, Manager, Indirect Tax Unit

Tax System Division

Ms Christine Barron, General Manager, Tax System Division

Tax Analysis Division

Ms Maryanne Mrakovcic, General Manager, Tax Analysis Division

Mr Colin Brown, Manager, Costings and Quantitative Analysis Unit

Mr Phil Gallagher, Manager, Retirement and Intergenerational Modelling Unit

Mr Marty Robinson, Manager, Household Modelling and Analysis Unit

Mr Jyoti Rahman, Manager, Revenue Analysis Unit

Personal and Retirement Income Division

Mr Michael Willcock, General Manager

Mr Trevor Thomas, Principal Adviser (Superannuation)

Mr Tony Coles, Principal Adviser (Tax)

Indirect Tax Division

Mr Glen McCrae, Manager, Indirect Tax Unit

Board of Taxation Secretariat

Ms Brenda Berkeley, Secretary

Macroeconomic Group

Mr David Gruen, Executive Director, Macroeconomic Group (Domestic)

Mr Tony McDonald, General Manager, Macroeconomic Policy Division

Mr Steven Morling, General Manager, Domestic Economy Division

Mr Simon Duggan, Principal Adviser (Forecasting)

Mr Paul Flanagan, General Manager, International Finance and Development Division

Mr Bill Brummitt, General Manager, International and G20 Division

Australian Office of Financial Management

Mr Neil Hyden, Chief Executive Officer
Mr Michael Bath, Director Financial Risk
Mr Pat Raccosta, Chief Finance Officer
Mr Andrew Johnson, Head of Reporting
Mr Gerald Dodgson, Head of Treasury Services

Australian Taxation Office

Mr Michael D'Ascenzo, Commissioner of Taxation
Ms Jennie Granger, Second Commissioner
Mr David Butler, Second Commissioner
Mr Bruce Quigley, Second Commissioner
Mr Neil Olesen, Deputy Commissioner, Superannuation
Mr Shane Reardon, Deputy Commissioner, Indirect Taxes
Ms Frances Cawthra, Acting Chief Operating Officer

Australian Securities and Investments Commission

Mr Tony D'Aloisio, Chairman
Ms Belinda Gibson, Deputy Chairman
Mr Shane Teregillis, Commissioner
Mr Michael Dwyer, Commissioner

Productivity Commission

Mr Michael Kirby, Acting Head of Office
Ms Jenny Gordon, Principal Adviser Research
Mr Ralph Lattimore, Assistant Commissioner
Mr Ian Gibbs, Assistant Commissioner
Mr Alan Johnston, Assistant Commissioner

Inspector-General of Taxation

Mr Ali Noroozi, Inspector-General of Taxation
Mr Andrew McLoughlin, Deputy Inspector-General of Taxation

Australian Prudential Regulation Authority

Dr John Laker, Chairman
Mr Ross Jones, Deputy Chairman
Mr Ian Laughlin, Member
Mr Keith Chapman, Executive General Manager, Supervisory Support Division
Mr Charles Littrell, Executive General Manager, Policy Research and Statistics

Australian Bureau of Statistics

Mr Brian Pink, Australian Statistician
Mr Ian Ewing, Deputy Australian Statistician, Macroeconomics and Integration Group
Mr Garth Bode, Acting Deputy Australian Statistician, Social Statistics Group
Mr Denis Farrell, Acting Deputy Australian Statistician, Population, Labour, Industry and Environment Statistics Group
Mr Michael Belcher, Chief Financial Officer
Ms Gillian Nicoll, Assistant Statistician, Office of the Statistician
Mr Paul Lowe, Assistant Statistician, Population Census Branch

Mr Paul Williams, Acting First Assistant Statistician, Population, Labour, Industry, Environment Group

Mr Bruce Hockman, Acting Assistant Statistician, National Accounts Branch

Mr Derick Cullen

Australian Competition and Consumer Commission

Mr Graeme Samuel AC, Chairman

Mr Brian Cassidy, Chief Executive Officer

Mr Marcus Bezzi, Executive General Manager, Enforcement and Compliance Division

Mr Mark Pearson, Deputy Chief Executive Officer, Regulation

Ms Jo Schumann, Executive General Manager, Corporate Division

Mr Tim Grimwade, Executive General Manager, Mergers and Acquisitions Group

Ms Michelle Groves, Chief Executive Officer, Australian Energy Regulator

Mr Scott Gregson, Group General Manager, Enforcement Operations Group

Mr Nigel Ridgway, Group General Manager, Compliance Operations Group

Mr Michael Cosgrave, Group General Manager, Communications Group

Mr Adrian Brocklehurst, Chief Finance Officer

Dr Richard Chadwick, General Manager, Adjudication Branch

Ms Helen Lu, General Manager, People Services and Management Branch

Mr Sebastian Roberts, General Manager, Water Branch

Commonwealth Grants Commission

Mr John Spasojevic, Secretary Commonwealth Grants Commission

Mr Phillip Parkins, Director, Corporate Services, Commonwealth Grants Commission

CHAIR—I declare open this public hearing of the Senate Economics Legislation Committee. The Senate has referred to the committee the particulars of the proposed expenditure for 2010-11 and related documents for the portfolios of Innovation, Industry, Science and Research; Resources, Energy and Tourism; and Treasury. The committee has set Monday, 25 October as the date by which senators are to submit written questions on notice and has set Friday, 10 December 2010 as the date by which answers to questions on notice are to be returned.

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 Senate of 13 May 2009 specifying the process by which a claim of public interest immunity should be raised, which I now incorporate in *Hansard*.

The extract read as follows—

Order of the Senate—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).
- (d) requires the Procedure Committee to review the operation of this order and report to the Senate by 20 August 2009.

(Agreed to 13 May 2009.)

(Extract, Journals of the Senate, 13 May 2009, p.1941)

CHAIRMAN (Senator Hurley)—The committee will begin consideration of the Treasury portfolio with the Australian Prudential Regulation Authority and will then follow the order as

set out on the circulated program. I welcome Senator Sherry, representing the Treasurer; and officers of the department.

[7.17 pm]

Australian Prudential Regulation Authority

CHAIR—Dr Laker, would you like to make an opening statement?

Dr Laker—Thank you, Madam Chair. Firstly, can I introduce APRA's new member, Ian Laughlin, on my right—your left. Ian joined us on 1 July this year after a long career in the life insurance industry in Australia and abroad, and he will bring considerable experience and skills to our work. Secondly, I would like to provide a brief update on developments.

We last appeared before this committee in early June at a time of renewed turbulence in global financial markets. The spotlight on European sovereign debt problems and on the serious challenges facing banking systems and the public finances of a number of advanced countries led to a sharp decline in equity prices around the globe and it yet again heightened uncertainties about the openness of global funding markets. We advised the committee that we were closely monitoring the various impacts of this turbulence on our regulated institutions and that those impacts were being well managed. Since then, global financial conditions have become a little more settled and Australian banks, which had held back for a time from tapping long-term offshore funding markets, have returned to those markets. The episode is a reminder nonetheless that there is an underlying fragility in global market sentiment that may produce further twists and turns until the outlook for global economic recovery is more assured. Pressures on banking systems and public finances abroad are contained and reforms to strengthen the resilience of the global financial system are in place.

This uncertain global setting is a counterweight to the positive outlook for the Australian economy, where a strong terms-of-trade boost is at work, and it argues for continued caution on the part of our regulated institutions and of APRA itself. The operating environment for our institutions is certainly more favourable than it has been since the global financial crisis first erupted, but this is no time for boards and management to succumb to an adrenaline rush or to gloss over the lessons from the crisis.

One action that helped to calm market sentiment in Europe, in addition to support packages to troubled European sovereigns, was an EU banking sector stress test exercise completed in July which tested the capital resilience of 91 EU banks to an adverse economic and financial scenario. Just after our last appearance, APRA published the results of a macroeconomic stress test it had conducted for the largest authorised deposit taking institutions—ADIs—in Australia. The goal in our case was not to assuage market nerves—the strong capital position of our banking system has been well recognised—but to ensure that we in APRA understood what near death could imply for ADIs and whether existing capital buffers would be sufficient to cope.

The macroeconomic stress test, developed in conjunction with the reserve banks of Australia and New Zealand, generated an economic downturn in Australia significantly worse than that experienced in the early 1990s recession and more severe than that built into other recent macroeconomic stress tests in some other countries. The results, published in a

different format to those of the EU banks, confirmed that the ADI industry has the capital resources to weather much greater adversity than it has confronted to date.

During the crisis APRA also undertook stress testing in the other industries it regulates. In particular, we stress tested the impact of declining equity and asset prices, widening credit spreads and increased market volatility on the capital positions of the life and general insurance industries. Stress testing now forms an important part of APRA's supervisory armoury.

Since our last appearance, reforms to strengthen global capital and liquidity regulations have taken firmer shape. Over the first half of 2010, the Basel Committee on Banking Supervision, which is driving these particular reforms, carried out a quantitative impact study of its December 2009 proposals, as well as assessments of their economic impact over the transition period and of their long-run economic benefits and costs. After reviewing the various impacts, the Basel committee announced in July 2010 that it has reached broad agreement on the overall design of its capital reforms. Broad agreement on the calibration and transition arrangements for those reforms was announced in September 2010.

In brief summary, the agreed capital reform package gives much greater weight to common equity in the capital base, raises the minimum requirements for common equity substantially and introduces stricter eligibility criteria for other forms of capital and for regulatory capital adjustments. It also introduces two new capital buffers in the form of a conservation buffer and, if needed, a countercyclical capital buffer.

APRA does not expect that this tougher global capital regime will have significant implications for ADIs in Australia, which have remained, as I said before, well capitalised throughout the crisis. Implementation of the reforms does not begin until 1 January 2013, giving us ample time to consult extensively with industry and other interested parties on the reforms.

The Basel committee's liquidity reforms seek to promote stronger liquidity buffers and more stable sources of funding to ensure that banking systems are more resilient to the sort of liquidity stresses that emerged, often very sharply, during the global financial crisis. The reforms involve two new global liquidity standards, a 30-day liquidity coverage ratio to address an acute stress scenario and a longer term structural liquidity ratio. Details on these measures were agreed at a Basel committee meeting I attended yesterday in Seoul, South Korea.

In contrast to the capital reforms, the proposed liquidity coverage ratio does pose problems for Australia since the volume of high quality liquid assets, particularly government securities, needed to meet the requirement is simply not available. Acknowledging this reality, the Basel committee is considering refining the standard to accommodate countries in this position. Alternative arrangements are under discussion and we will outline how the standard will be implemented in Australia once the Basel committee announces full details of its liquidity reforms in December this year. The liquidity coverage ratio will come into effect on 1 January 2015 and the longer term structural liquidity ratio by 1 January 2018.

Finally, can I note that the United Nations has designated today, 20 October, as World Statistics Day.

CHAIR—Yes!

Dr Laker—It is true. APRA is proud—I want to get in an advertisement here—

Senator Sherry—It is appropriate that it is at estimates that we hear about World Statistics Day!

CHAIR—A good way to celebrate it.

Dr Laker—APRA, as I was about to say, is proud of its statistics unit, which was formed from seven statistical groups in our predecessor bodies. APRA's statistics not only inform our prudential supervision and research but also support other agencies, particularly the Reserve Bank of Australia and the Australian Bureau of Statistics, in their missions. APRA's statistics have also proven very useful in better informing industry and the public on the economic dynamics of the industries we supervise, particularly during the global financial crisis. We are now happy to take the committee's questions.

CHAIR—Thank you, Dr Laker. Can I just clarify: when you were talking about capital requirements that were going to change in 2013, I think, you talked about a counter cyclical buffer. Could you explain what that is? Is it related to the structural liquidity issue?

Dr Laker—No, Madam Chair, they are entirely different measures. The countercyclical capital buffer is a buffer that would be added on top of the minimum requirement and the conservation buffer, and would come into effect if, in a country, there was a major concern that excessive credit growth was leading to a build-up of risks in the financial system, and in the banking system in particular. So it would be added to the 4½ plus the 2½—that is, in the minimum requirement plus the capital conservation buffer, and it would range between zero and 2.5 per cent. That is about the capital that is available to support risks that are building up if an economy is experiencing much faster credit growth than the normal trend.

CHAIR—So would the value of that, the percentage, vary according to how the risk was judged, or would it be a fixed percentage?

Dr Laker—It is a macro prudential measure, so it is one that, if it were to be implemented in a period of very strong credit growth in Australia, we would consult with the Reserve Bank of Australia in doing so. But it would essentially raise the floor that banks have to meet and if they were to go into that buffer—the buffer is to be used; it is not a floor in itself—if the buffer were to be used, the restrictions on the capital distribution policies of banks would come in at an earlier point.

CHAIR—I see; thank you. Are there further questions?

Senator BUSHBY—I thank the officers from APRA who are assisting us tonight. I have a couple of questions about questions on notice. We have had a lot of problems with questions on notice from a lot of agencies and, unfortunately, APRA is one of the ones that has been a bit slow. I am wondering: why did APRA fail to submit the answers to the questions on notice before the due date, even though the date was actually pushed back from 30 July to 20 August?

Dr Laker—I am not aware that we missed the due date in providing them to the Treasury, but I am not sure what happens after that.

Senator BUSHBY—That was my next question.

Dr Laker—I do not see those after they leave APRA.

Senator BUSHBY—So you are saying that, to the best of your knowledge—and I would appreciate you letting me know if it is any different—you would have prepared and supplied answers to all questions that were taken on notice to the Treasury by the due date?

Dr Laker—In the absence of specific knowledge about particular questions, I can only tell you that answers to questions on notice come to me for a final sign-off, and our secretary is quite diligent in making sure they go off by the due date.

Senator BUSHBY—You send them to Treasury, you do not send them to—

Dr Laker—I do not know what happens once I sign them off as far as how quickly they then become entered into *Hansard*.

Senator BUSHBY—Are you aware of where they go from you? Do they go to the Treasury?

Dr Laker—They would normally go to the Treasury.

Senator BUSHBY—Okay.

Dr Laker—Many of the questions on notice are part of broader questions for Treasury agencies and sometimes for the whole-of-government agencies, and we feed information into that. But if there were specific questions that got to you late, I would be happy to respond to that.

Senator BUSHBY—I admit that I am not asking you only. I am asking a number of agencies, as many as I can, because the record from the June estimates across the board was not very good. In fact, we have still been receiving a lot of them in the last seven days. I do not actually have it in front of me but I think, from memory, some of yours came in late September. If what you say is the case, it is probably because they have been held up elsewhere, and I would like to understand where they have been held up.

Dr Laker—I cannot confirm or deny that because I am not sure what the track record is. All I can say is that our secretary would be mortified to think that she had not met the timelines, because she is very strict on those.

Senator Sherry—Senator, As Dr Laker has indicated it, and I know APRA have a good record of providing answers, perhaps I should take on notice the date in which they were received in the minister's office. That would indicate where any hold-up occurred. Secondly, as I have said in a previous estimates, I do not believe it is satisfactory that answers to questions on notice have been late. However, I would point out there was an election and some weeks before there was government formed, so that—

Senator BUSHBY—I understand that. There was advice from the Clerk of the Senate, though, that an election intervening should not impact on the obligation of departments to comply. The date it was extended to was 20 August, which was before the election. Originally it was 30 July.

Senator Sherry—Well it should not impact, but I would certainly contend that, given there was an election and an unusually lengthy period before there was a government formed, that

would have been a factor. Beyond that, as I said at the previous estimates, I do not believe it is satisfactory but I will take on notice to check the date in which they arrived in the appropriate Treasury minister's office. I am assuming APRA and Dr Laker, as in the past, passed them on by the due time. You can then identify where the hold-up occurred.

Senator BUSHBY—I am just glancing through them here. A lot of them were on time from APRA. Without having a good look—there are four hundred and something of them—I cannot pick the ones that were not. Certainly some of them were and some of them were not.

Dr Laker—All I can say Senator, is that we take those timetables very seriously.

Senator BUSHBY—Not a problem. We will move on anyway. The Cooper review, which was handed to the government on 30 June this year proposes that APRA takes a more active and direct supervisory role in the superannuation industry, and I think we discussed to some extent at the last estimates what might come out of the Cooper review. For example, chapter 6 of the review proposes that APRA should have the power to determine the minimum level of capital funds and chapter 4 gives APRA a huge role in developing outcomes, reporting standards for funds and collecting standardised data from them. Do you have any general comment on any of the recommendations of the Cooper review, given that you have stated in past estimates that a lot of what you were saying was that you were waiting for the outcome of the review and that would then inform you as to what you would be doing?

Dr Laker—Could I ask the deputy chairman to respond? He has been closely involved in the development of these issues.

Mr Jones—We have had active input into the Cooper processes.

Senator BUSHBY—I have asked about that before.

Mr Jones—Certainly, our views on any of these matters are well known. But it is really up to the government to determine the way in which they are going to address the various recommendations, I think, at this stage.

Senator Sherry—In fact—and I suspect you are probably aware of this, Senator Bushby—the previous minister, Mr Bowen, announced some policy during the election campaign. If you want me to go through that, I can. I think I have those announcements there. Beyond that—and obviously the markets group are appearing after APRA—I am aware there is a consultation taking place at the present time. But beyond the government's policy announcements that took place in the election there is no finalisation of policy at this stage.

Senator BUSHBY—One of the reasons why I was asking the question in that particular way was because answers to previous questions that I have asked here on particular activities that you undertake have been responded to. I asked:

Does APRA intend to publish data of the investment option level or are you still holding off until after the Cooper review comes out?

You said that the answer was 'yes':

Yes, we do intend to publish it but we are not going to start the process of designing the collection until after Cooper has reported.

