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STANDING COMMITTEE ON RURAL AND REGIONAL AFFAIRS
AND TRANSPORT

ESTIMATES

(Budget Estimates)

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**SENATE STANDING COMMITTEE ON
RURAL AND REGIONAL AFFAIRS AND TRANSPORT
Wednesday, 23 May 2007**

Members: Senator Heffernan (*Chair*), Senator Siewert (*Deputy Chair*), Senators Adams, McEwen, McGauran, Nash, O'Brien, and Sterle

Participating members: Senators Adams, Allison, Barnett, Bartlett, Bernardi, Boswell, Bob Brown, Carol Brown, George Campbell, Carr, Chapman, Crossin, Eggleston, Chris Evans, Faulkner, Ferguson, Fielding, Hogg, Hutchins, Joyce, Kemp, Lightfoot, Ludwig, Lundy, Ian Macdonald, Sandy Macdonald, McGauran, McEwen, McLucas, Milne, Nash, Nettle, Payne, Parry, Polley, Robert Ray, Stephens, Sterle, Trood, Watson and Webber

Senators in attendance: Senators Adams, Heffernan, Hogg, McEwen, McGauran, Nash, O'Brien, Siewert and Sterle

Committee met at 9 am

AGRICULTURE, FISHERIES AND FORESTRY PORTFOLIO

Senator Abetz, Minister for Fisheries, Forestry and Conservation

Department of Agriculture, Fisheries and Forestry

Executive

Dr Conall O'Connell, Secretary

Dr Cliff Samson, Deputy Secretary

Mr Stephen Hunter, Deputy Secretary

Mr Daryl Quinlivan, Deputy Secretary

Management Services Division

Mr Bill Pahl, Chief Operating Officer, Management Services

Mr John Bridge, Chief Finance Officer, Corporate Finance

Mr Greg Haughey, Budget Manager, Corporate Finance

Mr Steve Prothero, General Manager, Information Services Branch

Corporate Policy Division

Mr Allen Grant, Executive Manager, Corporate Policy

Ms Victoria Anderson, General Manager, Policy Development Branch

Mr Craig Penney, General Manager, Governance and Planning Branch

Ms Nicola Hinder, General Manager, Parliamentary and Media Branch

Mr Charles Willcocks, General Manager, Australian Biosecurity System Taskforce

Food and agriculture (including Wheat Export Authority and Grains Research and Development Corporation)

Mr David Mortimer, Executive Manager, Food and Agriculture Division

Mr Richard Souness, General Manager, Food Policy and Safety

Mr Ian Robinson, General Manager, Wine, Horticulture and Sugar

Mr Simon Murnane, General Manager, Meat, Wool and Dairy

Mr Russell Phillips, General Manager, Grains

Mr Tim Besley, Chairman, Wheat Export Authority

Mr Peter Woods, Acting Chief Executive Officer, Wheat Export Authority
Mr Terry Enright, Chairman, Grains Research and Development Corporation
Mr Peter Reading, Chief Executive Officer, Grains Research and Development Corporation

International Division

Mr Craig Burns, Executive Manager, International Division
Mr Paul Morris, Executive Manager, Technical Market Access
Ms Fran Freeman, General Manager, Multilateral Trade Branch
Ms Nicola Gordon-Smith, General Manager, Bilateral Trade (North Asia, Europe, Middle East) Branch
Mr David Williamson, General Manager, Bilateral Trade (Americas, South East Asia, Sub-continent and Pacific) Branch

Australian Bureau of Agriculture and Resource Economics

Mr Phillip Glyde, Executive Director
Ms Karen Schneider, Deputy Executive Director
Dr Don Gunasekera, Economist
Dr Terry Sheales, Chief Commodity Analyst
Mr Peter Gooday, General Manager, Natural Resource Management
Mr Paul Ross, General Manager, Energy and Minerals
Ms Annette Blyton, Corporate Manager
Mr Jammie Penm, Acting General Manager, International

Bureau of Rural Sciences

Dr Colin Grant, Executive Director, Bureau of Rural Sciences
Dr Kim Ritman, General Manager, Climate, Land and Water Sciences
Dr Stephen Bygrave, General Manager, Fisheries, Forestry and Social Sciences
Mr Mark McGovern, Program Leader, Business Strategy and Operations

Rural policy and innovation

Mr Ian Thompson, Executive Manager, Rural Policy and Innovation
Mr Matt Koval, General Manager, Drought and Exceptional Circumstances
Ms Melanie O'Flynn, General Manager, Research and Innovation
Mr Bruce Bowen, General Manager, Industry Partnerships, Training and Leadership
Ms Jenny Cupit, Director, Drought Policy and Implementation

Natural resource management (including Land and Water Australia)

Mr Tom Aldred, Executive Manager, Natural Resource Management Division
Mr Mike Lee, General Manager, Australian Government Natural Resource Management Team
Mr John Talbot, General Manager, Australian Government Natural Resource Management Team
Ms Heather Tomlinson, General Manager, Land Management and Climate Change
Mr Rod Shaw, General Manager, Landcare and Sustainable Production
Dr Michael Robinson, Executive Director, Land and Water Australia