So it was suggested to me that you were going to take your lead to a significant degree by what Cooper said and to the extent that you have discretion within your own agency to actually make decisions. Quite clearly, if the government makes decisions in a policy sense and instructs you to do things then that is different. But it appeared to me that you were going to be taking, to some degree, your lead as to what you do within your own decision making processes from Cooper.

Mr Jones—With regard to the statistics, we had in fact developed a statistical process that would have an enhanced statistical methodology. We began this before the Cooper inquiry and, as we mentioned in the previous estimates, we stopped this for 12 months. The recommendations that came from Cooper are consistent with the approach that we were going to take, and so we still wait government's response—

Senator BUSHBY—You are saying that they are consistent?

Mr Jones—They are entirely consistent. The critical issue on the statistics will be the extent to which the government picks up the recommendations on Cooper with regard to statistics which go beyond what our initial consultation process had with regard to the stats.

Senator BUSHBY—I was only using it as an example when I raised it. I was going to ask questions later about it but I will ask them now. The Cooper review, as I understand it, proposes that APRA develop superperformance data at an investment option level for MySuper products but it does not go beyond that.

Mr Jones—Correct.

Senator BUSHBY—Whereas you were saying prior to the Cooper review that performance data should be published at an investment option level in all regulated funds.

Mr Jones—Yes. Our view is that these views are not necessarily conflicting in the sense that we will still be looking at a process whereby we will publish statistics on investment options. In fact, as we flagged to the industry prior to Cooper, we probably see merit in publishing around the top 15 investment options or something like that. That will cover the vast majority.

Senator BUSHBY—In that sense, you are saying you have not found that finding inconsistent and you are going to proceed along the path which you were already heading on, which at the last estimates you indicated that you had put on hold pending the outcome.

Mr Jones—Correct. The reason why we put the thing on hold was that, should government decide that they would like a substantially enhanced statistical package, it may be necessary for us to go into further consultation with industry about the way in which that process will be done.

Senator BUSHBY—So is it still on hold pending the government's response to the Cooper review?

Mr Jones—Yes, it is.

Senator BUSHBY—Okay.

Mr Jones—I think the outcome will nevertheless be that we will still publish. Should the government say, 'We would like you to publish an even wider selection,' we can. Should the

government say, 'We are quite content with what you had already proposed,' we have a process already in place to do that.

Senator BUSHBY—What could a wider selection entail? What could you do if you were asked to?

Mr Jones—We could do all sorts of things in terms of information regarding, for example, more enhanced statistics on costs. Most of our emphasis has been on performance rather than costs, and so we could look at more information on costs. But in all of these processes the requirement under the legislation is that we consult with industry and, further, we give industry sufficient time to get their processes in place to meet the new statistical needs.

Senator BUSHBY—Mr Chapman said at the previous estimates:

There are probably areas in their final recommendations—

talking about Cooper—

that we will be strongly in agreement with. There will be some areas that we possibly disagree with.

Now that the review has been published, can you put any of the recommendations in the latter bracket? Is there anything that you strongly disagree with?

Mr Jones—It comes as a package. There were 177 recommendations. Some of the recommendations probably go beyond things that we contemplated and some of the recommendations have no particular relevance to APRA. Some of them relate to the tax office.

Senator BUSHBY—I understand that. I do not want to put words in Mr Chapman's mouth but, as I recall, the statement was made in the context of recommendations that would actually impact on APRA or have some relevance to what you do. The indication was that you would consider that there were some that you would agree with and some that you would not. Maybe tonight you are not prepared in this forum to indicate which ones you might not be as pleased with in terms of how they might impact on what you do. In terms of the government preparing its report, have you been asked for input on any of the recommendations that might impact on you?

Mr Jones—Most definitely.

Senator BUSHBY—You provided input?

Mr Jones—Yes, we have.

Senator BUSHBY—Which recommendations, even broadly speaking, if they were enacted would entail the biggest regulatory impost on APRA?

Mr Jones—The biggest regulatory impost—in terms of the biggest?

Senator BUSHBY—What would have the biggest impact in terms of changing the way you operate and also, but separately, requiring you to use more resources?

Mr Jones—The recommendations which would probably have the largest impact would be, I would suggest, the recommendations that APRA be given standards making powers the same as—

Senator BUSHBY—The what-making powers?

Mr Jones—Standards making powers—the same as APRA has in the other industries. We currently have standards making powers in the other regulated sectors, but an area in which we did not have the powers with regard to superannuation to make standards. That was a recommendation of Cooper. When we spoke to the Cooper committee, we argued strongly in favour of it, as we have in previous inquiries over a number of years. We believe that this is something that would be very useful for APRA in improving the governance of superannuation funds. In terms of those that have greatest impact on our resources, large statistical collections involve additional resources in terms of analysis but—

Senator BUSHBY—In the context of providing advice to help inform the government with its response or otherwise, have you undertaken any analysis of what the impact any of those recommendation would have on your budget?

Mr Jones—Yes, we have.

Senator BUSHBY—I recall at the last estimates that you indicated your budget was fairly tight and that, if you were asked to take on additional responsibilities, you would have great difficulty doing that without additional resources. Is that still the case?

Mr Jones—I think it would probably depend upon the extent to which the various recommendations were taken. There may be some recommendations that could possibly be done with existing resources. But if there were a substantial number of new areas where—

Senator BUSHBY—And some of these recommendations would involve that.

Mr Jones—Some of these recommendations could involve that.

Senator BUSHBY—You would need to increase your staffing levels and other resources to be able to do it.

Mr Jones—That is entirely possible.

Senator Sherry—I should indicate, Senator, that as part of our policy announcement—I think it was part of our policy announcement during the election campaign; I would have to double-check whether this was made at the same time—an additional \$21.1 million will be provided to APRA and ASIC to implement and monitor the new arrangements. I do not have the breakdown of those figures.

Senator BUSHBY—The obvious question is: how is that broken down?

Senator Sherry—I do not have that. I do not know whether APRA has it.

Senator BUSHBY—Are you aware of whether that \$21 million is based on any actual information advice or is it—

Senator Sherry—I am not aware of that. Markets group may be able to inform you because they may have some basis for that calculation.

Senator BUSHBY—It might have come from the same direction as we were discussing earlier where someone in Labor Party headquarters decided \$21 million was a good figure.

Senator Sherry—I am sure that the basis for the allocation—

Senator CAMERON—There hasn't been such a good figure from you lot.

Senator BUSHBY—We will get into that one later. You missed the context of that, Senator.

Senator Sherry—Markets groups may be able to shed some light on that, Senator, but I do not know.

Senator BUSHBY—Was APRA surprised that Cooper's recommendations did not encourage the adoption of a wider use of unit pricing or a more regular pricing method in the superannuation industry?

Mr Jones—No, not particularly. I know that there are a lot of submissions in various ways to it, but also APRA has never had a view that we favour unit pricing over crediting rates. Our approach has simply been to ensure that whichever methodology was adopted by the trustees it was done appropriately to try to avoid any sorts of errors that could come by either methodology.

Senator BUSHBY—At the previous estimates—although it might have been the one before—we were having discussions with Mr Venkatramani, and he noted that during the GFC the inequities that arise from the highly volatile market when some people are on the unit pricing and others are not leads to some problems and that APRA was actually working with funds to try and encourage a more regular pricing of their funds to ensure that in volatile times those inequities were minimised.

Mr Jones—Correct. But you can get inconsistencies with either methodology in those circumstances. For example, where you have funds that are heavily invested in alternative assets for which there are no market prices then you may have difficulty in getting appropriate pricing whether you do unit pricing on a daily basis or whether you do crediting rates and so on.

Senator BUSHBY—I understand that, but the clear indication from the evidence that APRA gave last time or the time before—I cannot recall which—was that there were advantages in pricing more regularly. My question to you was: are you surprised that the Cooper review did not recommend approaches, either unit pricing or more regular pricing?

Mr Jones—No, I do not think we were particularly surprised because I do not think there is industry consensus. I think that is part of the dilemma—the different sides of the industry that would be providing input into Cooper, I would imagine, would each have their own views.

Senator BUSHBY—Basel III—how is it pronounced?

CHAIR—Good question!

Senator Sherry—I can actually explain that, but the witnesses—

Mr Laker—Would you like to go ahead first, Senator?

Senator Sherry—My grandmother was Swiss-Deutsch, and she lived for much of her life in Basel. It is pronounced 'basil' or 'barl'—It depends whether you are German or French. That is the explanation. Either is correct, depending on whether you are German or French.

Mr Laker—To add to that, at one stage, when I first started going to that particular city, it was spelt in the French way, 'Bale', and there was a conscious commitment to return that

word to the Swiss-German version and change the spelling. So we now spell it 'Basel' and pronounce it 'basil'. It was a deliberate decision.

Senator Sherry—I was not up to date with that.

Mr Laker—Thank you; you were right to start with.

Senator BUSHBY—You have given us an update on where we are currently at, Mr Laker. Those announcements are commonly known as Basel III, and you have outlined some dates. Those dates are internationally agreed—is that correct?

Mr Laker—Yes.

Senator BUSHBY—Have we signed up to the Basel III process?

Mr Laker—There is a formal step to go. The G20 leaders are meeting in Korea on 10 and 11 November, and they will ultimately sign off a full package of reforms—measures that will be put to them by the Basel Committee and others that will be put to them by the Financial Stability Board. So that is the formal process. The G20 really wanted a comprehensive reform package across a wide range of issues beyond some that we deal with. That is the process that needs to be satisfied and endorsed by the leaders of the G20, and I cannot prejudge how that will go, but the Basel Committee has virtually finalised the measures it will put for endorsement at that meeting.

Senator BUSHBY—And at officer level we have agreed to that?

Mr Laker—As a member of the committee, yes, these are internationally agreed minimum standards.

Senator BUSHBY—You will recall that I have asked questions before about introducing a solution to solve a problem that did not exist in Australia and Australian business, and banks suffering as a consequence of that, despite the fact that we have done everything right here. You actually express some concern, you are aware of that and you will be working as part of the process of developing this to ensure that Australian prudential or ADIs essentially will not suffer with the yoke that was not really necessary in Australia. Are you satisfied that you have achieved that?

Mr Laker—Broadly speaking, yes. Those concerns, particularly those expressed by the banking associations and a number of individual banks, were really expressed at a time when there was a fear that some of the solutions coming out of the global reform process could be quite draconian. Draconian they are not. Substantial they are. And our institutions are well positioned to deal with them in any event because we ourselves have been conservative—more conservative than many of our counterparts—for a number of years. I spoke this morning to a FINSIA conference where I pointed out that there are some areas where our requirements are less onerous than the new Basel III capital requirements and that we will be tightening in those areas in consultation with industry. There are other areas where our regime is tighter than what is allowed under Basel III. Those are areas where either we or the Reserve Bank before us took decisions in principle—some going back into the early 1990s—to treat certain items certain ways. We have said—and I said it again this morning—that we will consult with industry, but we would need reasons to depart from principle. The Australian

banks have adopted and worked within that principle, for a number of years. I think the overall package for a number of countries is a tough ask—

Senator BUSHBY—It is easier for us because we are already—

Mr Laker—We started in a good position and we started with a conservative framework on capital.

Senator BUSHBY—Yes, and that largely goes back to the changes made in the late nineties that set up APRA, the processes that followed and things like that.

Dr Laker—It has been a continuous process, but I would think it owes more to some changes we made in the mid-2000 period, in 2005-06. When we tightened the capital regime, we required that common equity take a much larger share of tier 1 capital. We tightened the treatment of some intangible assets that were being counted but were of dubious value. But, well before our time, the regulation of banks in Australia on capital has always been conservative. Capital is the fundamental shock absorber for any system.

Senator BUSHBY—We were learning about statutory reserve deposits when I was doing economics in high school!

Senator Sherry—So was I, Senator Bushby!

Senator BUSHBY—I realise you cannot be specific, but will the effect or the impost of any of the Basel III decisions vary widely across Australia's major banks? Will some banks be better able to meet those changes than others, without naming anybody?

Dr Laker—I would rather say that we do not see a significant challenge for our institutions. Some are well placed already, but we do not see significant challenges. But there is work to do.

Senator BUSHBY—Some commentators have said that our banks already satisfy most of these proposals—we have sort of touched on that—and that they will have little effect locally. In your view, will these proposals have any real effect on the costs of banks and potentially therefore on decisions they may make about borrowing rates?

Dr Laker—There are generous transition arrangements allowed if an institution at this point does not meet the Basel requirements, and there is quite a long time until 1 January 2013, when not the whole package but parts of the package will be first implemented. In that time, we have got a strongly growing economy and strong earnings in the banking system. So the combination of that time and the strong earnings capability means that we expect most of our banks to be able to meet those requirements, essentially out of retained earnings. But we need to see the final details coming out of Basel. We then consult with industry, looking at the specifics in each case. We have done quite a lot of work up to this point, which is the reason why I can give you that assurance, but I would like to see the numbers firm up in the consultation process.

Senator BUSHBY—You have given us an update on the Basel III recommendations on liquidity and how they are going to apply. You also highlighted the fact that one of the problems Australia has is the scarcity or paucity of high-quality securities that they can actually invest in—

Dr Laker—It is not a problem, in the sense that—

Senator BUSHBY—No, no. It is a nice problem to have—

Dr Laker—It is a challenge for us to work within the global framework.

Senator BUSHBY—to quote Peter Costello from a few years ago.

Dr Laker—It is a problem most of my colleagues around the Basel framework would like to have!

Senator BUSHBY—Yes. But it does create some practical issues—

Dr Laker—Yes, it does.

Senator BUSHBY—for our ADIs in terms of sourcing appropriate ways to achieve those liquidity requirements. You mentioned that Basel is looking at alternatives; but, in the event that alternatives do not come out of Basel, are you looking at alternatives at an Australian level or negotiating with Basel in terms of what might be able to be held? One of the problems is that we do not have covered bonds, which has been raised in this context before. What test is APRA applying in determining which securities can be eligible level 2 prudential liquidity assets under the Basel enhancements? And what role is there for, say, even RMBS to be used, given that it is eligible collateral in the RBA's operations?

Dr Laker—At this point, while the details are being finalised and are still under discussion, I do not really wish to go down to the detail. What I can say is that we think those discussions within the Basel committee have gone well. There is a very clear recognition—it is actually in the language of the Basel committee's releases—that jurisdictions like ours face particular challenges in meeting a global standard. I am confident we will be able to work out a set of arrangements that make sense for Australia.

Senator BUSHBY—Without asking for details, is the direction they are heading in there to do with the actual liquidity requirements or how they may be held?

Dr Laker—If I were to answer that I would almost be giving away the direction in which we are discussing it.

Senator BUSHBY—Fair enough.

Dr Laker—I would rather just say to you that we are looking at what we think are quite sensible arrangements that would work for Australia. The difficulty we would face in nominating a particular class of assets is that the general principle that Basel is operating under is that the one type of liquid asset that proved not to be liquid in the crisis was bank paper. So the new Basel III liquidity framework does not count bank paper in high-quality liquid assets because it was proven that the liquidity disappeared overnight. That was the crisis of September and October.

Another area that the Basel committee generally has not wanted to contemplate is RMBS, for the same reason that that market globally is still moribund. As I said to Australian banks here who have raised that question with me, it is very hard to argue to include an asset in a definition of high-quality liquid assets when the market globally has been moribund for two or three years—coming back to life.

Senator BUSHBY—And there were not any actual problems with the RMBS? There were not any failures in Australia? Obviously the government—

Dr Laker—The quality of Australian RMBS has always been strong, but the market is a global one. A lot of the buyers of that Australian paper are overseas investors and they have retreated, in a sense, quite fully from that market globally until they get more confidence about other issues. The difficulty for a regulator like APRA is that there is a set of global principles that we are trying to work with.

Senator BUSHBY—Which comes back to the fact that Australia has its own circumstances, and rules that are being adopted nationally have the potential to impact in Australia in ways that are not really relevant or that are not needed. It is what we talked about before?

Dr Laker—Yes.

Senator BUSHBY—It sounds like there is potentially a solution there.

Dr Laker—I only see that issue really arising in the case of that particular global liquidity standard.

Senator COONAN—I would like to ask a few things on Basel, most of which have now been covered. Dr Laker, in the June estimates you alluded to the then proposed definitions of ‘liquid assets’ and that Australia would not be able to meet the narrow definition because of the sum total of government securities in Australia and nor the slightly broader definition because the assets included in that are not actively traded in Australia. At the Financial Services Institute of Australia conference a couple of weeks ago Mr Burns said that there is no free pass for Australian institutions under the rules and that there is no capacity for Australia to argue that we should have weaker rules than the rest of the world. You have talked about refining the standards in Australia for liquidity and I am wondering how all of that actually hangs together, because on the one hand we do have this great robust story to tell and on the other hand it is difficult to reconcile how we actually get to refinements and how that is actually characterised. Is it a side agreement? How are we characterised in this broad global description of financial institutions?

Dr Laker—The ink is not dry on the wording and the detail of the global liquidity standard. We spent quite some time on that issue yesterday in Korea, not just on what was called the Australian issue—because we are very unique around that table—but on a range of other elements of that global liquidity standard. And it is a package. But what we are seeking to reach agreement with the Basel committee on is a set of words within which we can operate, not a carve out for Australia. That is why we need to look carefully at how that language will operate. The Basel committee is quite naturally concerned that it does not open the door for others who are not in the same felicitous situation that we are in to somehow or other use our circumstances as a precedent for not biting the bullet on global standards. So, that language is very important and the ink is not dry on that yet. But I am confident that when we come back to the next estimates it will be clear how we have reached an arrangement that will work in Australia and that has the discipline on the Australian banks and other ADI that their counterparts in other markets will face.

Senator COONAN—I can appreciate the sensitivities of the parameters of this discussion, but are you able to give us some indication of the character of the refinements that you mentioned?

Dr Laker—Not at this point.

Senator COONAN—All right. I certainly respect that. Now, if our banks are required to hold more capital, won't this cause even more of a squeeze on our credit markets? It seems to be a fairly broadly talked about possibility.

Dr Laker—That issue is not just an Australian issue; it is a global issue. A lot of work has gone on within the Basel context on what is the longer-term impact of tougher capital requirements and what are the transition impacts as you adjust your capital to the higher standards. The general assessment of all that work is that, around the globe, the transition will have a small impact on growth—not as much as some had argued. In the long term, you have got to balance the higher costs that inevitably follow from higher capital requirements with the higher safety and lower risk premiums that will come from having a much more well established banking system around the globe—a much more well capitalised banking system around the globe.

Senator COONAN—Has APRA done any work or been able to come to a view about what kind of increase in lending spreads this might cause, or is that premature?

Dr Laker—We have provided quite a degree of input into the work that has been done by the Basel committee—the quantitative impact study. We are looking at not just what it does to capital requirements and cost but what it might do to lending spreads. But we start from a position where we are either at or very close to these minimum standards in any event, so our circumstances are different. Other countries, as I have said before, have a bigger adjustment to accommodate them.

CHAIR—Senator Coonan, I am going to have to go to Senator Cameron now. We are running out of time.

Senator COONAN—Okay. Thank you.

Senator CAMERON—Dr Laker, can I just start by going back to the Cooper recommendations. Do APRA agree with any of the recommendations; and, if you do, how would they benefit the industry?

Mr Jones—Senator, APRA had a lot of input into the Cooper processes and so we were not particularly surprised by many of the recommendations and we see many of the recommendations coming from the Cooper inquiry as recommendations that are consistent with improving the integrity of the industry.

Senator CAMERON—Can you take me to some of the specific positives that you see in the report?

Mr Jones—I think it is probably not appropriate for APRA at this stage to talk about which recommendations we think are appropriate or not. In the most general sense, many of the recommendations coming from the inquiry are recommendations that we have advanced in the past in terms of improved governance behind funds and so on—same with some of statistics that we were discussing with Senator Bushby earlier.

Senator CAMERON—Okay. I want to go back to a question I asked on notice in relation to hedge funds—and thanks for the response that you gave. I also had responses from Treasury on this issue, which was the European inquiry into hedge funds and looking at more regulation of hedge funds. In your response, Dr Laker, you indicated that APRA looked at hedge funds as part of your ongoing supervision work and said:

... APRA supervisors look at exposure to hedge funds and similar non-traditional assets on a case-by-case basis to understand whether the trustee's risk management is appropriate. Where this is not the case, our review findings would suggest/require remediation.

Have you found any cases where the risk management strategy was not appropriate?

Mr Jones—We have found circumstances where we have reservations about the nature of the risk management strategies, but they are not particularly related to hedge funds any more than they are related to many other types of investments, alternative assets or various other elements. But it is certainly something that we look at on a very regular basis.

Senator CAMERON—But you said in your response to my question that you look at exposure to hedge funds on a case-by-case basis. So you tell me it is on a case-by-case basis but you do not look at them specifically; is that what you are now telling me? That is different from what you told me.

Mr Jones—No, not at all. What we are saying is that each time we look at any particular institution we look at the nature of the investments. The investments come in a variety of ways and we would look at each particular circumstance.

Senator CAMERON—So you have found no need on hedge funds investment anywhere in Australia to say: there needs to be some remediation in that approach?

Mr Jones—We have found circumstances where we have said to funds, 'We believe that you should look at the particular circumstances regarding the nature of your use of hedge funds,' the same way as we have said to various institutions, 'We believe you should look very carefully at your exposure to unlisted assets'—or anything else.

Senator CAMERON—I am not asking about listed assets. I am asking about hedge funds.

Mr Jones—And what I am saying is that we look at each one of these investments in the same way.

Senator CAMERON—That is fine, but what have you found out about hedge funds? That is what I am trying to understand.

Mr Jones—If you are asking whether we found anything particularly unusual that makes hedge funds unique, the answer is no.

Senator CAMERON—That is not what I am asking.

Mr Jones—What are you asking?

Senator CAMERON—I am asking, in relation to your response to me that you look at exposure to hedge funds 'on a case-by-case basis': how many hedge funds have you looked at?

Mr Jones—I cannot say how many we have looked at. We look at them within the context of each particular fund.

Senator CAMERON—Can you take that on notice?

Mr Jones—We can do that.

Senator CAMERON—I am sure you must be able to tell me if APRA has had a look at hedge funds—

Mr Jones—I am not sure, but we will take it on notice.

Senator CAMERON—You also, in this response, say:

If the level of exposure were to increase to levels that caused us concerns on an industry-wide basis, APRA would consider issuing further guidance.

What level would you believe would give rise to some concern?

Mr Jones—It is not a number that you need to work with. It is simply looking at the hedge fund exposure relative, for example, to the size of the fund. It may well also be the extent to which there have been appropriate levels of hedging within the fund.

Senator CAMERON—That is not what you have said to me here. In your written response you have said, ‘If the level of exposure were to increase to levels that caused us concerns on an industry wide basis’, and you are now telling me that you would look at it on an individual basis. I am confused.

Mr Jones—There is no point in looking at exposure on an industry wide basis if we are looking at each individual superannuation fund’s approach to hedge funds—if that is your question.

Senator CAMERON—No, I am now talking about your response, which is about the level of exposure, which is different, and you have answered it in your—

Mr Jones—By saying that, if the level of exposure were to increase on an industry wide basis we would issue further guidance—correct.

Senator CAMERON—Why?

Mr Jones—Why would we consider issuing further guidance? Because we may start to get very nervous about the extent of various exposures. But the concerns in many circumstances would be linked to the individual circumstances of a particular superannuation fund.

Senator CAMERON—Is APRA confident that superannuation fund trustees are capable of making properly informed and considered decisions about investment in hedge funds?

Mr Jones—We believe that in many circumstances trustees need to have a substantial amount of knowledge, and in many circumstances the trustees are forced to rely upon external advisers as a consequence of possibly inadequate knowledge on the part of the trustees themselves. But that is often no different to the nature of the information that they get from other advisers in regard to other types of investment products.

Senator CAMERON—I have just got a concern about hedge funds and what they have or have not delivered and what they have promised. I note that you included in your response to me an article by Mr Craig Roodt, the Senior Risk Specialist. I think, as a broad overview of what you should be doing in relation to hedge funds, it is pretty good. But there is no critical

analysis about hedge funds per se. There is no advice about the pitfalls in hedge funds. There is a list of due diligence issues—

Mr Jones—Correct. We have actually provided a list of questions that trustees should look at with regard to any investment in hedge funds and we in fact ask trustees those questions. So the supervisors would in fact, on onsite visits, ask the trustees if they were aware of the types of issues that were particularly relevant. And you are quite correct: in not every circumstance do you get an answer that makes you 100 per cent happy.

CHAIR—Senator Cameron, Senator Xenophon has a question.

Senator CAMERON—Okay. I might have some more questions on notice arising from this—

Mr Jones—Sure.

Senator CAMERON—but thanks for the response on notice and thanks for the response you have given me now.

Mr Jones—Thank you.

Senator XENOPHON—And now for something completely different, Dr Laker! The Bank of Queensland was spruiking a ‘save to win’ account whereby if depositors had at least \$250 in an account they basically entered into a lottery through the Bank of Queensland to win up to \$20,000 a month. Media reports initially indicated that APRA had approved this particular product. Could you confirm that that is not the case and tell me what your understanding is of those assertions made by the Bank of Queensland.

Dr Laker—I can confirm, and the Bank of Queensland has confirmed, that we have not been involved in the authorisation of that product. I can quote to you from the Bank of Queensland’s own release to the Australian Stock Exchange:

... media coverage stating that the Australian Prudential Regulation Authority (APRA) approved the account is incorrect. APRA has not been involved in the authorisation process of this account and, in the normal course, does not involve itself in the approval of any individual products.

I could not agree more. That is a fair statement.

Senator XENOPHON—Sure—although, as I understand it, there were media reports initially to that effect.

Dr Laker—I saw the media reports. They set the bells ringing, and we very quickly clarified, whatever happened and for whatever reason, that was a simple, incorrect statement.

Senator XENOPHON—Arguably. I will not go any further in relation to that. As one of the key regulators of the banking system do you have a concern about this type of account?

Dr Laker—Our focus on any sort of product is its prudential impact. As I say, we are not a product regulator as such, but an institution may come to us with an unusual product and we will go through with them any prudential issues that we see arising from that particular product. Those prudential issues could include matters like reputational risk if the product is not correctly launched. But we do not sit in judgment beyond the prudential issues. That is outside our remit. If there were concerns about the customer and how the customer was being treated, that is an issue for a fellow regulator.

Senator XENOPHON—Although Christopher Zinn from *Choice* said that the bank's approach with this lottery style account went against the spirit of the banking system. Do you think there is merit in that?

Dr Laker—It is certainly the first time we have seen a product like this in the deposit sphere. But I would be very cautious in giving you a reply about whether it is within or without the spirit of it until I had a chance to think more about it. As I said, the first we heard about this product was when it was announced. We have not had a chance to think it through, really: are there issues about this kind of product which go beyond prudential issues or beyond issues to do with treating the customer fairly?

Senator XENOPHON—I guess two things arise out of that. Firstly, given the responsibility of banks to give considered financial advice, do you see any implications of such an account, particularly for young savers, which basically says you can take a punt on your savings rather than get the interest you can earn on your savings? Secondly, while you have acknowledged that APRA has not considered this but it may be within the purview of APRA in terms of what is being offered and its implications, is it something that APRA will take a considered view on and make a statement or take action on if it sees fit?

Dr Laker—On the first question, I think my deputy chairman has reminded me that if this has been approved by the lottery commissions—that was the statement that was made about this product—it would have a restriction on whether it was available to younger people. But we have not checked the facts on that.

Senator XENOPHON—Or 18- or 19-year-olds.

Dr Laker—But if your question was about younger children I think that is an issue that would be dealt with by the various state commissions that the bank has said this was approved by. I think, more generally, in response to your second question, we would certainly take a view about what certain products can do to the reputation and to the fair treatment of users of the product, but it takes us into an area which belongs to another regulator in the normal course of events. We do not sit and judge individual products; it is just not our role and we are not resourced to do it.

Senator XENOPHON—Is it ASIC's role?

Dr Laker—It is a question you should put to ASIC about what they would be looking at in terms of what the product offer is to the customer and how well that is understood. We have sort of instinctive tests where we might feel uncomfortable about a certain product, but we also have to have a look at whether or not we have the authority to—

Senator XENOPHON—Finally, given that it is such an unusual product and given that it is in effect asking those who save to take a punt on the interest, will APRA consider whether it is in their purview at any time? Will there be formal consideration as to whether it ought to be subject to any action?

Dr Laker—What I can tell you is that we have talked to ASIC about this, and I think we would need to clarify where any responsibility for this kind of product lies. Until we have had a chance to have that dialogue more fully, I cannot really nominate it as falling in a or b. It is not immediately a prudential issue as such.

Senator XENOPHON—Will that dialogue take place in the next month or so?

Dr Laker—You may speed that up by talking to ASIC, if they have not already been before Senate estimates. We will talk about it but we need to be very clear on what basis we are making—

Senator XENOPHON—But you will talk to them about it in the next month.

Dr Laker—Yes.

Senator XENOPHON—Thank you.

Senator WILLIAMS—Considering the time, Chair, I will put my couple of questions on notice.

CHAIR—Thank you, Senator Williams; that will be helpful. Thank you, APRA. I hope you celebrate World Statistics Day in fine style after this. Thank you for coming in on such an auspicious occasion!

[8.19 pm]

Department of the Treasury

CHAIR—I now welcome the Markets Group of Treasury to the table.

Senator LUDLAM—I think it is Mr Murphy who I want to put some questions to. I was just going back through the transcript from last year and it was a nearly a year ago today that we spoke about the OECD national contact point. Are you still the right person to put some questions to about that?

Mr Murphy—Yes, if you want to. Frank Di Giorgio is here as well.

Senator LUDLAM—We spoke last October about the OECD national contact point and its role within the OECD framework, and I was a bit surprised at the time to find that it does not really have an office, does not really have any staff and does not have a promotional budget. Is there anything that has arisen in the last 12 months that is any material change to the material that you made available to us last year? Does the office have any staff?

Mr Di Giorgio—Without knowing in detail what was said last year, I imagine nothing in particular has changed. The office, in effect, is held by the general manager of the division. It is supported by staff in the division as required. So, to that extent, the situation and the arrangements hold.

Senator LUDLAM—Is it still the case then that we will not find the national contact point's annual report anywhere in an Australian portfolio statement as such, but that it reports through the OECD and we have a page or a chapter in an OECD annual report—

Mr Di Giorgio—I believe that is right.

Senator LUDLAM—That is still the case, okay. Can you give us a rundown on the work of the office in the last 12 months.

Mr Di Giorgio—The last 12 months has, as I understand it, been about being on top of the processes as they are undertaken in the OECD, so the contact point has gone to a number of meetings at the OECD. Very recently we received a couple of cases which are very fresh and are obviously not public.

Senator LUDLAM—Who represents Australia at those meetings?

Mr Di Giorgio—It is Patrick Colmer, the general manager of the division.

Senator LUDLAM—Do we refer to him as the national contact point? Is he the national contact person?

Mr Di Giorgio—Yes.

Senator LUDLAM—What can you put on the public record in terms of the cases that are with you? I have read a little bit about one of them in the press. What is in the public domain about the cases you are actually dealing with?

Mr Di Giorgio—According to my brief, in June 2005 the contact point received a submission from several Australian overseas non-government organisations in relation to a UK-controlled multinational.

Senator LUDLAM—Which one is that?

Mr Di Giorgio—That is Global Solutions Ltd.

Senator LUDLAM—And that has been pending since 2005?

Mr Di Giorgio—No. There was a resolution of some of the key concerns in April 2006, as I understand it. In 2006 the contact point also received a submission from the Australian Conservation Foundation and other Australian and overseas non-government organisations with some allegations around forestry business in PNG.

Senator LUDLAM—Which one? Just name names as you go, if you are at liberty to do so. Or, if you like, if there is a list, rather than taking up the committee's time, do you want to just table a list?

Mr Di Giorgio—I can table a list if you like, Senator.

Senator LUDLAM—I would appreciate that. What I am mainly interested in is which cases are still alive. Is that the list that you were reading to me? Are they still pending?

Mr Di Giorgio—As I understand it all of these cases have been resolved. But I will have to check that and, as I said earlier, there are two fresh cases that have been received.

Senator LUDLAM—Thank you. If we can get that list from you, that will give us the semi-recent work history of the NCP. What can you tell us about the two cases that are live at the moment?

Mr Di Giorgio—I do not believe I am in a position to say anything about them, because they are not yet public.

Senator LUDLAM—Some of it is in the newspapers at the moment.

Mr Di Giorgio—Having said that, I do not have the details with me. So, again, I can provide some basic information about those to the extent that they are public.

Senator LUDLAM—Okay. Is it a concern to you that it is in the press that the trade union movement has brought one case to the NCP only in the last couple of weeks? Presumably it is not a secret to say that you have brought a matter to the NCP—or is it a bit like the ABCC,

where you cannot tell anybody in case you disappear after dark if you have been contacted by it?

Mr Di Giorgio—I had not thought of that, but I guess I am respecting the privacy of the people involved.

Senator LUDLAM—All right. I will not dwell here. If you are uncomfortable, until you have been able to check what you can put into the public domain I will just ask you to provide us, as soon as you can, with anything you are able to about those two live cases.

Mr Di Giorgio—Certainly.

Senator LUDLAM—Thank you. So you have two cases ongoing. Mr Colmer has attended a couple of meetings. This might be germane to the meetings that Mr Colmer has attended: what is the Australian government's position on calls to strengthen the text of the guidelines for the current review of the OECD Guidelines for Multinational Enterprises? There are obviously calls from several society groups and some governments to strengthen the guidelines in regard to human rights; free, prior and informed consent; due diligence; supply chains; transparency; and disclosure, among other matters. Has the Australian government got a formal position, have we put a draft text, or is there any documentary position that you can provide for us that we are taking into these negotiations?

Mr Di Giorgio—I do not believe that the government yet has a formal position on changing the text.

Senator LUDLAM—When will we be developing one, and will you be seeking guidance or input from Australian NGOs, for example?

Mr Di Giorgio—I will have to take that on notice.

Senator LUDLAM—That would be great. It would be good to know what your program of work is in relation to that review and whether there is any intention to engage with Australian civil society or indeed the industry.

Mr Di Giorgio—Sure.

Senator LUDLAM—Thank you. Moving on—and this might fall into that same list—in relation to our position on calls to ensure consequences and remedies in reply to companies found in breach of the OECD Guidelines for Multinational Enterprises, what are the penalties? At the moment I do not know that there are any.

Mr Di Giorgio—I do not believe there are any penalties as such. As I understand it, it is a non-adversarial forum and, in effect, it is a mechanism to bring parties together and try to resolve issues through discussion. So I do not believe it actually has penalties attached to it as such.

Senator LUDLAM—Okay. This next one is an issue that I raised last time—and you do not have the transcript in front of you; that is fine. It is the fact that we do not appear to promote the existence of the national contact point in areas where Australian multinational companies might be operating. If you are in Malawi, for example, and a company has turned up and just spoiled your backyard—and that is probably a little bit of an aggressive example to pick—what are Australian companies operating abroad or the Australian government doing

to notify host communities that there even is a national contact point, a phone number and some resources available?

Mr Di Giorgio—I know that the Australian national contact point is referred to in the annual report.

Senator LUDLAM—In what?

Mr Di Giorgio—In the annual report of the Foreign Investment Review Board.