Fisheries and forestry (including Australian Fisheries Management Authority)

Mr Glenn Hurry, Executive Manager, Fisheries and Forestry
Mr Tony Bartlett, General Manager, Forest Industries
Mr Andrew Wilson, Manager, National Forest Policy

Mr Karl Heiden, Manager, Tasmanian Forests
Mr Robert Murphy, General Manager, Fisheries and Marine Environment
Dr John Kalish, General Manager, Fisheries and Aquaculture
Ms Joanne Pearce, Manager, Domestic Fisheries Policy
Dr Nick Rayns, Acting Managing Director, Australian Fisheries Management Authority
Mr Geoff Richardson, Acting Executive Manager Fisheries, Australian Fisheries Management Authority
Mr Paul Murphy, Acting General Manager Business Management, Australian Fisheries Management Authority
Mr Rohan Wilson, Acting General Manager Operations, Australian Fisheries Management Authority

Product integrity, animal (including aquatic animal) and plant health (including Australian Pesticides and Veterinary Medicines Authority)

Mr Steve McCutcheon, Executive Manager, Product Integrity, Animal and Plant Health
Dr Peter Thornber, Acting Chief Veterinary Officer, Office of the Chief Veterinary Officer
Ms Sally Standen, General Manager, Animal and Plant Health Policy
Mr Bill Magee, General Manager, Product Integrity and Safety
Ms Lois Ransom, Chief Plant Protection Officer, Office of the Chief Plant Protection Officer
Dr Joe Smith, Chief Executive Officer, Australian Pesticides and Veterinary Medicines Authority
Dr Eva Bennet-Jenkins, Pesticides Program Manager, Australian Pesticides and Veterinary Medicines Authority

Australian Quarantine and Inspection Service

Ms Jenni Gordon, Executive Manager, Quarantine Division
Dr Andy Carroll, National Manager, Border Branch
Mr Peter Liehne, National Manager, Animal and Plant Quarantine Branch
Mr Tim Chapman, National Manager, Cargo Management Branch
Mr Greg Read, Executive Manager, Australian Quarantine and Inspection Service Exports
Mr Tim Carlton, National Manager, Food Exports Branch
Mr Mark Schipp, General Manager, Technical Standards Branch
Dr Narelle Clegg, National Manager, Animal and Plant Exports and Imported Food Safety Branch

Biosecurity Australia

Mr John Cahill, Chief Executive
Dr Ann McDonald, General Manager, Biosecurity Development and Communications
Ms Louise van Meurs, General Manager, Plant Biosecurity
Dr Bill Roberts, Principal Scientist, Plant Biosecurity
Dr Robyn Martin, General Manager, Animal Biosecurity
Dr Mike Nunn, Principal Scientist, Animal Biosecurity

CHAIR (Senator Heffernan)—I declare open this public hearing of the Senate Standing Committee on Rural and Regional Affairs and Transport. On Wednesday, 9 May 2007 the Senate referred to the committee for examination the particulars of the proposed expenditure for 2007-08 and certain other documents for the Agriculture, Fisheries and Forestry portfolio.

The committee will now further examine the particulars of proposed expenditure through these budget estimate hearings. The committee may also examine the annual reports of the departments and agencies appearing before it. As agreed, I propose to call on the estimates according to the format adopted in the printed program, with perhaps a variation of the Wheat Export Authority, depending on what is happening in another room. The committee is due to report to the Senate on 19 June 2007 and has fixed Thursday, 12 July 2007 as the date for the return of answers to questions taken on notice.

Under standing order 26, the committee must take all evidence in a public session. The Senate by resolution in 1999 endorsed the following test of relevance of questions at estimates hearings. Any questions going to the operations or financial positions of the departments or agencies which are seeking funds in the estimates are relevant questions for the purpose of an estimates hearing.

The Senate has also resolved that an officer of a department of the Commonwealth or a state shall not be asked to give opinions on matters of policy and shall be given a reasonable opportunity to refer questions asked of the officers to superior officers or to a minister. This resolution prohibits only asking questions for opinions on matters of policy and does not preclude questions asking for explanations of policies, or factual questions about when and how policies were adopted.

If a witness objects to answering a question, the witness should state the grounds upon which the objection is taken and the committee will determine whether it will insist on an answer having regard to the ground which is claimed. Any claim that it will be contrary to public interest to answer a question must be made by the minister and should be accompanied by a statement setting out the basis for the claim.

I remind all witnesses that, in giving evidence to the committee, they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. When called to answer a question for the first time would you please state your name, rank and serial number.

Welcome, Minister Eric Abetz, the minister for everything, and Dr O'Connell in your first appearance. I have a good question for you first up. If you would like to make an opening statement you may, but before you do could you explain to me what your PhD is in, because I could not even understand it, let alone imagine what it means.