Senator LUDLAM—Are we handing out copies of the annual report to host communities?

Mr Di Giorgio—I do not believe so.

Senator LUDLAM—No. So what are we doing to promote the existence of the NCP anywhere where its existence might be relevant, such as to host communities where Australian companies are operating?

Mr Di Giorgio—To the best of my knowledge, there is no active promotion.

Senator LUDLAM—Is that something that we could change? Would it seem sensible to advertise the existence of this office, since we are resourcing it?

Mr Di Giorgio—That would be an issue for the government to consider.

Senator LUDLAM—Okay. Minister, can I park that one with you?

Senator Sherry—I take your point, Senator. I will take it on notice. I am sure one of the Treasury officers can raise it with the Assistant Treasurer or maybe the Treasurer. We will come back with a response on notice to you.

Senator LUDLAM—I know I have been raising it with a sense of irony; it is actually quite a serious issue.

Senator Sherry—I agree.

Senator LUDLAM—A condition of membership of the OECD was that we establish this office. We did. It has been around for a long while and is meant to help resource local communities if they are impacted on by Australian companies operating overseas. The office, to my knowledge, is not actually an office. I am not sure that it is staffed. It does not appear to have a direct phone number, and we do not advertise or promote its existence, in any way, to anyone who might care.

Senator Sherry—I take your point, but an office can be an office in title—as distinct from an office physically.

Senator LUDLAM—That is what we seem to have, yes.

Senator Sherry—That, I think, is the context in which it is used. But I take your point. I will take it on notice and ask one of the officers to discuss with the Assistant Treasurer or Treasurer what is appropriate, to ensure there is broader knowledge so that the office, if need be, can be put to use.

Senator LUDLAM—As we have just traversed, it is not necessarily an adversarial forum to which you would take a fight, but if a company is going into a host community and

advertising its presence, and consulting on a proposed development, one of the things that they might inform communities of is that this office exists, and for a very good reason.

Senator Sherry—Your point is taken. I will take it on notice and see what can be progressed.

Senator LUDLAM—There have been some calls, since the last time we spoke, about strengthening the institutional arrangements and independence of the Australian NCP. Is there a view within government—either within the department or with the minister—that this would be appropriate? I guess what I am asking is: are we happy with the situation as it is?

Mr Di Giorgio—I think it is fair to say that our thinking on the position is that there is a process in the OECD at the moment around that. We are part of that process in considering how that may evolve. But it is not a settled position as such and so it is something that we would have to consider and brief and seek the opinion of government on.

Senator LUDLAM—When does that review conclude? What can you tell us about the timing of that?

Mr Di Giorgio—I would have to check and give you the facts on that. I know there are meetings happening this year and there is another one occurring, I believe, in December.

Senator LUDLAM—I guess I have asked you to take away a bundle of homework, so if you can just add that to the list, to give some idea of what process there is and when it is expected to conclude. In that case, the last point that I would make is whether there should, perhaps, be some additional resources and perhaps even staff.

Mr Murphy—I can speak on that. Cases are taken quite seriously. Patrick Colmer is the general manager of the division. He is the contact point, but he has the resources within the division—of around 40 people—to call on to handle these cases. He goes to Paris twice a year on these matters to discuss these issues with his colleagues at the OECD.

Senator LUDLAM—That must be nice.

Mr Murphy—This is taken quite seriously by Treasury and the government, as it is an international commitment which we have entered into.

Senator LUDLAM—It is. The two trips to Paris sound nice.

Mr Murphy—No, that is where these matters are discussed.

Senator LUDLAM—I think we called it ‘demand driven’ last year, which I think is reasonable—if there are no enquiries then there is no work for the office to do. But in a busy year, how many people or how many FTEs would you have to assign to Mr Colmer?

Mr Murphy—In terms of the foreign investment division, there would be just under 40.

Senator LUDLAM—How many of them work on NCP related matters?

Mr Murphy—My point is, when a case arises, Mr Colmer can call on any resources within that group to handle these matters. I cannot give you a specific number as to allocation of—

CHAIR—Senator Ludlam, we have been 15 minutes on this topic.

Senator LUDLAM—And we have only just got to the bit about the trips to Paris. How many people are working—

Mr Murphy—OECD meetings call for this issue.

Senator Sherry—I do not think the implied criticism of trips to Paris—the OECD is headquartered in Paris.

Senator LUDLAM—We just have not been able to establish what the office actually does.

Senator Sherry—Senator, if you want involvement in these international organisations on these sorts of issues, you have to be involved, which, by necessity, involves a trip to Paris. So what? I frankly could not care if it was a trip to Timbuktu. The job would still need to be done. Paris is where the OECD is. I do not accept your implied criticisms.

Senator LUDLAM—All right. I want to wrap up. How many of the 40 people within the division that you have identified are working on the NCP related matters at the moment? Could you give us a break up of FTEs or some other metric?

Mr Murphy—If there were a case—

Senator LUDLAM—There are two cases.

Mr Di Giorgio—The division has a unit within it which deals with trade and related international issues. That unit would be where Patrick Colmer would draw resources and staff from.

Senator LUDLAM—Can you give me the name of the unit? How do we describe the unit? What is its title?

Mr Di Giorgio—It is the trade policy unit.

Senator LUDLAM—How many people are in that?

Mr Di Giorgio—Approximately six.

Senator LUDLAM—How many of those folk are currently working on NCP related matters?

Mr Di Giorgio—I know Patrick called a meeting just last week about the new case they received. I believe there were three staff involved.

Senator LUDLAM—At the meeting or in an ongoing way?

Mr Di Giorgio—At the meeting to have preliminary discussions about the issues.

Senator LUDLAM—I am not sure I am going to get much further.

Senator XENOPHON—I have some questions about foreign investment in agricultural land and water. During the last Senate estimates it was clarified that applications for foreign investment under \$231 million, unless it is a state-owned enterprise, do not have to come before the board for approval. Is that correct?

Mr Di Giorgio—That is correct.

Senator XENOPHON—Given this, how is the board able to effectively, accurately and on an ongoing basis monitor foreign investment in Australia in agricultural land?

Mr Di Giorgio—As I think was outlined last time, the guidelines are such that agricultural land is not picked up in terms of foreign investment other than through companies that invest in enterprises where primary production is the primary activity and where it is over \$231 million.

Senator XENOPHON—So there would be no register to determine how much agricultural land is owned by overseas entities?

Mr Di Giorgio—No.

Senator Sherry—Not at the FIRB level, but if you went to land registers in each state you may be able to identify in some cases foreign ownership.

Senator XENOPHON—Minister, you are talking to a person who had to do conveyancing as a suburban legal practitioner. If it is a company, you do not necessarily know the foreign ownership.

Senator Sherry—Hence my careful use of the words. I have not been a conveyancing solicitor, but I know you can identify in some areas foreign investment and ownership of land through state land registries, but FIRB do not keep any sort of national register.

Senator XENOPHON—Minister, does that mean that the government recognises there is not an ability to assess, analyse and forecast in terms of the level of foreign investment in agricultural land and, for instance, to see whether there are creeping acquisitions taking place in that industry?

Senator Sherry—On the last occasion when the foreign investment rules were reviewed and changes were made—I am just looking for the date, because it was when I was the Assistant Treasurer; however, the date itself is not important—they dealt with some issues relating to real estate investment. Beyond that it is not the government's intention to change any of the existing parameters around foreign investment since that last set of changes in respect of residential real estate.

Senator XENOPHON—In terms of agricultural real estate my understanding is that New Zealand has recently amended its regulations around assessing overseas investment applications, including an economic interest factor and a mitigating factor, to safeguard New Zealand's sovereign interests. It has also altered its regulations so that these tests apply to all foreign investments of 'sensitive land', which includes farm land greater than five hectares, which compares to the \$231 million here in Australia. Has any consideration been given to the New Zealand policy approach in relation to this? Is that something the board has looked at?

Senator Sherry—I understand that the former Senate Select Committee on Agricultural and Related Industries made some recommendations on this in August 2010. The government has not responded yet; therefore, the issues you raise would be dealt with in that response. So we are considering those recommendations.

Senator XENOPHON—But in relation to the board: I take it that the board is aware of the New Zealand approach to foreign investment in agricultural land?

Mr Di Giorgio—The board would be aware of those issues, yes.

Senator XENOPHON—It is not something that is being considered with a view to advising government?

Mr Di Giorgio—It is an issue that we take into account in the mix of considerations on policy issues.

Senator XENOPHON—And my final line of questioning, if I may: given the guide to the draft plan for the Murray-Darling Basin that was issued last week and the whole issue of water security and water for the Basin, you may be aware of a series of articles last month, particularly in the *Sydney Morning Herald*, in relation to water purchases by overseas entities. Given that it is a multi-billion dollar water market, there were concerns expressed by irrigators' representatives that merchant banks have been approached in Europe in terms of how European investors can pour hundreds of millions of dollars into our water market. What thresholds are there for the purchase of water rights with regard to the board's powers of assessment and approval?

Mr Di Giorgio—Water rights would be considered in the mix as another asset in any company. If we are talking about a company that is buying an interest in land, the water rights would form part of that asset.

Senator XENOPHON—But water rights can be bought separately? If water rights have been disconnected from the land, are water rights subject to any approval process or scrutiny by the board?

Mr Di Giorgio—They are considered an asset under the act.

Senator XENOPHON—Does that mean that we have got the \$231 million threshold as well for water rights? Or is there a separate threshold for water rights before it has to go to the board for approval?

Mr Di Giorgio—There is not a separate threshold for water rights.

Senator XENOPHON—Is the threshold \$231 million?

Mr Di Giorgio—Yes, it would be.

Mr Murphy—Unless it is a foreign country. If it were—

Senator XENOPHON—Unless it is a state-owned enterprise.

Mr Murphy—If it is a state-owned enterprise there is no threshold—

Senator XENOPHON—Sure. Does that mean that if you have an overseas company that purchases \$230 million in water assets one day, then in a separate transaction the same company purchases another \$230 million, then because they are under the threshold neither of those transactions—nor as cumulative transactions—would come under the scrutiny of the board?

Mr Murphy—Notionally, no, but I must say that the board does look at the cumulative effect of investments in certain sectors. It is not required to do that under the act, but it does that.

Senator XENOPHON—What does that—

Mr Murphy—It means that it looks at the aggregate effect of the amount of, in effect, investment in iron ore, investment in coal, investment in water—these types of sensitive areas—and looks at a longitudinal study. In effect, what are the investments; not just transaction by transaction but over a span of time.

Senator XENOPHON—Okay, but if an overseas entity purchased, say, half a billion dollars worth of water over a series of half a dozen transactions over a 12-month period you would not be able to stop any of those individual transactions, would you?

Mr Murphy—You could not stop the transactions, but you could start to see whether, in effect, the government may need to change policy if you got concerned about that.

Senator XENOPHON—So, you have got a role of observing—

Mr Murphy—Yes, to make sure—

Senator XENOPHON—but you cannot act on it?

Mr Murphy—The act says investment that is contrary to the public interest, and we set down thresholds—you have got to have some guidelines. But at the same time the government—that is, the division—has policy responsibility to ensure that the act, as it is set out, is meeting the requirements of the government. Water is one of the key areas that there is sensitivity about—

Senator XENOPHON—A very key area.

Mr Murphy—and it has got to be kept under observation.

Senator XENOPHON—Finally, maybe I am missing something—

Mr Murphy—No.

Senator XENOPHON—but isn't there a flaw in your argument in relation to that? Given that these transactions do not have to be brought to the attention of the board, it can be under the radar so that—

Mr Murphy—To some extent it can be, but there are other ways of gathering information in terms of who is engaging water rights.

Senator XENOPHON—But you have acknowledged that there could be policy concerns about overseas entities purchasing significant amounts of water rights in the Australian market.

Mr Murphy—As there is in any key sector.

Senator XENOPHON—Sure, in any key sector. And water is a very key sector, just ask the people of the Murray-Darling Basin. But, given that there is, to use a Senator Cameron term, an 'information asymmetry'—it is a very good term, Senator Cameron—

Mr Murphy—And it is a term of art, an economics term.

Senator XENOPHON—There is an information asymmetry there.

Mr Murphy—Yes.

Senator XENOPHON—The minister quite properly pointed out that you might be able to find out some information, but if there is this lack of information in terms of who has got

what and which entities have got what, how on earth can you give reasonable, considered advice to government?

Mr Murphy—I think you are looking at it through the prism of foreign investment. There are other areas of government which would have data on the ownership of water rights, and so if there are concerns with the foreign investment, one of the jobs of foreign enforcement division is to consult with the other areas, arms of government, to garner that information.

Senator XENOPHON—But you do not do that as a matter of course, though, do you?

Mr Murphy—Well, yes. If there was an investment proposal in a certain industry where we felt we needed information from another department that had expertise on that industry, yes, we would gather information from them.

Senator XENOPHON—But hang on. If it is under the radar, if they are \$50 million or \$60 million transactions—

Mr Murphy—Yes, they can be. But I am talking about if there is public unrest and if it was brought to our general notice that there were concerns about the sale of water rights. We have got to put this in context. We are an open government welcoming foreign investment. So if there is a matter of concern we can garner some information on that.

Senator XENOPHON—I am not sure. Perhaps you want to take this on notice.

Senator Sherry—Senator, you pose the hypothetical of, frankly, a none too subtle creeping acquisition. You deliberately break it up into blocks of below \$230 million. You are correct that it does not have to go to the Foreign Investment Review Board, but that does not mean that in the, I would suggest, public debate perhaps controversy around that approach would not come to the attention of government, and it does not mean that an approach such as that, where a none too subtle accumulation of a substantial asset by perhaps a contrived approach to drop the acquisition below the \$231 million cut-off point, would not come to the attention of government and that the government would ignore that. It does not mean that.

Senator XENOPHON—But right now there is no policy, Minister, that would prevent that. Even \$50 million of water rights in a particular community in the basin would be very significant.

Senator Sherry—We have determined the threshold. In most sectors there are exceptions. The state-owned enterprises is a good example, and there are other sectors where there are limits by legislation. That is the policy position, but it does not mean that that sort of activity would go unnoticed and that there would not be a reaction to it.

Senator XENOPHON—Minister, there is a hell of a difference between \$231 million and five hectares.

Senator Sherry—I am aware that the Senate committee on agriculture make recommendations on this. The government is considering those recommendations at the present time.

Senator XENOPHON—Can you indicate when the government is likely to respond to those recommendations?

Senator Sherry—I cannot, Senator. I have to take that on notice.

Senator XENOPHON—Finally, Mr Murphy, it is a bit like that Donald Rumsfeld phrase—it is a bit of a ‘known unknown’, isn’t it? We do not quite know how much foreign investment it is because there is a lack of completeness of information and a convenient data collection point, if you like.

Senator Sherry—The source of data on foreign investment is not just the Foreign Investment Review Board. I think the Australia Bureau of Statistics has a comprehensive data collection set on foreign investment. Just because you have got a \$231 million threshold does not mean that everything under that is not collected statistically. I do not know the detail of the extent to which the ABS collects that data and how it is collected. They are here later on and they can probably give us an outline. Because there is an investment below \$231 million, it does not mean it is excluded from data collection.

Senator XENOPHON—I will leave it at that, other than to say that there is a hell of a difference between \$231 million and five hectares.

Senator Sherry—Yes, but as I said, the recommendations of the select committee are before government. We will take it on notice and find out when that is likely to be responded to.

CHAIR—We have a series of other questions on FIRB. Senator Cameron has a quick question I understand.

Senator CAMERON—This is for the Foreign Investment and Trade Policy Division. I am happy for this to be taken on notice. It is in relation to our participation in bilateral and multilateral trade agreements. Could you advise on the increase or decrease of GDP for each bilateral trade agreement that we have entered into? Could you advise on the effect on Australia’s trade balance for bilateral trade agreements that we have entered into? Could you advise on the availability of empirical as opposed to theoretical evidence on the benefits of the free trade agreements that have been entered into by various Australian governments? Could you advise on the efficacy of the assumptions underpinning the econometric modelling—the CGE model—used by governments to promote the various bilateral agreements? Could you advise on the outcomes of these free trade agreements compared to what the modelling proposed the benefit was under these various trade agreements? Is that clear?

Mr Murphy—Yes. There is a string of questions there. I do not know whether we would have that information.

Senator CAMERON—I am happy to put it on notice.

Mr Murphy—I would say that there is a major inquiry into the benefits of free trade agreements that is being conducted by the Productivity Commission. They have put out a draft report that has a wealth of information. A lot of that information I would expect to come out in the Productivity Commission’s final report on free trade agreements, which is scheduled for the end of this year. A lot of your questions go to the issue of the debate as to whether we should be doing bilateral free trade agreements or sitting back and waiting for a multilateral agreement within Doha.

Senator CAMERON—My question is not one of principle or political arguments about it; my question is about what the economic outcomes are. The trade policy division should be able to advise me, surely.

Mr Murphy—We will endeavour to give you that information, but you are waiting for a period of time to elapse after the free trade agreement is signed to be able to garner some of that information.

Senator CAMERON—How long does that take?

Mr Murphy—We would have to say—

Senator CAMERON—How long is a piece of string?

Mr Murphy—No. I am saying possibly you could look at the influence of the free trade agreement with the US as one that by now would be able to give you some discernable data as to what impact it has. Of course, I think it is going to be very difficult to isolate the impact of a free trade agreement from the normal trade arrangements. What is the counterfactual if you did not have it?

Senator CAMERON—The modelling does that. It tells us that this is what the benefit is.

Mr Murphy—We will do our best for you, Senator.

Senator CAMERON—I am happy for you to take that on notice as well. I am asking whether the statement you have made then means that the modelling that we are advised provides all the benefits under these so-called free trade agreements is wrong?

Mr Murphy—No. It is the best modelling we can come up with and it is modelling. It is not what actually happens.