Dr O'Connell—Thank you, Chair. I am not sure I recall what my PhD thesis was.

CHAIR—All right.

Dr O'Connell—If I could just mention, Chair, prearranged with the secretary of the committee, AQIS, Biosecurity Australia, and Product Integrity, Animal and Plant Health Division will be unavailable until four o'clock tomorrow because they are at the Quarantine and Market Access Conference which is going on today. I understand that has been accepted by the secretary as reasonable.

CHAIR—Which is why I do not really understand why we are not having these estimates on Monday and Tuesday. The minister was unavailable, we were told.

Senator Abetz—That is right. I am doing Employment and Workplace Relations then. That is a tough one.

CHAIR—You are not saying that is more important than everything that grows, flows and flies?

Senator Abetz—With the rain, things are starting to flow again.

CHAIR—Right, Doctor. Welcome to our culture. Senator O'Brien.

Senator O'BRIEN—I want to ask some general financial questions first. Does the department do the full-year forward estimates for portfolio new measures which appear in the budget or is it done by Treasury or the department of finance?

Mr Bridge—The department does those, in conjunction with the department of finance.

Senator O'BRIEN—How does that work?

Mr Bridge—When we have a new policy proposal we agree costings with the department of finance on the range of possible expenditures required. Through a series of negotiations we agree the costs that the department of finance and ourselves feel appropriate for the measures and the appropriations. That is eventually signed off through the budget process.

Senator O'BRIEN—So the department has input into the 'doability' of the timescale of a spend?

Mr Bridge—Yes, it does. That negotiation is a combination from ourselves in the Corporate Finance Branch and also the relevant branch or division that has carriage of that program.

Senator O'BRIEN—Does it work that the department of finance says, 'These are the amounts in the out years we project' and you say it is doable or whether you need to push it back?

Mr Bridge—No, it is more the other way, in that the department will always provide their estimates in the first place and have the negotiations and discussions with Finance to agree the timing and the types of expenditures. So it really is a negotiation process between the two. At the end of the day an agreement is to the years and the types of expenditure.

Senator O'BRIEN—In terms of administered items, is that the same process?

Mr Bridge—Yes, it is.

Senator O'BRIEN—Where would I find the forward estimates for the administered activities in this year's PBS? That is a big question.

Mr Bridge—The details for the out years in the PBS are not in that particular document. As each measure comes forward they are identified in the budget measures document, the budget paper associated with that. Really, that is the only stage where you will see a four-year snapshot, except I think that there are a couple of tables in here that do give you that out-year information. Just from a quick recollection, I do not think it is in the PBS, but if you refer to

the supplementary estimate statements there are some tables in there that give you some out-year estimates about movements, in particular page 5 of that document. It is the smaller one.

Senator O'BRIEN—The additional estimates?

Mr Bridge—No, the very small one; the supplementary.

Senator O'BRIEN—Is that the additional?

Mr Bridge—It looks about the size.

Senator O'BRIEN—That is the one I did not bring.

Mr Bridge—That one, for example, has not got a full listing for you to view, but it does have those where we have movements in those particular programs. The budget documents for each year are more focused on the immediate budget year 2007-08.

Senator O'BRIEN—The budget measures document contains, for new measures—

Mr Bridge—For new measures, yes, the amounts approved by government.

Senator O'BRIEN—The amounts which may be in addition to other amounts already existing, or may not?

Mr Bridge—Yes, that is true.

Senator O'BRIEN—But they are not produced in a portfolio budget statement?

Mr Bridge—No, only the 2007-08 year is captured in the PBS.

Senator O'BRIEN—What is the explanation for that? Why cannot that be reflected in the PBS?

Mr Bridge—There is no particular explanation. The portfolio budget statements are prepared in accordance with guidelines provided by the department of finance and are more focused on the appropriation bills for 2007-08, so it is the way we have done it. There is no reason why they are there or not there.

Senator O'BRIEN—Does the department have its own projections for the administered items?

Mr Bridge—It does. We maintain that in conjunction with Finance because we always have the budget year and the three forward years captured in our estimates systems.

Senator O'BRIEN—Can we have a copy of that?

Mr Bridge—I see no reason why not. Would you like that for all of the administered programs?

Senator O'BRIEN—Yes. When can we get a copy of that?

Mr Bridge—Possibly today or tomorrow.

Senator O'BRIEN—That would be good, to get a full understanding of how those projects are expected to profile their spending.

Mr Bridge—Please be aware that that will only show the amounts agreed between ourselves and Finance.

Senator O'BRIEN—Sure, like the PBS.

Mr Bridge—Yes, and it would also be budget year and the three forward years, in the main.

Senator O'Brien—In terms of the portfolio budget statement, is that signed off at secretary level?

Mr Bridge—Yes, and also by the minister. The minister signs this document off in the cover page for tabling.