Senator CAMERON—I would like to know what the modelling said and what real life says.

Mr Murphy—Okay. We will do our best.

Senator WILLIAMS—To follow on from Senator Xenophon: foreign companies overseas can come to Australia and buy any farmland under \$231 million. It does not have to be approved by you or the Treasurer. That is the situation now?

Mr Murphy—Yes.

Senator Sherry—Except for the case of state owned enterprises.

Senator WILLIAMS—Does that include partially state owned enterprises?

Mr Murphy—No, if a state owned enterprise is involved—

Senator WILLIAMS—It has to be 100 per cent state owned?

Mr Murphy—No, there would just be involvement with state owned enterprise.

Senator WILLIAMS—So a case like Shenhua, for example—which is going into the Liverpool Plains area and buying up land to establish a coal mine—which is 68 per cent owned by the Chinese government, would have to go through?

Senator Sherry—Yes—and it has. I have dealt with cases like that.

Senator WILLIAMS—I find it concerning that large amounts of money like that can go through automatically without the Treasurer's or the government's scrutiny. I find this a concern for the ownership of our land with that large amount of money. We have seen the change in New Zealand.

Mr Murphy—Yes. I think what you are raising is a concern. As the minister previously mentioned, we have had a parliamentary inquiry. That has raised concern about agricultural land and water rights. These are issues which maybe five years ago were not of immediate concern. It is wherever there need to be adjustments in the threshold. There is flexibility within the foreign investment regime to be able to do that.

Senator WILLIAMS—And we come back to the vertical integration. Australia is obviously glad to export the coal, food or whatever. My opinion is that we need to keep a close eye on it so that in the future we have control of our exports instead of other countries owning our land and controlling it.

Senator Sherry—I will just make a point—I do not have the statistics in front of me. I know that generally—I would have to look at the ABS, which I think have some quite detailed statistics—the overwhelming countries of ownership are the US and the UK for pretty obvious reasons.

Senator WILLIAMS—In Australia, you mean?

Senator Sherry—Yes. It has been, and by a country mile.

Senator WILLIAMS—Yes, it has been like that in foreign investment for years—the UK especially.

Senator Sherry—Yes. It is the same with overall foreign investment.

Mr Murphy—The top five sources of total investment in Australia in 2009 were the US, at \$500 billion; the UK, at just under \$500 billion; Japan, dropping to \$100 billion; the Netherlands, at \$43 billion; Hong Kong, at \$43 billion; and China, at \$16 billion.

Senator Sherry—That might surprise a few people in the community, given some of the recent debate about these sorts of issues. Overwhelmingly, the stock of foreign ownership is in the hands of the UK and the US. It has been, in the case of the UK, since European settlement; and, for the US, probably for the best part of the last hundred years.

Mr Murphy—I will make a point on this. The US has invested \$500 billion in us. We have invested \$400 billion in the US.

Senator Sherry—To complete the statistical barrage, since you have opened this up: the stock of Australian investment abroad—that is, our investment in other countries—is \$1.2 trillion. The stock of foreign FDI in Australia at the end of 2009 was \$436 billion. We have \$436 billion in stock into Australia and \$1.2 trillion in Australian stock in other countries. I think that in the context of this debate this is just not appreciated.

Senator WILLIAMS—To refer to creeping acquisitions: you would be familiar with Swift, the abattoir company. I believe the Brazilian government has an interest in it; not only were they buying up the abattoirs around the country, they also have their own trucks to

transport the stock from the saleyards to the abattoirs etc. Are you familiar with that company?

Mr Murphy—No, I am not.

Mr Di Giorgio—I am familiar with the case.

Senator WILLIAMS—Could you find out the ownership of the company? I would appreciate if you could take that on notice.

Mr Di Giorgio—Sure.

Senator WILLIAMS—Is there any way that you can check out the ownership and whether there is financial backing from the Brazilian government? I am concerned that we are going to have one company alone in 10 years time controlling the whole abattoir industry in Australia. You know how big that industry is with the amount of livestock we run, slaughter and export.

Mr Murphy—What kicks in there as well are issues relating to the ACCC and competition. If you are saying one company is taking over other companies to have dominance of an industry, you are going to come into breach of the Trade Practices Act. That is our protection in terms of that outcome.

Senator WILLIAMS—It is also an industry in which it is very hard to make a profit and many people welcome foreign investment to keep it alive and to keep jobs because without that investment there may be just an empty shell of an abattoir and a balancing act—but can they have them all?

Mr Murphy—That is the benefit of foreign investment.

Senator BUSHBY—Minister, one thing that confused me in your answer is that you mentioned that initially \$500 billion was invested by the US.

Senator Sherry—I think Mr Murphy read the statistics.

Mr Murphy—The top five sources of total investment in Australia in 2009.

Senator BUSHBY—Of the total, how much did the US and UK contribute?

Senator Sherry—Not the total stock.

Senator BUSHBY—I know.

Senator Sherry—Total stocks are different. The five sources of foreign investment in Australia in 2009 were the US approximately \$500 billion—

Senator BUSHBY—Was that \$500 million or billion?

Mr Murphy—It was \$514 billion to be precise.

Senator BUSHBY—How does that compare? If you add the US and UK investments you get roughly a \$1,000 billion. You indicated that FDI in Australia was less than \$500 billion.

Mr Murphy—Yes, the figure I have here for the stock of FDI at the end of 2009 is \$436 billion.

Senator BUSHBY—How does FDI compare with your statistics for the US and the UK?

Senator Sherry—That is a good question. Maybe one of the officers can help.

Mr Di Giorgio—The difference is that the figures we are referring to here, the \$514 billion, are total investment of which foreign direct investment is a subset.

Senator BUSHBY—When you say the US has invested around \$500 billion, the FDI component of that is much smaller?

Mr Di Giorgio—The FDI component would be smaller, yes.

Senator BUSHBY—That in itself could confuse the public. I do not want to go into that in great detail. Treasury's annual report notes, against the objective of well functioning markets, that:

Particular attention is being given to core infrastructure (energy, transport and communications), financial and labour markets.

Other parts of the annual report also highlight water infrastructure as a key activity for the Markets Group. I would like to look in a little detail at each one of the headings that the report indicates you are working on in particular, starting with infrastructure. In the red book, Treasury calls for the explicit incorporation of a net public benefits test when considering major infrastructure investments. Could Treasury outline some of the benefits of such a test.

Mr Archer—I think the issue is fairly straightforward, that a government with limited financial resources available to it ideally will ensure that the projects that it is considering allocating funding to are properly assessed to ensure that they represent value for money and can be prioritised accordingly.

Senator BUSHBY—What are the risks for government and taxpayers from making investments which do not explicitly incorporate a public benefits test?

Mr Archer—I think the risk is that ultimately the best projects are not coming to fruition and that suggests that, in a sense, welfare is not being enhanced by as much as it could otherwise be with a different allocation of those funds.

Senator BUSHBY—Would you say taxpayers are not necessarily getting value for money?

Mr Archer—That is correct.

Senator BUSHBY—Best bang for their buck, so to speak. Can Treasury point to any actions that this government has taken to incorporate a net public benefits test in major infrastructure projects?

Mr Archer—The government established Infrastructure Australia to provide advice on major infrastructure projects. Infrastructure Australia has undertaken a lot of work with project proponents to ensure that a robust cost-benefit analysis accompanies the project proposals that come forward, and I think that has probably been the major initiative that the government has taken to promote more rigorous assessment of projects.

I think the other development we have seen has been the development of longer term planning strategies to ensure that projects come forward within the context of a process which evaluates long-term infrastructure needs. Those processes are still ongoing. I think two examples are work being undertaken by Infrastructure Australia in relation to establishing a national freight strategy and undertaking a review of ports. Through COAG, the government

with the states and territories has also established a process around strategic planning in our capital cities, again with a view to ensuring that, as one element of that, infrastructure projects that come forward are developed within that broader context of robust and longer term planning.

Senator BUSHBY—Have all major infrastructure projects of this government been assessed by Infrastructure Australia and put through a proper net public benefits test?

Mr Archer—Have all projects? I guess it depends on what you are including within the scope of your question. Infrastructure Australia has been set up to look at economic infrastructure projects and has played a role, I think, in most government major economic infrastructure projects that have been considered. I am not sure that I could put my hand on my heart and say ‘all’.

Senator BUSHBY—The most high-profile example would be the \$43 billion NBN.

Mr Archer—There was a separate process established through the implementation study to conduct analysis of the National Broadband Network. Infrastructure Australia has identified enhancing broadband services in Australia as one of its national infrastructure priorities, but it did not itself conduct a detailed analysis of that project.

Senator BUSHBY—What about the health infrastructure through the health reforms? Did Infrastructure Australia look at that?

Mr Archer—No, and I do not think it was asked to—again going back to my point that its mandate really is to look at what we regard as economic infrastructure as supposed to, I guess, social infrastructure, if you can make that distinction.

Senator BUSHBY—Would the NBN be considered economic infrastructure?

Mr Archer—I believe so, yes.

Senator BUSHBY—So why was a separate approach taken for that?

Mr Archer—I think this is an issue that has been canvassed in a number of previous Senate estimates hearings and in fact in the Senate inquiry into the NBN. The government initially has explained that the National Broadband Network was an election commitment that it was committed to. It has also established a separate process where it engaged experts in relevant fields to develop the implementation study for the National Broadband Network. That is the course that it took.

Senator BUSHBY—Was Treasury consulted on the Parramatta-Epping rail line project prior to the election?

Mr Archer—Were we consulted? I do not recall that we were, but I would prefer to take that one on notice.

Senator BUSHBY—Okay, that is fine. Given our discussion earlier on the risks for government of not doing a net public benefit test or a cost-benefit analysis and given that that was not undertaken for the NBN, does that expose taxpayers to a greater risk that they will not get good value for money or the best bang for their buck?

Mr Archer—I think, as I have already said, the government has commissioned detailed analysis of the National Broadband Network. It was not what would be regarded formally as a

cost-benefit analysis. It certainly examined in detail the costs of the network and established that, under a range of scenarios, it could provide a return to the government. The advisers for the implementation study were not asked to conduct a cost-benefit analysis. The government has pointed to a range of overseas studies and evidence which highlight the importance of effective and high-speed telecommunications networks.

Senator BUSHBY—But nonetheless there are a number of ways of implementing a high-speed broadband network, and presumably, in assessing the cost-benefits of each of the different ways of approaching it, a cost-benefit analysis would be a useful way of assessing the risks to taxpayers.

Mr Archer—It would certainly be one way. I think we are on the record in the past as noting that there would be some significant challenges in attempting to identify the potential benefits of such an infrastructure project, given its long life span of 30 or 40 years, and we simply may not be able to recognise the benefits that it could provide.

Mr Murphy—The amount of analysis through the McKinsey report and other analysis of NBN far exceeds, probably, analysis on other infrastructure projects.

Senator BUSHBY—I would be interested in Treasury putting together a paper that demonstrates that that was the equivalent of a full cost-benefit analysis and that that was conducted to the equivalent level of overall net outcome—that that analysis that you referred to actually delivers the equivalent degree of confidence that a full net public benefits test would normally deliver.

Mr Murphy—I think that should be directed to the department of communications.

Senator BUSHBY—I was responding to your comment more than anything else there. You mentioned that one of the reasons it was treated differently was that it was an election promise, but that is not entirely true. The election promise was a \$4.7 billion broadband—

Mr Murphy—I think it was treated differently because of its great importance to the government, and it is a major—

Senator BUSHBY—Sorry, Mr Archer did actually mention that it was an election commitment. I just wanted to correct that. The \$43 billion NBN was not an election commitment; the \$4.7 billion broadcast broadband plan was. The \$43 billion network came in—

Senator Sherry—All I can recall, Senator, was that there was an enormous amount of debate about this issue in the election. I do not think anyone could deny that it was a major issue in the election.

Senator BUSHBY—It was a major issue, but you were talking about spending \$4.7 billion at that time, not a factor of 10 times that amount.

Senator Sherry—I certainly heard—not you personally; you may have done, but I do not know—some of your colleagues bandying around a figure of \$43 billion quite constantly during the election campaign. But that is a political discussion that we can have at another—

Senator BUSHBY—During which election campaign was that?

Senator Sherry—In the last election campaign.

Senator BUSHBY—No, I am talking about the fact that you went to the 2007 election with a \$4.7 billion—

Senator Sherry—Sorry, I thought you were referring to the 2010 election.

Senator BUSHBY—And halfway through the term, when it appeared that the plan you had gone to the election with had failed, you came up with this new one, which came to \$43 billion.

Senator Sherry—Look, this is a political debate we are now getting to. I do not agree with you, but it is not an issue that the witnesses before you can engage in.

Senator BUSHBY—Coming back to Mr Murphy's comments, the KPMG-McKinsey study only showed that returns would be above the bond rate, not a risk adjusted return, which you would normally consider in the context of a cost-benefit analysis.

Mr Murphy—My point is that there was considerable analysis and work done on the NBN project before the government made a decision in that regard. Certain matters are referred to Infrastructure Australia, and Infrastructure Australia ran a process which was largely getting views of the states then trying to adjudicate, prioritise and fine out infrastructure investments. But, as Mr Archer pointed out, in their report to COAG they recommended and stood behind the government's investment in a fast broadband network.

Senator BUSHBY—But they did not conduct a full cost-benefit analysis.

Mr Murphy—No, they were not asked to, but they saw the benefits of it.

Senator BUSHBY—No, but it is economic infrastructure. We heard from Mr Archer that that is Infrastructure Australia's job; part of their job is to consider the cost-benefit of economic infrastructure. We heard evidence tonight that it is economic infrastructure.

Mr Murphy—But it is only one source of advice. A separate process was run by NBN because of its importance.

Senator Sherry—That is right. Questions in respect of NBN and Infrastructure Australia are not the remit of this part of Treasury estimates. This discussion, debate and question-and-answer session is one that I have actually heard on, frankly, numerous occasions in other estimates. I do not think we have learned anything new, with due respect to the witnesses, of anything tonight.

Senator BUSHBY—Mr Murphy mentioned that there was lots of analysis done before it was announced. Are you aware that analysis was? As far as I am aware, it did not even go to cabinet before it was announced.

Mr Murphy—I think you should direct those questions to the department of communications. They will have it at their fingertips.

Proceedings suspended from 9.16 pm to 9.30 pm

CHAIR—The committee will resume with the markets group.

Senator PRATT—I have a quick question to start with. You are welcome to take it on notice if required. In the markets group some parts look at advice on insurance.

Mr Murphy—Yes.

Senator PRATT—So I was interested in whether the markets group had done any assessment on the changes to midwifery practice and any impact on medical insurance. I know there is some analysis of medical insurance in some of the work that you do.

Ms Wilkinson—That is the health department's policy. As far as I know there is nothing in markets group. I do not know whether the fiscal group has done any work on that.

Senator PRATT—I have seen some other work that the section has done on insurance but I was not sure. It does not surprise me to hear that is the case.

Ms Wilkinson—We are responsible for insurance, but not health insurance.

Senator PRATT—It is not health insurance; it is indemnity insurance.

Ms Wilkinson—Yes, but the health department has had carriage of that.

Senator PRATT—You assess the affordability of insurance in terms of the overall scope of liabilities, or is it Health that does that?

Ms Wilkinson—In terms of the midwifery?

Senator PRATT—No, just in terms of the affordability of liability and risk assessment overall—making sure insurance products have a proper assessment of the liability within them.

Mr Murphy—We look at the policy in terms of insurance and, yes, accessibility but the administration of insurance products is with APRA. That is a whole stream of work. Ian Laughlin is the commissioner who deals with that.

Ms Wilkinson—And the policy advice on the particular midwifery insurance has been the responsibility of Health.

Senator PRATT—I have another insurance question on a different topic, the progress of the review into the carve-out of unfair contracts. Where is the deliberation on that up to? This committee has done quite a lot of inquiry into insurance products and consumer legislation, as you would be aware. One of the issues that came up is many consumers complaining about insurance contracts having exemptions from unfair contracts clauses. I understand the markets group has been responsible for a review into that.

Mr Miller—In the coming months the government is likely to be pursuing a range of reforms to the Insurance Contracts Act that did not pass through the previous parliament before the election. It included various aspects of removing impediments to the use of electronic communications for statutory notices and documents; ensuring that the failure to comply with the duty of utmost of good faith is a breach of the act; giving certain powers to the regulator, ASIC, to address certain breaches; and making the duty of disclosure easier for consumers to understand and comply with. The question about whether insurance contracts should be subject to generic provisions regarding unfair contracts terms or actually remain subject to a tailored regulatory regime in the Insurance Contracts Act is quite a contentious issue and one which involves quite a lot of underlying legal and policy complexity. All I can say is that the government is looking at that issue and how that fits in. Whether to include or exclude that from these provisions which are being worked up now is a matter that is currently under consideration.

Senator PRATT—So the insurance bill has been reintroduced but it is unclear yet whether it is going to include provisions on unfair contracts.

Mr Miller—Correct.

Senator PRATT—And that is currently being actively reviewed. Do you know what the timeline is likely to be for concluding that?

Mr Miller—I do not. I can try to find a bit more information—I do not work on it directly.

Senator PRATT—I would be interested. In reference to consumer law, clearly the federal parliament has dealt with that and I understand there are now draft Australian consumer law regulations and guides being prepared.

Mr Writer—On 24 September this year the government issued draft regulations under the Australian consumer law on behalf of the Standing Committee of Officials of Consumer Affairs for consultation. That consultation closed on 13 October. So far we have received 35 submissions, five of which are confidential and the remaining 30 are now published on the Treasury website. We are now considering those submissions and discussion with our state and territory colleagues is the final approach before those regulations are finalised.

Senator PRATT—Is there anything in those submissions that represents any real risk to the consumer law becoming operative in the new year?

Mr Writer—The primary legislation has been passed, and section 2 of the Trade Practices Amendment (Australian Consumer Law) Act (No. 1) 2010 states that the legislation will commence on 1 January 2011. So that legislation will commence on that date.

Senator PRATT—Those regulations and guidelines will be ready and operable by then as well?

Mr Writer—The intention is to have those regulations finalised in the coming weeks.

Senator PRATT—What is the assessment of how ready business is for the introduction of the new consumer law?

Mr Writer—A considerable amount of work is being done to insure that consumers and business are aware of the new laws and can comply with them. Part of the consideration in finalising the regulations is whether specific transitional requirements are needed in particular areas, and questions were asked about that. A document was issued in July this year by the Treasury on behalf of the standing committee of officials about the implementation of the law, and that invited businesses in particular to make comments about the proposed implementation process. There is also a lot of work being done by various groups of the national and state and territory consumer agencies to ensure there is appropriate consumer and business awareness of the law.

Senator PRATT—As I understand it, the state consumer agencies are still responsible for upholding and implementing the laws in each jurisdiction even though they are uniform. Is that correct?

Mr Writer—That is correct. There will be a single law but a joint enforcement approach, and that enforcement approach is underpinned by a memorandum of understanding that has been signed by all of the Australian consumer agencies and our New Zealand colleagues.

Senator BUSHBY—Is New South Wales sticking to it?

Mr Writer—As far as I am aware. In addition to that there will be a number of other protocols agreed at a more operational level to govern the way in which they work together day to day.

Senator PRATT—Do all of the state consumer protection departments seem ready to kick off after a busy time of consumption over Christmas and the new year?

Mr Writer—As I say, there is a lot of work to be done. Everyone is working towards the 1 January commencement date, and the intention is that everyone will be ready to commence on 1 January, subject to any particular transitional arrangements that are made in particular areas.

Senator PRATT—If someone consumes or buys a good or service this calendar year but has a problem with it next calendar year, is it the new laws that apply?

Mr Writer—Under the Commonwealth provisions, my understanding is that the existing laws will apply up until 31 December in relation to goods or services acquired on or before that date, and then the new law will kick in from 1 January.

Senator PRATT—What if someone buys a new washing machine for Christmas and it breaks down in the new year? Is it the old or the new law?

Mr Writer—My understanding is that the current rights will apply.

Senator PRATT—So does that mean jurisdictions will be having to manage both sets of laws until every last washing machine breaks down and everyone has bought a new one post 2011?

Mr Writer—Potentially that is the case, although clearly the vast bulk of consumer goods will transition over to the new period as people replace their washing machines and other appliances over time.

Senator PRATT—But it could in fact be a long transition period, given that one of the things we have been told is that consumers should be using their statutory rights and statutory guarantees more than they currently are.

Mr Writer—The consumer guarantees provisions, as we explored in the committee's inquiry on the bill earlier this year, are quite similar to the new consumer guarantees requirements. In terms of the level of protection consumers have, that will be quite similar. Clearly there is an intention that the new consumer guarantees requirements will be more effective in their operation. However, one of the key reasons for redrafting and clarifying the law is to ensure that people are more aware of the rights that they do have now. In a sense, people will have very similar rights either side of 1 January, but there maybe different ways of enforcing those. Those things should be ironed out over time.

Senator PRATT—So it will not matter if someone buys their dishwasher at the Boxing Day sales or waits til the new year. Thank you.

Mr Miller—Chair, can I seek your indulgence as I need to make a quick correction on something I said to Senator Pratt. The Insurance Contracts Amendment Bill 2010 has not been reintroduced yet.

Senator BUSHBY—Prior to the break, in amongst the general questions about the net public benefits test and the ensuing conversation about the NBN, I asked whether Treasury were consulted on the Parramatta-Epping railway line prior to the election. I think you indicated you did not believe so. If you find otherwise, I would appreciate it if you would let the committee know. Since the election, has Treasury or Infrastructure Australia undertaken a cost-benefit analysis in respect of that rail line—or any other arm of government, for that matter?

Mr Murphy—I think IA has. The government has said it will work with Infrastructure Australia on several projects, and one of those is the Epping to Parramatta rail link.

Senator BUSHBY—A cost-benefit analysis has been conducted or is being conducted?

Mr Murphy—I think your question—

Senator BUSHBY—I asked whether a cost-benefit analysis had been conducted by either Treasury or IA, or any other arm of government.

Senator Sherry—That is not my recollection of the question.

Mr Murphy—No, it wasn't—

Senator BUSHBY—I read it out—it is written in front of me.

Senator Sherry—It is still not my recollection of the question, whether you read it out or not.

Mr Murphy—I do not think you mentioned 'cost-benefit'. That is all right, I know where you are coming from. The government has referred it to IA, and it would be part of their processes as to how they approach it. But they do cost benefit analysis and I would expect that it would happen.

Senator BUSHBY—Okay—you think there will be one.

Mr Murphy—Yes.

Senator BUSHBY—In the red book for the incoming government, Treasury states:

Without further reform of water pricing, trading and infrastructure, poor water policy will increasingly undermine economic growth, inflate the cost of sustaining even moderate population growth and result in even further irreparable environmental damage.

Could Treasury please expand on what kinds of water reform are needed in order to avoid those outcomes?

Mr Murphy—I think—

Mr Archer—That question is best directed to our fiscal group colleagues tomorrow.

Mr Murphy—Yes.

Senator BUSHBY—The reason I am asking you is because against well-functioning markets it is noted that, 'particular attention is being given to core infrastructure'—

Mr Murphy—Yes.

Senator BUSHBY—and then notes, 'in other parts of the annual report for markets highlight that water infrastructure is a key activity for the group'.

Mr Archer—Not for markets group. I am surprised that you have found that—

Senator BUSHBY—It says ‘other parts of the annual report also highlight water infrastructure as a key activity for the markets group’. It is in—

Mr Archer—We do not—

Senator BUSHBY—You do not have anything to do with water?

Mr Murphy—Matters pertaining to that policy have been dealt with by the industry and environment division within the Treasury, which is in fiscal group.

Senator BUSHBY—Okay. So even though it is infrastructure, water—

Mr Murphy—Yes, that is right. There are divisions around those—

Senator BUSHBY—I understand, but I actually—

Mr Murphy—We could answer off the top of our heads, but if you want a really informative answer, you need—

Senator BUSHBY—That is fine, I will look at it then, but it is just confusing that Treasury’s annual report actually says that water infrastructure is a key activity of the markets group.

Mr Murphy—I am surprised at that—

Senator BUSHBY—I do not have a reference, so I cannot tell you where I saw it.

Mr Murphy—Well-functioning markets are the key outcome which markets group is looking at, but other areas of Treasury are also looking at trying to get well-functioning markets in Australia.

Senator BUSHBY—I will move on to a different market then. What analysis of Australia’s labour market has the markets group undertaken recently?

Mr Murphy—Sorry about this, but we are not really responsible for labour markets. Again, that is dealt with in another area of Treasury.

Senator BUSHBY—Okay, once again Treasury’s annual report notes against the objective of well-functioning markets, ‘Particular attention is being given to core infrastructure energy, energy transport and communications, financial and labour markets.’

Mr Murphy—I think that is probably for editorial or convenience purposes—everything has been thrown in together. That is not the clear delineation. I am sorry about that, but labour markets have always been—

Senator BUSHBY—I did read that opening statement before I started and said that I was going to go through each of these—

Senator Sherry—It is difficult. I must say that when I sat in your position, I made a valiant attempt—when I could get to markets group, I have got to say; I did not have that much time before them—to start off on questions like this and found that markets group did not do everything in the world that I hoped they did. When I could get to them, I might say.

Mr Murphy—I think we have a full range of responsibilities, which we struggle to meet.

Senator BUSHBY—It is the markets group, and we are talking about particular markets. That is fine, but when trying to ascertain that this was the appropriate area you look at the annual report and it suggests it is.

Mr Archer—It may be that there is a distinction between the output which the agency is responsible for and then how which parts of the output are allocated within the groups. So although the output refers to functioning markets, what markets group has responsibility for as a subset—

Senator Sherry—That area is more appropriately macro—

Mr Archer—Fiscal.

Senator Sherry—Fiscal—okay. We will forewarn them of your intention to pursue them on these issues. I am sure they will be very happy—

Senator BUSHBY—As market group, what role do you actually play with analysis that the fiscal group may make of labour markets? Presumably you have a remit that relates to labour markets in some way, even if you do not analyse them yourself?

Mr Murphy—They would look at the macro with labour markets. We look at specific sectors. In terms of the infrastructure, competition and consumer policy division, we look at infrastructure, energy, transport and communications. As well as those, there are whole departments looking at these issues. We are looking at their macroeconomic effects.

Senator BUSHBY—You are looking at the macroeconomic effect of those particular markets?

Mr Murphy—Yes, of energy markets, transport markets, communications—that is our brief to do that.

Senator BUSHBY—I suggest that somebody has a look at the annual report in terms of identification of the particular focus you have this year, which is what was talked about. It says you are particularly focusing on a number of things, including labour markets.

Mr Murphy—It must be the last edition of the annual report. This is the first time. I have never been asked about labour markets or water markets before.

Senator BUSHBY—We will move on to a different market. I am pretty confident you look at these ones: financial services, energy and retail. I note in the red book that Treasury characterised financial services, energy and retail as oligopolistic. In what ways are these markets oligopolistic?

Mr Murphy—I suppose it is not so much whether they are oligopolistic or not, but we are concerned about the difficulty of getting competition in some of those markets in Australia. Why? Because you have a small number of major players and a second tier, or fringe players, also operating. You could have two major players and have strong competition, but what you are concerned about is to ensure, from the consumer's point of view, that there is adequate competition in those markets. Taking financial services, it was a great benefit to Australia that we had four major financial institutions—a solid platform, a foundation, for our financial services market. At the same time, as we have seen coming out of the GFC, that raises issues of competition. It is the same in the retail space. You have Woolworths and Coles. We have

been very pleased that you have other foreign entry into the market for retail groceries to try to get competition there. It is the size of Australia that tends you to oligopolistic markets. It probably makes you more attentive to how they are operating to make sure there is appropriate competition. That is the issue. We are flagging that. We are saying, 'We don't just look at these things and say everything is okay.' We have to continually pay attention to those markets and, also, we would expect the ACCC to keep a watchful eye on developments in those markets.

Senator BUSHBY—I often get a question or two about those particular markets at estimates as well. Treasury calls for the situation at these markets to be monitored. How are they being monitored at the moment? Is the government taking any additional action to increase the monitoring of the level of competition in these markets?

Mr Murphy—On financial services, John might like to speak. We have increased the monitoring there.

Mr Lonsdale—In terms of banking, in particular you asked about the measures that have been taken. As Mr Murphy said, a range of things happened during the GFC that detracted somewhat from competition. We saw the exit of some key players, particularly foreign players in the market; securitisation froze over which made it more difficult for smaller players to come into the market and compete with the larger banks. The government has undertaken a range of measures to try and enhance competition. There is the RMBS program, the two lots of \$8 billion of RMBS, and the two tax measures that were announced in the budget, one on the bringing forward of interest withholding tax and the 50 per cent discount on interest income. I guess all point towards trying to enhance competition in the banking market.

Senator BUSHBY—We have had an inquiry into banking guarantees, but it may well have contributed to reduction in competition for some time. We will not get into that today. What I was particularly asking about was the recommendation in the red book to monitor the situation. What action in terms of monitoring are you taking at the moment, looking forward from here? Given that we have an oligopolistic situation in these markets, what action are you taking to act upon the recommendation to monitor?

Mr Lonsdale—We regularly monitor the data coming out of the Reserve Bank.

Senator BUSHBY—Is that any different?

Mr Murphy—That has been enhanced in the last 12 months. The government has requested more data from the banks.

Senator BUSHBY—On the basis of this advice it appears that it is something worth looking at more closely. I am interested in what you are doing as a step up from the basis of this advice.

Mr Lonsdale—The banks have been providing us with more data through APRA that we have been examining in a number of areas, and we keep that under review.

Senator BUSHBY—You are examining it in this particular context from the perspective of competition? APRA's remit isn't competition at all, as I understand it.

Mr Lonsdale—APRA have competition in their mandate. I think you will have heard Dr Laker talk about the statistical function of APRA which goes to collecting a whole range of

statistics to assist in policy advising. We utilise those in the same way as we utilise the statistics coming out of the Reserve Bank.

Senator BUSHBY—I am conscious of the time and there are more questions to come, so I will move on. Has Treasury provided the government with any advice on whether Infrastructure Australia will continue to be funded beyond 2010-11?

Mr Archer—The correct answer, as I understand it, is that that is a matter that will be considered in the course of the government's ordinary processes for developing the next Commonwealth budget. Those are processes that are underway but at an early stage. We would envisage that we would have an opportunity to comment on that issue, but that has not arisen yet. I should say, it is beyond the advice that we provided for the incoming government briefing.

Senator BUSHBY—Just going back to the discussion we had about some of these markets not actually being in your area, I found an article in which Mr Archer is mentioned as a contact. There are a number of dot points in the document talking about such things as Australia having sufficient water resources to sustain projected economic and population growth, the commitment to bridge any gap between environmental water recovered under water for the future and what is required to be returned by the Murray-Darling Basin Authority would likely present significant fiscal risks.

Mr Archer—That sounds like it might be part of the incoming government brief and I am defined as the contact officer for a brief on infrastructure issues. That brief does draw on input from more than one area of the department including outside the markets group. There is room on that brief for one contact officer and I think that, because a majority of the issues relate to the division I am in, I am the contact officer.

Senator BUSHBY—It is all about water infrastructure though.

Mr Archer—Yes, that is correct. There was a decision taken that that was an appropriate place within the context of the brief for that issue to be addressed.

Senator BUSHBY—To some extent at least.

Mr Murphy—It is not intentional.

Senator BUSHBY—No. There is some knowledge of water and it appears it resides with you, Mr Archer, in the group on water infrastructure.

Mr Archer—Senator, in relation to the preparation of that brief the input was very much provided by our fiscal group colleagues.

Senator BUSHBY—But then you put it in amongst the markets group.

Mr Murphy—There was no demarcation within the red book as to whatever group. It is just in as a contact point.

Senator Sherry—Whether it wanted to be or not, the central contact point or conduit remains in infrastructure.

Senator BUSHBY—That is probably more an aside at this point than anything. Is the Treasury providing any advice on the Regional Infrastructure Fund?

Mr Archer—In keeping with our general advisory role on infrastructure issues, again, I think we will have the opportunity to provide input into the development and implementation of the Regional Infrastructure Fund. My understanding is that the primary policy responsibility for that does reside with the department of infrastructure.

Senator BUSHBY—Are you aware of whether funding under that program will explicitly incorporate a public benefits test?

Mr Archer—I think the details around the allocation of grants from that fund and its implementation are still to be settled.

Senator BUSHBY—Given the comments in the red book calling for the explicit incorporation of a net public benefit test when considering major infrastructure investments, I would have thought that you prefer to see it—

Mr Murphy—Yes, we would—

Mr Archer—Certainly I do not resilé from that comment.

Mr Murphy—and I expect that the cabinet would like to see it as well.

Senator BUSHBY—One would hope so. Their performance so far does not necessarily suggest that they always like to see it.

Mr Murphy—No comment.

Senator BUSHBY—No, I was not asking you to comment on that. Turning to infrastructure and population—and I do not know whether we talk about population with respect to you—the Treasury red book at page 9 notes that the recent rapid rate of population growth has exceeded the strategic capabilities of the different tiers of government. I note in the red book that the Treasury advocates a regular independent report from Treasury or the Productivity Commission which outlines population projections to better inform planning and investment of all governments. What would be the benefits of a group like the Productivity Commission examining the infrastructure requirements in the context of population growth?

Mr Murphy—It is a matter on the public record that there are issues relating to population. The *Intergenerational report* raised issues relating to population. Work was done by the government prior to the election to set up a consultation process on population. It may be that there would be some benefit in the Productivity Commission or other bodies that do that type of work to do some forecasting as to what infrastructure is needed to benefit the rise in population. That is all I can say on that. Is there anything specific?

Senator BUSHBY—No, it is just that—

Mr Murphy—We do think that is sensible forward planning.

Senator BUSHBY—I tend to agree. I think it is common sense. My personal view is that adding in a few more Australians is probably not a bad thing provided we actually do take the steps to plan and ensure that we are delivering infrastructure that is capable of taking them.

Mr Murphy—I think that the only other thing to say there is that, as has been pointed out by Treasury a number of times, we have an ageing population so it may be that the infrastructure you need is of a different kind from what you have got at the present time, or that there are different emphases.

Senator BUSHBY—The Treasury red book at page 5 notes that Australia's ability to weather future shocks to world financial markets depends on Australia continuing to enjoy the confidence of global capital markets. There have been reports in the media and elsewhere that the proposed introduction of the RSPT and then the MRRT has caused some international investors to reassess the attractiveness of Australia as an investment.

Mr Murphy—I doubt that very much.

Senator BUSHBY—Has the market group been tracking offshore investment intentions regarding Australia?

Mr Murphy—Yes, they are on the public record. We have seen no falling away of interest in investment in Australia, and that comes through the private sector and through our contacts offshore. There has been no diminution in investment. I think that was a furphy thrown out there.

Senator BUSHBY—So what sources—

Senator Sherry—If you look at the stats on foreign investment in Australia, what we have today that has been published by FIRB, and I think that ABS has published some data, indicates that there has not been any falloff. Certainly when I was AT I did not notice any diminution of applications for foreign investment, Senator.

Senator BUSHBY—Moving on, I just want to ask a few questions that arise out of last estimates. I asked then about the progress towards a seamless national economy reform agenda.