Senator O'Brien—I think you may have answered this but, just for completeness, does the department have any mechanisms in place to ensure that the methods by which costings are done by the department are consistent with the way costings are done across other departments?

Mr Bridge—Across other departments?

Senator O'Brien—Yes. I want to know if there is a consistent approach across departments that is followed in this department.

Mr Bridge—The answer is yes. However, we have our own costing templates that we agree with the department of finance and also the department of finance has costing agreements with other agencies—for example, Environment. While our methodologies are very similar, I personally do not know that they are the same, but certainly the department of finance would. They ensure that consistency across agencies.

Senator O'Brien—Does that mean that there is a consistent approach across departments?

Mr Pahl—What it means is that the department of finance, in conjunction with each portfolio using a similar methodology, arrives at a costing formula that reflects the cost of delivering a particular program or whatever it happens to be. That does not mean you get the same outcome for every portfolio. Depending on what it is that the government is wanting to deliver, that will determine how the costing falls out.

In our own case, over the years Mr Bridge and his colleagues have had extensive discussions with the department of finance about how to arrive at a formula that is fair in terms of the outcome for the department when we receive the appropriation to deliver the particular function or program.

Senator O'Brien—Could we understand that to mean that where estimated administrative costs for a program are administered by several different agencies that is done on a consistent basis between this department and those other agencies?

Dr O'Connell—Probably the critical point for where I think you are going is that the finance department provides the overall discipline. We have to agree costings with the finance department and they agree costings for all the other portfolios as well. So the discipline is that Finance has the overall control on the costings approach. That is where we would ensure that our costings were agreed in a way which was consistent, broadly speaking, with other portfolios. It does not mean the cost, say, per staff member would be the same for each portfolio—it would depend on the nature of the program that you were trying to deliver and what was required for that program—but DOFA basically manages the overall consistency of approach.

Mr Bridge—We do not always get transparency to other agencies' costings that they agree with the department of finance. It is really the department of finance that ensures that consistency. As you would note in the budget measures document, for some measures where they are across portfolios you see the costings there for the department. They have all been individually assessed. I know that there is a lot of liaison within the various branches of Finance to ensure a degree of consistency but, in a very personal sense, I cannot guarantee to you that they are exactly consistent. I do understand that they are broadly consistent.

Senator O'BRIEN—So the work that you do is not vetted by other agencies or departments, and the work that they do is not vetted by you where there is a sharing of program responsibility, for example? That is done by the department of finance.

Mr Bridge—In terms of costings, yes. In terms of us signing off and other agencies' costings, no. We might be broadly aware of their costings, and quite often the first time we see them would be either in the government's decisions which we view on the way through or, alternatively, in the budget measures.

Senator O'BRIEN—Apropos of nothing in particular, but where you have a program that is administered by Centrelink, how do you make a judgement about the validity of their costings, or do you not do that?

Mr Bridge—Particularly in the exceptional circumstances payments, those discussions are undertaken by Rural Policy and Innovation Division. They liaise with Centrelink about the services that they need to deliver. Centrelink in turn identifies how much that might cost and provides that information to the department of finance. Finance satisfy themselves of the validity of that costing on the basis of the assumptions of activities, and it all comes together through the budget process.

Senator O'BRIEN—Does that mean that the department is autonomous in terms of changing to a new costing model and a new costing approach, or does that require the approval of the department of finance?

Mr Bridge—We are not autonomous in that approach. We have negotiations with Finance, generally on an annual basis, to review the costing approach and to negotiate the different components within it.

Senator O'BRIEN—Thank you for that. Is it possible to get, for each department and agency in this portfolio, what sum as a total figure was spent on advertising campaigns in 2006-07 and what sum will be spent in 2007-08?

Mr Pahl—Yes. We have probably got some of that information with us, and I will see if we can dig that up for you in the course of today.

Mr Grant—Within the department, there are two major campaigns that currently operate. There is the Quarantine Matters! campaign that operates through AQIS and the campaign that advises people about their eligibility for exceptional circumstances assistance that is administered through Centrelink. Information about that campaign should be directed towards that department, but we can certainly provide you with some information about the Quarantine Matters! campaign.

Senator Abetz—It is just interesting to interpose here that these are undoubtedly two of the campaigns that Kevin Rudd in his pursuit of government advertising would knock off and you would then have to ask the question: what would that do to our quarantine security and how would the farming community become aware of their entitlements? We had similar questions in another portfolio yesterday. When you start going through, it will be very interesting for Mr Rudd to actually tell the Australian people which campaigns he will not be running.

Senator O'BRIEN—The questions are questions which I ask to understand the spending in this portfolio, as quite properly we should. It is interesting that—

Senator Abetz—Absolutely, but these figures are added into Mr Rudd's—

Senator O'BRIEN—Hang on. I did not interrupt you. It is interesting that, immediately we ask a question, the minister goes on the defensive about the government's advertising spending and tries to make a political point.

Senator Abetz—No, I am going on the attack—

Senator O'BRIEN—I asked a question.

Senator Abetz—about the dishonesty of Kevin Rudd.

Senator O'BRIEN—No, hang on. I did not interrupt you, so do not interrupt me, please.

Senator Abetz—Yes, but do not—

Senator O'BRIEN—Do not interrupt me, please. The point that I am making is: I am asking a question in estimates about spending on advertising for information purposes and immediately the minister makes a political point and goes on the defensive about this. The debate about political advertising will take place in the community. I do not see the reason to engage in the debate here. We have plenty of things to do.

ACTING CHAIR (Senator Adams)—Can we move on, Senator O'Brien.

Mr Grant—Senator, can I just add that we will provide you with that information; and it might be useful to have that discussion when AQIS appear before the committee tomorrow afternoon.

Senator Abetz—It is important, Acting Chair, that the government put on record that it is proud that it does communicate an AQIS campaign, that it does communicate to particular constituents their entitlements, and these campaigns are under real threat in the event that there were a change of government, and the people of Australia deserve to know that. That is the point that I am making.

ACTING CHAIR—All right. Can we move on, please. Senator O'Brien.

Senator O'BRIEN—The two campaigns are Quarantine Matters! and an exceptional circumstances information campaign.

Mr Grant—That is true.

Senator O'BRIEN—They are the ones that have been running or are funded and are projected to run in the coming financial year.

Mr Grant—That is correct.

Senator O'BRIEN—In relation to Quarantine Matters! you will be able to give us the numbers for 2006-07 in terms of projected sums and the same for 2007-08?

Mr Grant—We will bring that to the committee tomorrow afternoon when AQIS appear.

Senator O'BRIEN—Will we be able to get a breakdown at that time of campaign costs, marketing, research, creative, preproduction, production, media purchasing and for the various media types?

Mr Grant—I think so. We will endeavour to bring together as much information as we can for the committee.

Senator O'BRIEN—Do you know when individual campaigns were referred to the Ministerial Committee on Government Communications for approval?

Mr Grant—When those in particular were?

Senator O'BRIEN—Yes.

Senator Abetz—Are you talking about the last iteration, because Quarantine Matters! has been going on for I nearly imagine decades and all that happens is that there is a new iteration of it or a bit of a tweak to it.

Senator O'BRIEN—Does that mean that there is just an ongoing brief for that particular campaign that goes back some time? Or is it reapproved on an annual basis or biennially?

Senator Abetz—On a sort of regular basis when and as it is deemed that it needs a refresh or whatever, but when you talk Quarantine Matters!, I think we have been doing that now for many years. Mr Grant, is that right?

Mr Grant—Yes, Minister. Quarantine Matters! and the exceptional circumstances funding both went through the ministerial coordination committee late last year.

Senator O'BRIEN—Are you saying that late last year they were reapproved? They went to the committee and were approved?

Mr Grant—That is correct, yes.

Senator O'BRIEN—Is there a specific date? Can you get us that date?

Mr Grant—We can get you that date, certainly.

Senator O'BRIEN—Are there any campaigns that have been completed? I take it not.

Mr Grant—No, not that I am aware of.

Senator O'BRIEN—In terms of the approval for the Quarantine Matters! campaign, does it have an end date, or is it an open-ended approval?

Mr Grant—I think it has an end date. Yes, it is to be reviewed at the end of 2008.

Senator O'BRIEN—Are there any campaigns that are in prospect, that have not yet commenced?

Mr Grant—Not that we are aware of.

Senator O'BRIEN—None that the department is aware of?

Mr Grant—No, that is right.

Senator O'BRIEN—In terms of the process of giving effect to the ministerial coordinating committee decision, could you explain how that decision translates into an active campaign? What are the steps that are followed by the department?

Senator Abetz—I can come in here if you like. What usually happens is that the department sees a need for a particular campaign. A brief is put to the minister. If the minister is so minded then, with some supporting material, it goes to the Ministerial Council on Government Communications. It then makes a determination as to whether it ought move further forward. If that is the decision and the briefs are then approved, they are then forwarded to relevant organisations.

With Quarantine Matters! you would have a market research company, I would imagine, engaged. You would have a PR company engaged and an advertising/communications company engaged. That would occur by the GCU—which is the Government Communications Unit—selecting from a panel that are registered with them, let us say, the top six that they think could undertake the job. They are then invited to have a look and see if they want to tender for the job. Then usually the top two, as selected by the GCU, get put forward to the MCGC and the top two are invited to present to the committee. Then a determination is made.

Usually the market research people are appointed first because it is important, whoever comes up with a good advertising campaign, that that be also considered by the researchers to see whether it would have cut through or not. That is basically the procedure it follows. In some circumstances, if somebody has had an ongoing contract—I know that, for example, that has happened in the past with defence recruitment—sometimes that is renewed for a 12-month period or for a refresher campaign. Those are the general workings of the system.