Senator Sherry—I can fill you in on that. Deregulatory responsibility—but it is not the right estimates, I have to say, it is Finance—

Senator BUSHBY—Can you please provide an update as to where progress has advanced in the last three or four months.

Senator Sherry—On the 27-reform COAG agenda?

Senator BUSHBY—Yes.

Senator Sherry—It is Finance, although some of the reform—

Senator BUSHBY—I got very detailed answers last time.

Mr Murphy—We do a lot of the work.

Senator Sherry—Yes, that is right, and I was just about to say that for many of the issues on the COAG agenda the detailed implementation policy work is done by Treasury and Markets Group.

Mr Murphy—I do not know which one to start.

Senator BUSHBY—Just a summary. Of the 27, how many have been delivered now? Has the CRC delivered any additional reports since last estimates?

Senator Sherry—The Markets Group can give you an assessment of the projects they are dealing with. I am not sure they are in a position, because it is Finance and Deregulation, to give an overview of the 27.

Mr Murphy—I would just say things are on track. You have seen the notable one, where the Prime Minister has come out and spoken very strongly about occupational health and safety.

Senator BUSHBY—New South Wales's—

Mr Murphy—That is a key reform and it is very important. The host of others are all progressing. There is a report back to COAG at the end of the year. The policy of a seamless national economy—these projects—is well advanced. That is going well, I think.

Senator BUSHBY—In respect of the seamless national economy agenda, how does the agreement on national laws for workplace safety fit into that?

Mr Murphy—Occupational health and safety?

Senator BUSHBY—Yes.

Mr Murphy—It is a key reform and it is a reform which business raised with us over a number of years. It would be very disappointing if New South Wales—

Senator BUSHBY—Agreement was reached on that with all states?

Mr Murphy—Yes.

Senator Sherry—I think there were some issues that WA—

Mr Murphy—That WA held back on.

Senator Sherry—But this department is not responsible for the detailed oversight of the health and safety reform, if you are interested in detail.

Senator BUSHBY—I am more interested in how it fits into the overall picture and what impact it might have.

Senator Sherry—In terms of the overall picture—which, frankly, fits in Finance and Deregulation, I have to say—the 27 action items broadly are going well.

Mr Murphy—Yes.

Senator Sherry—I would be confident that the date, which I think is the end of 2013, will be met, that the 27 will be delivered. I would observe that, putting aside the recent events of the last week in respect of New South Wales and health and safety, there has been a generally very cooperative approach from all states, with that one significant exception.

Senator BUSHBY—Is that particular exception one of the areas where progress had been reported and was it considered complete, in the sense that agreement had been reached? Last time there were eight that had been reported as—

Senator Sherry—Agreement was considered to have been reached, that is correct, so therefore very significant progress had been made.

Senator BUSHBY—It had been, but now there is a grey? Okay.

Mr Murphy—There are incentives there. As has been mentioned, there are payments for completion.

Senator BUSHBY—And getting into all those details probably is the area of Finance.

Senator Sherry—Yes, the overall coordination is Finance and Dereg. There is up to half a billion that is allocated on a specific formula to all the states and territories. The figure of \$140-odd million for New South Wales comes to mind. There is no doubt, as the Prime Minister has said, that all or part of that is at risk in terms of the payment that could be made to the New South Wales government. There is no doubt about that.

Senator BUSHBY—I am sure that that will form part of their consideration when they work through that. I will move on from there. Mr Lonsdale may be interested in the next set of questions which are related to banks.

During the period after the North Atlantic financial crisis where we saw the RBA dramatically cut the cash rate and more recently with its increases, the fact that the banks have not followed the cash rate all the way down and then have increased faster than the cash rate has obviously caused a lot of consternation with the public. What tools does the government have to either require or pressure the banks to follow more closely the cash rate movements by the RBA when setting their variable interest rates on their loans?

Mr Lonsdale—They are largely commercial decisions for the banks. Having said that, what the government has been doing is trying to foster the best environment it can for competition to make sure the most competitive rates are being delivered to consumers and, as well as that, looking at the funding tools that are available to banks when they access markets. So securitisation is a key funding source that banks use, particularly the second-tier banks, and, as I mentioned before, the AOFM program and the \$16 billion tranches are a key part of kick-starting that market in coming back. I guess we have seen other competitive pressures that I mentioned and other competitive measures that the government has introduced as well.

Senator BUSHBY—Increasing the competition is a great way of dealing with it. What about sticks as opposed to carrots? Does the government have any ability to strongly encourage the banks to do what it needs them to?

Mr Lonsdale—There are a range of consumer measures in place that will mean that if there are unfair fees, for example, or unfair parts of a contract, consumers can take action through the courts, if they are not happy with that.

Senator BUSHBY—I want to ask a question about some of the contracts and legal opinion that you may or may not be aware of. But I will get to that in a minute. Please continue.

Mr Lonsdale—If you get into limits on rates or those sorts of sticks, they are not policies that apply here, as I am sure you know.

Mr Murphy—I think what we are seeing is competition between the majors coming back. One of the institutions has undercut the others and sought to have lower rates on variable mortgages. The government is seeking to facilitate competition by the switching package. That still could be improved a bit, but we are trying to get people to actually take decisions which make banks be more responsive to what the market demands.

Senator BUSHBY—I could not agree more that that is a necessary thing to be doing, and it is a good thing for the financial services market if competition is encouraged and engendered.

Mr Murphy—But, as well as that, the Treasurer has made a number of very strong statements about the banks justifying their actions, and the banks do not welcome that. I think that is some form of discipline on the banks and their actions.

Senator BUSHBY—They do not seem to pay much attention, though. They may not welcome it, but they—

Mr Murphy—I think they have paid a bit of attention. At the moment they are constrained. As you would have seen with recent public statements, I think they are testing the water on how the public would react to above rate rises. The difficulty in the whole thing is a dispute as to the real facts of the situation.

Senator BUSHBY—In terms of the costs of their funds and things like that.

Mr Murphy—Yes. The Reserve Bank and Treasury do not believe the view put by the banks that they still need to put up mortgage rates higher than the movement in the cash rate, to recover funds—to recover the past losses.

Senator BUSHBY—Presumably, Treasury is aware of the power, in section 50 of the Banking Act 1959, to control interest rates by way of conferral upon the RBA—a power to promulgate regulations with the Treasurer's approval?

Mr Lonsdale—Yes, Senator.

Senator BUSHBY—I was asking what sticks might have been available, and that is not something that came to the front of your mind when I was asking.

Mr Murphy—No.

Senator BUSHBY—Has Treasury, in the last few years, provided any advice to the Treasurer regarding this power?

Mr Murphy—No.

Senator BUSHBY—You are very firm on that. Have any draft regulations under this clause been compiled in the last two years?

Mr Murphy—Not in my time.

Senator BUSHBY—In what circumstances does Treasury consider the use of such a power would be justified?

Mr Murphy—Emergencies.

Mr Lonsdale—That is a largely hypothetical question, Senator.

Senator BUSHBY—It is. But, quite clearly, when parliament inserted that section into the act, it inserted it for a reason.

Mr Murphy—Circumstances may arise, but if you are running an open market economy I cannot see the circumstances where you would really need to do that.

Mr Lonsdale—The general approach of governments for a long time has been to create a competitive market.

Senator BUSHBY—Which, as I said, I agree a hundred per cent with.

Mr Murphy—To find its equilibrium.

Senator BUSHBY—But, ultimately, when the Treasurer goes out and makes statements about how this is all very naughty and he is not very happy, he needs to have some ability to pressure the banks to think a little more closely about what that might mean—the fact that they have caused the Treasurer some displeasure. Having something like this in his back pocket might be quite useful in order to lean on them a little bit harder.

Mr Lonsdale—I think what Mr Murphy was outlining before was that the Treasurer has been trying to push for more accountability amongst the banks, to make it very clear that they are accountable for their actions, but at the same time have a range of measures that empower consumers, to better enable them to make choices.

Senator BUSHBY—I am a big supporter of that.

Mr Murphy—That does affect the businesses. If they see that they are losing business they are quick to respond.

Senator BUSHBY—You touched on the fact that one rationale used by the banks is that the cost of their funds has increased and that they need to maintain their profits and their margins. When you see their annual reports, you see that they have been doing quite well. Even through the North Atlantic financial crisis they managed to sustain those quite well. Does Treasury concede that it is the right of the banks to maintain their profits and their margins at the expense of other businesses and individuals—Australians generally—or is it happy to allow the banks to wear the consequences of implementing monetary policy, rather than the RBA? In some circumstances, when the RBA is considering increasing the cash rate, if the banks have been independently increasing their rates at a faster level it may well negate the need for some adjustment in the cash rate. Is it about allowing the banks to do a little bit of monetary policy? Are you quite happy to sit back and allow them to get away with it rather than wearing the consequences of an RBA decision which may reflect on government?

Mr Murphy—That is quite a complex sort of question. The banks have recently been saying that their mortgage rates are not keyed off the cash rate; they are keyed off the cost of their funds. That is what the banks are saying at the present time.

Senator BUSHBY—That is what they are saying, but you indicated earlier that Treasury and the RBA do not necessarily agree with that.

Mr Murphy—No, what I said was that the RBA and Treasury do not agree that the banks' cost of funds has reached a stage whereby they need to increase their margins to, in effect, pay for moneys that they have paid out previously on more expensive funding. I am not explaining that very well. They are arguing that their funding rates have gone up and that now they have to reconstitute that funding and recover their funding costs. We question that.

Mr Lonsdale—So they are separate issues, in a sense. On the one hand, the question is: are funding costs going up for the banks? I think we are seeing more repricing of risk. If you talk to any of the banks, they will say it is more expensive to raise money. So that is one issue.

Senator BUSHBY—Which is where the difference of opinion between Treasury and the RBA and the banks is. Is that right?

Mr Murphy—Yes.

Mr Lonsdale—I think the issue Mr Murphy is getting to is: is that by itself sufficient justification for the banks to be increasing rates out of step with the RBA?

Mr Murphy—Yes, or should they be absorbing that? If there are increased costs, should they be absorbing them at this time? Everyone else had to face the global financial crisis.

Senator BUSHBY—Exactly. I think I indicated that in an earlier question: should they have a right to maintain their profit margin by passing on higher costs?

Mr Murphy—They are operating in the community and they are largely operating with the goodwill of the Australian public. They have to take note of that. That is what the Treasurer is trying to stress. They are accountable to the public; they are not just accountable to themselves or their shareholders.

Senator BUSHBY—As I said before, they do not seem to be listening that much. You said earlier that one of the major banks had undercut the others in fees. Has that bank appreciably increased its market share as a result?

Mr Murphy—Yes.

Senator BUSHBY—On what basis do you say that?

Mr Murphy—Based on data.

Senator BUSHBY—What data?

Mr Murphy—Based on information that has been provided to us.

Senator BUSHBY—Is it publicly available data?

Mr Murphy—I think it is, yes.

Senator BUSHBY—Do you have it, or a reference, available today?

Mr Murphy—No, but I could—

Senator BUSHBY—Could you take that on notice?

Mr Murphy—If it is public information, I could get it for you.

Senator BUSHBY—Would you please find that for me and make it available to the committee? We would appreciate it.

Mr Murphy—Yes.

Mr Lonsdale—We can come back.

Senator BUSHBY—As we discussed, the threat to the banks' profits appears to come from higher costs of accessing the funds which they then loan out.

Mr Murphy—Yes.

Senator BUSHBY—But variations in variable interest rates impact not just on that percentage of a bank's loan portfolio than is written in the period immediately following a rate rise or that is written using the funds that they have had to access at a higher cost. It also impacts on that much more significant percentage of their loan portfolio that has already been written using funds that were previously borrowed by the bank, presumably—or certainly in many cases—funds which they had accessed in an easier and cheaper fashion. Is it right that

banks should value, at today's cost of money, moneys that have been previously on-lent to customers that had been previously sourced at a much lower cost?

Mr Murphy—Maybe that goes to the nub of the issue. John Lonsdale has mentioned that prior to the GFC, to put it colloquially, money was cheap and the banks were borrowing and they expanded their businesses. Come through the GFC and money is more expensive because risk is priced in much better. So we are in a better world and we are in a world where, more likely than not, the cost of funds is back to its right level, but it will probably be more expensive than it was during that period of time leading into the GFC when money was probably cheaper than it should have been.

Senator BUSHBY—But the money they accessed when it was cheaper than it should have been—

Mr Murphy—I think what you are asking is: who should get the benefit of that?

Senator BUSHBY—The banks are getting it at the moment.

Mr Murphy—Well, that is why you need to really scrutinise this. I think what we are doing at the moment is working with the banks to try to sort out what their true funding costs are, and the banks are very open about this. They are working with Treasury, the RBA and APRA on these issues.

Senator BUSHBY—As part of that, are you looking not just at the true funding costs of accessing money now so that they can on-lend it, but also at how the cost of moneys that they have already lent out impacts on their overall cost of funds?

Mr Murphy—To some extent, yes.

Mr Lonsdale—The issues are linked.

Senator BUSHBY—Obviously the end result is that they have a total cost, and they may well be saying the cost that should flow through to interest rates should just reflect that higher cost of the new funds that they are accessing now. I do not know.

Mr Lonsdale—It is quite a complex question. I think some of those funds that might have been accessed at, as you put it, cheaper interest rates, may well have come from overseas. There are exchange rate variations, I think, in some of those contracts, so the true cost of funds could get quite complex to pinpoint.

Senator BUSHBY—I have one final question on an issue I hinted I would ask something about. I do not know what you can really say about this, but I suspect that you have probably been given, or Treasury has probably been sent, a copy of a senior counsel advice which contains a legal argument that it is not possible for a bank to reserve to itself the right to vary the interest rate on a loan so as to set whatever interest rate the bank chooses. Under the legal advice, a bank is actually constrained in certain ways, based on the history of jurisprudence in Australia and the UK primarily, and, further, that an attempt by a bank to reserve to itself an entitlement to vary an interest rate by whatever amount it pleases would be contractually void. Are you aware of that legal argument and have you given any consideration to the impacts it might have?

Mr Murphy—I am not aware of that argument.

Mr Lonsdale—I am not aware of it.

Mr Murphy—And I would doubt it.

Senator BUSHBY—I have actually read the senior counsel opinion and it is—

Mr Murphy—Which senior counsel?

Senator BUSHBY—I do not have it with me.

Senator Sherry—Senator Brandis?

Senator BUSHBY—No, it is not Senator Brandis—it is somebody quite unrelated.

Senator CAMERON—Brandis to Brandis.

Senator BUSHBY—Quite unrelated to the Liberal Party.

Mr Murphy—If you are relying on UK and—

Senator BUSHBY—No, Australian cases. There were cases I think starting from the early 1980s. The argument at that time was that the variation clause was void for uncertainty. It failed; that case was not successful. But some of the findings of the judge in respect of that clause have application to what I am talking about today, and it is built on there. A number of other cases, put together, give the picture that if you had the right argument there is a risk that that clause in itself would be limited. I think there is potentially a class action that may be—

Mr Murphy—I am not aware of it. If you wish to provide it to Treasury we would be quite interested.

CHAIR—They can put up their interest rates. If they do that—

Senator BUSHBY—They cannot vary them, but it says that they do not have an absolute right to vary them—

Senator Sherry—Mr Murphy has indicated that Treasury would be quite interested, if you would provide it to us. It could be a useful part of our armoury.

Senator BUSHBY—I believe that part of it has been provided to the ACCC and to ASIC. I was not sure whether it had been provided to you.

Mr Murphy—It has gone to ASIC, has it?

Senator BUSHBY—It has, yes.

Mr Murphy—That is good. We are in government. That is where it should be. People should look at these things.

Senator WILLIAMS—Mr Lonsdale, in relation to the foreign borrowings of the banks, are they exposed to exchange rate movements all the time? They do not have any swap agreements?

Mr Lonsdale—They are most likely to have swap agreements, as I understand it.

Senator WILLIAMS—So, in other words, fluctuations of the exchange rate will not vary the principal when they repay it. Is that what you are saying?

Mr Lonsdale—I am not an expert in this matter but, as I understand it, exchange rate fluctuations during the course of a loan can affect payments that are made between the

counterparties. That is the extent of my knowledge. So that is why I say it is not as simple as just looking at the interest rate and comparing it from one period to another. There is also the exchange rate variation.

Senator WILLIAMS—I had a currency loan in Swiss francs, so I am very familiar with how it works and how expensive it can be. Back in December I changed my home loan to Westpac, and with a 0.25 per cent rise in official interest rates in December they raised my loan by 0.44 per cent. They did indicate to me that they probably will not have to do that again. But with the rising Australian dollar, even against our third currencies—not only the US dollar but the third currencies, as they call them—they should have had windfalls when it comes to paying interest. So I think that deletes to some extent their argument about the cost of funds being more expensive. If the cost of funds is rising for Australian banks, how are the overseas banks going? Official rates in Japan are at 0.1 of one per cent and they are very, very low in America. Surely those banks would be getting their funds cheaply enough to make a profit, wouldn't they?

Mr Lonsdale—My point on the exchange rate was just a very simple one: it is a complicated assessment of the true cost of funds. You are right in what you say. If the exchange rate moves one way it can be a windfall; if it moves the other way it can be the reverse. I was not seeking to undermine Senator Bushby's point; I was seeking to make it clear that it is a complex issue. In terms of how other countries' banks fund their systems, their makeup is probably a bit different to ours. We are heavily reliant on offshore funds. Other banks may not have that and they may actually be sourcing a lot of their funds from the one currency. Again, it is a complex issue.

Senator BUSHBY—That was not a currency question, though, was it?

Senator WILLIAMS—No.