Senator O'BRIEN—Is that how it worked here? That is generally, and there may be exceptions. I would like to know if that is the precise process that was followed for the Quarantine Matters! campaign from the end of 2006.

Ms Hinder—I can confirm that we adhered to those processes in taking things through the MCGC and the GCU.

Senator O'BRIEN—So this department has no input into the selection of the successful tenderers? Is that how I should understand it?

Senator Abetz—Yes, it does. All departments do, and the ministers do as well, because how the MCGC works is that the department is represented there, as is the relevant minister's office—in this case, it would be Minister McGauran's office—to provide input into the discussions and the decision making.

Senator O'BRIEN—In terms of the Quarantine Matters! campaign, what was the time line? When were invitations to tender issued, when did the tenders close and who were the successful tenderers?

Ms Hinder—I am sorry, I do not have that level of detail with me. I would be happy to provide that for you on notice.

Mr Grant—The campaign is actually managed out of AQIS. It might be useful if the people responsible for that attend when AQIS appears tomorrow afternoon and we can have that discussion then.

Senator O'BRIEN—In terms of the EC program, does that money come out of this department's portfolio budget?

Mr Grant—No, it is appropriated to Centrelink.

Senator O'BRIEN—Do you know how much is appropriated?

Mr Grant—No, I do not know the exact amount. It is appropriated to the Department of Human Services.

Mr Bridge—Subject to confirmation, which I will get later, I think that money is appropriated to us. We then transfer it to Centrelink, they spend the money, and we have a reconciliation process. I am pretty sure that money is appropriated to us. You will see it in the bills as departmental expenditure for the exceptional circumstance component.

Senator O'BRIEN—Is it in the PBS?

Mr Bridge—Yes.

Senator O'BRIEN—Where will I find it?

Mr Bridge—I will hunt for it.

Dr Samson—It may be in the same way that the Quarantine Matters! campaign is AQIS or the closest to that. It may be that when Rural Policy and Innovation come on they will be able to shed some light on the funding arrangements for the EC awareness campaign.

Senator O'BRIEN—I understand that. It would be good to know if it is in the PBS.

Mr Bridge—It is not very transparent for you. It is a bit similar to new measures, in that again, if I could send you back to the supplementary additional estimates—on page 6, for example—where you see those items there for drought assistance, you will see there is a component in there for departmental outputs. Those are the amounts that are appropriated on behalf of Centrelink. Again, you would only see that level of detail in that sort of presentation of a new measure.

Senator O'BRIEN—Which of those items is for Centrelink?

Mr Bridge—For example, in the drought assistance additional departmentals and the next subsequent four items, those amounts under 'Departmental outputs 2006-07 and 2007-08'—the \$1.3 million, the \$1.187 million, the \$3.4 million and the \$1.2 million—would be the costs that would have been agreed for Centrelink, and we reimburse them. Again, I can confirm that for you at a later stage. In respect of the 2007-08 PBS, they are rolled into the big number of departmental appropriations. A component of that amount there would be for advertising, I would imagine.

Senator O'BRIEN—I see that the amount is significantly smaller for 2007-08 and there is an even greater reduction in 2008-09.

Mr Bridge—That is true, yes.

Senator O'BRIEN—That would indicate an expectation of that campaign declining over that period.

Mr Bridge—It is for the whole of their running costs, which are the staff costs, as well as the information campaigns, and it is our Rural Policy and Innovation Division that would be able to get the finer detail on exactly what the funding is for.

Senator O'BRIEN—Is the Quarantine Matters! funding able to be seen in the PBS?

Mr Bridge—No, it would not be. It would be rolled up into the larger figure. Again, as Mr Grant has identified, AQIS would have those details.

Senator O'BRIEN—Thank you for that. Has Crosby Textor provided any services for this department or any of its agencies, such as market research, public opinion polling, strategic counselling campaigns, communications services or any other services?

Mr Grant—Not that I am aware of.

Senator Abetz—Nor has Mr Cameron.

Senator O'BRIEN—Can you check and let us know?

Mr Bridge—Yes.

Senator O'BRIEN—If they have, I would like to know what they were, when, at what cost and what was the product of their work.

Mr Bridge—Yes, of course.

Senator O'BRIEN—Is Crosby Textor in contract negotiations with the department or any of its agencies about any such work?

Mr Grant—Certainly not with the department, to our knowledge. We would have to check with the individual agencies to confirm that, but we can do that.

Senator Abetz—I have a pretty good hunch that the answer would be no, and the same would be for Rod Cameron. We get these questions at every single estimates no matter what the portfolio is.

Senator O'BRIEN—I wonder why!

Senator Abetz—Because they are associated with the Liberal Party. Rod Cameron is associated with the Labor Party, but we never get asked about him, which is surprising.

Senator O'BRIEN—In February at additional estimates I asked a series of questions about the issue of agricultural managed investment schemes or non-forestry managed investment schemes. Since then it has become clear that changes announced since December 2006 to both forestry and non-forestry managed investment schemes are going to have profound effects on the manner of investment in agriculture in Australia. Has the department done any research on how the announced changes to non-forestry MIS, so far as agriculture is concerned, will affect investment decisions in agriculture across Australia?

Mr Grant—We have not done any specific analysis. As you are aware, the most recent announcements on non-forestry MIS occurred on 27 March, which indicated that there was to be a transition period that applied to current investments in non-forestry managed investment schemes, which would allow the current arrangements to stay in place until 1 July 2008.

We understand that there are also negotiations going on between the tax office and the industry about bringing a case forward for the court to consider. We have not done any research to determine what sorts of changes there might be and the types of investments that might flow between the different sorts of managed investment schemes after 1 July 2008, on the assumption that there will not be that much change between then and now.

Senator O'BRIEN—Is there any plan to do that work?

Mr Grant—Not at the moment, no.

Mr Quinlivan—We are looking at the forestry issues, however, and, as you know, from 1 July there are new arrangements applying for secondary trading of what were originally MIS investments. The forestry group in the department has been talking with the forestry industry about what the long-term implications of that might be and nobody is quite sure because it depends what the commercial responses are to the new arrangements and also because there are fewer MIS based investment opportunities around. So those questions could be usefully directed to the forestry group when they appear, probably tomorrow.

Senator O'BRIEN—Do you know the basis of the numbers in the budget measures statement? It seems that over time the forestry MIS will see an increase in the cost to the budget. Do you know the basis of that calculation?

Mr Quinlivan—They are a tax expenditure and to the extent that they appear anywhere it will be in Treasury's statement, and Treasury questions about the methodology they use to calculate that would need to be directed to them.

Senator O'BRIEN—So this department is not aware of that?

Mr Quinlivan—It is not a methodology that is shared beyond the Treasury.

Senator Abetz—Is there anything in particular you are referring to in these portfolio budget statements that you would want the officials to address?

Senator O'BRIEN—Obviously the question of the work of the department and any work that they have done on that issue. If there is no work that has been done and the department is not aware of how those changes will affect its administration of its responsibilities, if that is what is being said, then I understand that you would ask me to ask questions of the other portfolio.

Senator Abetz—Right.

Senator O'BRIEN—The measure is projected to increase revenue in 2009-10 by \$44 million but to reduce revenue by \$246 million in 2010-11. So given what you just said about a reduction in the amount of product available, I am wondering whether there was an understanding whether there was what appears to be an increase in the forest product that would become available, at least out as far as 2010-11.

Mr Quinlivan—We probably should return to this when we have the forestry people here who were involved in the discussions with Treasury about forward projections and so on. I assume that the Treasury have made estimates of the likely take-up of investment products in this area, and that is the basis for their calculation of those tax expenditures, so we will make sure that the forestry people are ready to deal with that when they come later on.

Senator O'BRIEN—Thank you. Do you know whether any research has been done on the capacity for expansion of plantation forestry?

Mr Quinlivan—The forestry industry have done quite a lot of work on that in recent years and, as I am sure you are very well aware, there have been concerns about access to suitable land and also uncertainty about access to water and the terms and conditions of access to water in the future. So there are some physical and commercial constraints on expansion of the plantation estate. How they translate into acreages that might be planted and so on depends a lot on commercial issues that are not really the primary concern of government; they will go to the projected price of woodchips and all that sort of thing. Again, the forestry people can give you an informed commentary on that tomorrow.

Senator O'BRIEN—I will take that as a guarantee.

Mr Quinlivan—Yes. They will certainly be able to give you what is currently understood around those issues at present.

Senator O'BRIEN—Don't walk away from your commitment now!

Mr Quinlivan—I have said they would do their best.

Senator O'BRIEN—So I should understand that since the February additional estimates, the department has not undertaken any other work or research on agricultural managed investment schemes.

Mr Grant—Not in forestry MISs, that is correct.

Senator O'BRIEN—Non-forestry is not just agriculture, but I was being specific.

Mr Grant—Yes, I understand.

Senator O'BRIEN—There are some aquaculture arrangements under non-forest investments; some that I cannot quite slot into a particular portfolio area. Was the department involved in any aspects of developing the recently tabled forestry MIS measures in the Tax Laws Amendment (2007 Measures No. 3) Bill 2007?

Mr Quinlivan—These are the provisions related to secondary trading and secondary markets. Yes, we have been.

Senator O'BRIEN—It is those provisions that relate to the secondary marketing into which this department had input?

Mr Quinlivan—That is the primary issue there. There may be others. Again, the forestry group will be able to deal with those questions.

Senator O'BRIEN—Do you know if final drafting instructions have gone forward on that legislation?

Mr Quinlivan—We will have to deal with that later on, Senator.

Senator O'BRIEN—Has the department in the past done any work or is it proposing to do any work on the regions affected by changes in the MIS structure, forestry and non-forestry?