Senator BUSHBY—If the cash rate in those countries is at or near zero, which in some cases it is, and they have high costs in accessing funds to borrow, presumably they cannot then get away with lending it out at eight or nine per cent. They need to be somewhere closer in scale to what the cash rate is in that country. I think the thrust of the senator's question was: how do they go about accessing funds in a way that makes it viable for them to on-loan at an interest rate that is actually consistent with the cash rate in the country?

Mr Murphy—A lot of them in those countries are not borrowing. They are relying on deposits.

Senator Sherry—As I understand it, a country like Japan has very significant domestic savings and pays on that savings through their banks and post office accounts—although I think they would have privatised that—and has very low levels of depositor interest. It is very different.

Senator BUSHBY—Basically very different characteristics of those—

Senator Sherry—They have different characteristics in their market.

Mr Murphy—Our key feature is our need to access offshore markets to fund our system. That is a key feature of Australia.

Senator BUSHBY—Overall it is consistent with Treasury and RBA's view that the argument of the banks about their high cost of borrowing is maybe not as strong an argument as the bank thinks it is.

Senator Sherry—Mr Murphy has indicated that.

Mr Murphy—But it is a complex matter—I will give you that—and we are still to be convinced of the bank's argument.

Senator WILLIAMS—Mr Murphy and Senator Sherry, perhaps banning exit fees on variable loans would free up more competition in Australia.

Mr Murphy—It may.

Senator WILLIAMS—If I leave my bank now, I have to pay a \$1,000 exit fee and I think that is very unfair. To get true competition, when we see the banks cribbing more than what the Reserve Bank moves interest rates on, Treasurer Swan has said 'Vote with your feet', but that can be difficult.

Mr Murphy—It is.

Senator WILLIAMS—How do we fix that problem if you have to pay that exit fee to go down the road?

Senator Sherry—Certainly in some circumstances with some financial products, exit fees are there to be a barrier to exit.

Senator WILLIAMS—Exactly. You can understand on a fixed rate—you have a contract and you might be fixed for three years—you would have to pay an exit fee. But on a variable rate, where you are just flowing with the market, it should be made easier, so we can have proper competition, so we can walk out of one institution and into the next.

Mr Murphy—There was a bill that went through parliament recently which had a facility to do that. My understanding is that in consultation with the opposition it was rejected—by the opposition.

CHAIR—We might investigate that.

Senator WILLIAMS—We might have to investigate that, Chair. Exactly.

Senator Sherry—You had better get on to those Liberal Party colleagues of yours.

Senator WILLIAMS—I am with you, Senator.

Mr Murphy—You have a point, Senator.

Senator WILLIAMS—I make this analogy, Mr Murphy: if you take your car to a garage and you are not happy with the job they did servicing or repairing your car, you do not have to pay them \$500 to go down the road to the next garage. The country runs on competition; that is what keeps prices down. If we have anything that inhibits competition, we are encouraging higher prices. Banking is no different.

CHAIR—I thank the Markets Group for coming in this evening.

[10.35 pm]

Australian Bureau of Statistics

CHAIR—I welcome the Australian Bureau of Statistics. Mr Pink, do you have an opening statement?

Mr Pink—I think it is appropriate to recognise World Statistics Day today. This is the first time globally that the world community has recognised, through World Statistics Day, a UN initiative, the contribution that official statisticians throughout the world make to a better informed global society and the contributions they make in their own countries in informing and improving both public and private sector decisions. It has been a fairly low-key day here in Australia. But from watching some of the email traffic that has come through to me from our colleagues, particularly in Asia, I can see it has been taken very seriously by a lot of the developing countries in Asia. I think that is a great thing because the statistical communities in some of those countries have struggled to get recognition of the important role that statistics can play in their development. We have seen many of the countries in the Asia-Pacific region struggle to meet the expectations of being able to deliver statistical information and measures against the UN's MDGs. Australia has been giving a large amount of support to many of the countries in the region. And so, on his first World Statistics Day, it really is very pleasing to see the extent to which governments in the region are taking the statistical contribution so seriously with the sorts of events that they are running in a lot of places. For instance, China are running a very big event at their world Expo today with people from around the world. I was invited but I realised that I had Senate estimates and it was more important to be here.

Senator CAMERON—Flattery will get you everywhere!

CHAIR—We on this committee are frequently asking for more information about particular issues, and all too often that information is useless without proper statistic analysis of it. So we on this committee do appreciate the contribution of statisticians. Thank you.

Senator PRATT—Your intro is a good lead-in to the questions I have in relation to the significance of getting our demographics are right. I understand that the ABS has been doing some work on problems in the midwest region of Western Australia with official Aboriginal population counts being inadequate. As I understand it, in some communities there are more Aboriginal children enrolled in school than there are Aboriginal people in the census and there are a range of problems there. Currently in the midwest the ABS is not using the same model for counting Indigenous people that it might use in the Kimberley or the Pilbara. Where are we at with that particular problem?

Mr Pink—I will answer at a general level and then pass to Mr Farrell to perhaps add some more detailed comments. It is certainly true that in the 2006 census, not only in Western Australia but in a number of areas around Australia, getting accurate counts of the Indigenous population was a challenge. It is one that we recognised. The postenumeration survey we ran after the census clearly demonstrated significant undercounts in some areas. I think perhaps the worst was the Kimberley region of Western Australia, but in a number of other areas as well. We are putting a lot of effort in this time in the lead-up to the census next year to try to

redress some of the challenges that we found in 2006. In terms of the midwest in Western Australia, are we talking about the Pilbara region?

Senator PRATT—Geraldton and surrounds.

Mr Pink—I will pass to Mr Farrell, but I do not think we would be using different methodologies.

Senator PRATT—So it is the same methodology as the Kimberley and the north-west? I was told that they were using different methodologies because it had not been recognised as a high Aboriginal population area and therefore the ABS was using a different methodology.

Mr Farrell—I think the important thing here is that the measure of underenumeration is measured at the state level, not at the small area level. It is not really possible for us to adjust the data differently in different parts of the state.

Senator PRATT—Can you explain that? I would have assumed that in the Kimberley, for example, you have to find different ways of counting Indigenous people compared to how you would do it for people who live at a fixed address during the census.

Mr Lowe—Maybe I can shed some light on that. We certainly have different enumeration strategies for different populations groups and we have a particular strategy for Indigenous people in remote, discrete communities. In 2006, for a lot of Indigenous people living in the urban areas that you have mentioned, we relied on our mainstream enumeration procedures to pick them up. For 2011 we are actually changing that so that in urban areas where there are large numbers of Indigenous people we are putting in special strategies. We are adapting our mainstream strategies so that we can get a better outcome for those areas.

Senator PRATT—Is that going to address things like suspicion about why the census is collected and clearly inappropriate data collection methods?

Mr Lowe—This time around, one of our focuses has been on doing a lot of early engagement with Indigenous groups in places like those you have mentioned. We have been trying to sell to them the value proposition of the census—getting them involved and getting their buy-in. That has been very successful so far and I believe we will get better outcomes in 2011.

Senator PRATT—So that people understand that being on the census means that they can get better representation for government services that suit their need. What about particular strategies to help Indigenous people with what are quite complex forms so that people do not have to fill out their own forms?

Mr Lowe—Our strategy in remote communities has been to do an interviewer based collection. So we have people from the community who we train up that go around and actually interview people rather than use the self-enumerated questionnaire that most Australians do. For urban areas this time we will have people who will offer assistance and offer interviews in those areas where there is a high concentration of Indigenous people.

Senator PRATT—I look forward to the results. Thank you.

Mr Pink—I think another point that I might add there is that in that engagement with the Aboriginal communities we are trying to ensure that they recognise that the information is for

them as much as it is about them. We are trying to encourage them to make good use of the information that they provide and to use it in the communities, as you said, to help them mount their cases for the sorts of services they feel they want and to do it with the data as an important part of their contribution in the census.

Senator PRATT—Good. That is terrific to know. I have already had conversations with groups to that end, so that is terrific.

Senator XENOPHON—I am sorry I was at another estimates hearing but I hope my colleagues wished you Happy World Statistics Day.

Mr Pink—Yes, they did; thank you.

Senator XENOPHON—Earlier this evening questions were asked in relation to the Foreign Investment Review Board and how the level of foreign investment, particularly in relation to agricultural land, is monitored or at least statistics compiled in respect of it and also in the purchase with respect to water rights, which is a highly contentious issue, particularly in the Murray-Darling Basin. It was suggested that the ABS has a fair bit of information in relation to it. Could you indicate—you may wish to take some of this on notice—to what extent can we get a fairly accurate snapshot of the level of foreign ownership of agricultural land and water rights in this country? I note, by comparison, there is a \$231 million threshold before the FIRB can be involved in an approval process unless they are state owned enterprises. New Zealand has recently passed changes to the legislation where agricultural land of five hectares or more has to be subject to a process.

Mr Hockman—We do not specifically collect any data on that. We collect with a big focus on country data—by that I mean the country of the source of the funds et cetera. As it crosses the border we do not get data on transactions in secondary markets. I think I would have to take the detail of that, if we can actually elaborate on down to that asset class of land and agricultural land in particular, then we would have to take that on notice and investigate that for you.

Senator XENOPHON—So Mr Hockman if we wanted to get—and it is something I have discussed privately with Senator Williams—an idea of how many hectares of horticultural land, for instance, are controlled by overseas companies and how many megalitres of water rights are owned by overseas entities, that is something that would be readily available through the ABS.

Mr Hockman—I do not think it would be readily available through the ABS. There is some work being done by my colleagues in the land and environment area on some experimental data—a series on land accounts. As far as I know, they have only had a look at that for one region of Australia looking at land use rather than land ownership.

Senator XENOPHON—We really have no idea, if we wanted to get a snapshot, of who owns what in terms of foreign ownership of land.

Mr Hockman—Not the ownership of land. The next place we might look for that sort of data is in Valuer-General's data, which we are using for our data on affordability of housing et cetera and we are tracking transactions. That might be a source of that sort of data, but you have to be able to tie the transaction to the use.

Senator XENOPHON—If there is a trust behind the ownership, it may be quite difficult to find out where the ownership ultimately lies.

Mr Hockman—In fact that is where we run into difficulty on all of these asset classes. When collecting by industry, we find that we have data on the principal industry in which a company might operate, and so if you have investment trusts—that is a good example—they are probably in the finance sector even if they are very active in purchasing agricultural land.

Senator XENOPHON—So to quote Donald Rumsfeld: it's a known unknown.

Mr Hockman—It is probably in the known unknown category.

Senator XENOPHON—From the government's point of view, Minister, are there any plans to at least have better data on this to make policy decisions. I think FIRB took the view that if we were aware of a sudden concentration or an influx of ownership, even though it would not breach the \$231 million threshold per transaction I think, they would then give advice to government. Given what the ABS has said, quite reasonably they just do not know what—

Senator Sherry—They did indicate, Senator. A report of the select committee made a number of recommendations on this, and it goes to rural, agricultural land and water and anything that the government would consider would be in the context of its response to those recommendations of that report. I do not know what stage that is at at the present time or when that response will be given. As I have indicated, I took it on notice earlier. I can only take it on notice and find out when that response is going to be provided.

Senator XENOPHON—I was hopeful that, given what FIRB told us about the ABS collecting all this data—maybe I misunderstood it—

Senator Sherry—I think it was me who raised the fact that ABS has some foreign ownership data.

Senator XENOPHON—I think FIRB said that the ABS has a role in collecting this data. I may be corrected by my colleagues, but I think that is the case.

Senator Sherry—I think I said it too. I invited a question to the ABS on this matter. But we will consider this issue in the context of the response to the committee.

Senator XENOPHON—Are you concerned about what appears to be a lack of adequate information?

Senator Sherry—I do not have responsibility for foreign investment and data collection. I used to when I was AT, but I am not AT; I am the representational minister, and I can only take it on notice and take it up. I assume the same delegations have been provided to the new AT, Mr Shorten.

Senator XENOPHON—Thank you.

Senator BUSHBY—What information does the ABS collect? I think I have asked questions along these lines before. These are slightly different. What information do you collect on the beneficial ownership of Commonwealth and state government securities?

Mr Hockman—Once again, we measure essentially at the initial transactions. The difficulty is in then tracking who the beneficial owners in the secondary markets are. What we

track is institutional sector, but in that circumstance the institutional sector is just defined as 'the rest of the world' if, for example, you look at the foreign ownership of those things.

Senator BUSHBY—That is where I was going. Discussions with the AOFM at the last estimates indicated that they believed you had access to information that would probably allow you to identify the country of residence of most beneficial owners but that it was not information that you publicly released. Is that correct?

Mr Hockman—I do not think we have enough information to be able to do that across the entire issue. At the moment, we do not even do that down to the country, let alone the individual institutions within those countries.

Senator BUSHBY—Do you have the legislative power to do that?

Mr Hockman—I would have to take advice on that.

Senator BUSHBY—The AOFM do not, and I think they end up with about 60 per cent of the securities that they issue.

Mr Hockman—We certainly would not have the power when the beneficial ownership of those things are, effectively, being traded in markets outside of this country.

Senator BUSHBY—No—but what about the initial—

Mr Hockman—In the initial thing we certainly have reported to us whether the owner is domestic or foreign. We track those transactions and release the net flows that are going on each quarter in our financial accounts.

Senator BUSHBY—At what stage of the transaction would you actually collect that information?

Mr Hockman—We collect that as it is reported to us by the financial institutions as the initial transactions and initial transfers of ownership are occurring.

Senator BUSHBY—Do you take a sample or do you obtain that information from every purchaser of securities?

Mr Hockman—We take that from every known participant in those markets. They report to us either directly or through administrative means.

Senator BUSHBY—I note that you have just said that you are probably not able to identify the beneficial owner of every purchase of Australian securities but you do have knowledge of the beneficial owners in some countries. I note that to some extent you do publish details of country of ownership, but it is not to that full extent that, I understand, you hold information for. Is that correct?

Mr Hockman—That is quite likely, because of confidentiality restrictions as well.

Senator BUSHBY—Who decides which countries to publish and which not to?

Mr Hockman—I suppose at the end of the day it is probably the statistician's decision.

Senator BUSHBY—Is it discretion guided by legislation or regulation? What criteria are used in making that decision?

Mr Pink—It would be based on the secrecy provisions of the stats act, which says that you cannot release any data that is likely to enable the identification of an individual business.

Senator BUSHBY—So in that respect potentially one of the reasons you might choose not to identify what percentage of securities are held by particular countries is because that could actually identify the holder of those securities?

Mr Pink—Yes.

Senator BUSHBY—I am looking at ABS document No. 6220.0, *Persons not in the labour force, Australia, September 2009*. I understand from that source that the number of persons not in the labour force at that time was about 5.68 million people. Of those about four million were classed as not wanting to work. What are the characteristics of the people who did not want to work? What do you look at to classify them under that heading?

Mr Farrell—The way that is determined is through a sequence of questions in the labour force interview that seek to identify whether a person has worked for one hour or more during the week prior to the survey. If the person indicates that they were not employed for one hour or more and that they were not seeking work then they would be treated as not being in the labour force.

Senator BUSHBY—At that time there were 5.68 million people not in the labour force. I have in front of me the flowchart you have in there that is quite useful.

Mr Farrell—Could you refer me to the part of the publication?

Senator BUSHBY—It is document 6220.0 *Persons not in the labour force, Australia, September 2009*.

Senator Sherry—Is this adults?

Mr Farrell—I have the publication here.

Senator BUSHBY—Of the 5.68 million people who are not in the labour force, you have a little box that shows that four million are classed as not wanting to work. I want to know what characteristics those people would have had that would have led you to identify them as not wanting to work.

Mr Farrell—They would have indicated that they had not been working for one hour or more in the week prior to the survey and that they were not actively looking for work.

Senator BUSHBY—Because underneath that you have then got those who wanted to work.

Mr Farrell—Some people wanted to work but did not actively look for work.

Senator BUSHBY—That is right. Then there are those who are not actively looking for work underneath that as well. You used that as one of the criteria to determine the four million who did not want to work.

Mr Farrell—That is right. So of those people who were not working and who were not looking for work some people would have liked to have worked but did not actively look—

Senator BUSHBY—So there is another criteria that you use to determine that they did not want to work at all?

Mr Farrell—The supplementary survey looks more deeply into the reasons and you are looking at there the results of that survey. There are a number of criteria, but I cannot tell you what they are off the top of my head.

Senator BUSHBY—If you could take that on notice, it would be appreciated.

Mr Farrell—I will take it on notice.

Senator BUSHBY—Is the unemployment rate methodologically consistent over long periods of time—that is, decades? Is it fair to compare directly the unemployment rate in the 1930s, when we had very high recorded rates, with rates published today, which are obviously much lower? If not, what has changed and when? I presume it comes down to different treatment of students and recipients of government pensions and things like that. Given the time, could you take that question on notice?

Mr Farrell—We will certainly take that on notice.

Senator BUSHBY—I would like to know what has changed over that period of time and to what degree you can actually compare current rates with past rates. What is the margin of error around Australia's quarterly GDP growth rates?

Mr Hockman—The average revision over time is about a quarter of a percentage point, which is the same level of accuracy that government budget forecasts are generally prepared at as well.

Senator BUSHBY—I understand you are completing the 16th review of the CPI. Is that still on track for completion this year?

Mr Pink—Yes, it is; it will be completed in December.

Senator BUSHBY—The price of houses has a large impact on the cost of living of many Australians but house prices are not included in the CPI while rents are included. Is that something you are looking at as part of your review?

Mr Cullen—Yes, we are looking at the impact of housing prices on the CPI. We currently have in the CPI the cost of the dwelling but not the land. We are looking at whether we should have both the land and the dwelling. That will be part of our final outcomes.

Senator BUSHBY—That is it for me.

CHAIR—Any other questions will have to be placed on notice. Thank you once again for coming along on this auspicious day. We will see you next time round.

Committee adjourned at 11.01 pm