Mr Grant—We would not have done any work specifically on looking at what impacts there may be through changes to investment streams through forestry versus non-forestry MIS. If there is a demand into the future, we will certainly be prepared to have a look at that.

Mr Quinlivan—The key point we have made in the past when we have talked about this is that we have a keen interest in industry development in the various regions and the commodities being produced, and that work is done by both ABARE and the BRS, but we do not have a particular interest in whether the investment driver is managed investment schemes or a more conventional form of private investment.

Senator O'BRIEN—We will return to that subject when the appropriate officers are available, all ready and prepared to answer a variety of questions on that subject. There is a table in the PBS on page 21, 'Movement of administered funds between years'. Could someone explain to me exactly what that is? I am presuming it is a carry-forward.

Mr Bridge—Yes, funds that were appropriated in 2006-07 which are now coming forward into 2007-08. I also need to advise you on the second-last item of that where it refers to 'Tasmanian community fishing agreement'; that should be 'Forest agreement'.

Senator O'BRIEN—I am sure the fishing community will be very disappointed.

Senator Abetz—Not as disappointed as the forest industry would have been!

Mr Bridge—Could I correct an issue. I was talking to you earlier about the funding for the exceptional circumstances campaign. I have been advised that it is funded through the Department of Human Services, not DAFF. And if you have a look at the budget measures document you can see—

Senator O'BRIEN—Which page?

Mr Bridge—For example, page 59—where there are amounts appropriated to ourselves, to the Department of Education, Science and Training and the Department of Health and Ageing. My colleagues in Rural Policy and Innovation will be able to provide further detail on that for you.

Senator O'BRIEN—The Health and Ageing money is the advertising money, is it?

Mr Bridge—I do not have that detail, but RPI will be able to assist you in that regard.

Senator O'BRIEN—In terms of the movement of administered funds forward, can we get an explanation for each of those items, please. That is the page 21 PBS items.

Mr Bridge—Yes, I can provide that to you for each of those items. I do have a rather long list of all of those and all of the items. In the main, they are delays in the programs from last year to this financial year.

Senator O'BRIEN—In the main? In other words, the expected expenditure hasn't taken place?

Mr Bridge—That is correct.

Senator O'BRIEN—The \$27 million to the fishing structural adjustment package is a delay. When was that package to be concluded?

Mr Bridge—I do not have details on the individual programs.

Dr Samson—Senator, as each relevant division comes to the table, they will be able to answer your questions probably in considerably more detail than we can.

Dr O'Connell—If you wish to have an overview, Mr Bridge can read out the notes we have to each of those and then, if you want to, follow through.

Senator O'BRIEN—That would be good. That would get us going, yes.

Mr Bridge—Under the fishing structural adjustment package, funding agreements for existing applicants for the two major components of this package are still being finalised, with payments not now expected until 2007-08.

Senator O'BRIEN—That is for the whole of the \$27 million?

Mr Bridge—It goes on to say that the movement of \$27.1 million in funds from 2006-07 will ensure that existing applicants and later applicants can be paid. The program ceases in 2007-08. Regarding the Australian seafood industry, the original Australian seafood council went into liquidation in 2005-06 and this movement of \$100,000 is to enable the funding provided to be moved into 2007-08 to fund a successor council.

Senator O'BRIEN—So it will not be for the Seafood Industry Council necessarily?

Mr Bridge—That is my understanding.

Senator Abetz—It has gone into liquidation and I do not think there is any real interest, in its current form anyway, to resurrect it, so the industry is working to see if they can develop another type of representative industry body. I have indicated to them that the money that was previously made available for the liquidated council may well be available for any successor, but if you can have any influence on the industry getting themselves in order and getting a peak body, I would appreciate your help.

Senator O'BRIEN—I will bear that offer in mind.

Senator Abetz—Albeit can I say the Commonwealth Fisheries Association, the CFA, are doing a very good job in the interim in assisting us.

Mr Bridge—The next item is international agricultural cooperation, \$92,000. Due to longer than anticipated time lines, two projects will now not be finalised by June 2006 and the movement of these funds will allow those projects to continue into the next financial year. The next item is the New Industries Development Program, \$300,000. The commentary I have here is that the drought is having an adverse impact on applicants being able to meet key milestones, and the movement of these funds will allow these milestones to be paid for when they are met. The sugar industry restructure package 2004, \$17.9 million, is due to the unanticipated delays in implementing projects caused by weather events and competition for resources in sugar regions. This program will cease in 2007-08 and it is expected to achieve objectives and expend all remaining funds.

With the Food Processing in Regional Australia Program, the movement of the \$310,000 is due to several unexpected delays, including shortage of tradespeople and specialists, delays in obtaining specialised equipment and a shortage of quality product as a result of the drought. With the animal welfare strategy, \$250,000, obtaining agreement from the broad range of stakeholders on sensitive and complex animal welfare related issues, sourcing and analysing background research findings and engaging consultants to develop aspects of the strategy have delayed the process and meant that expenditure of administered funds will extend beyond 2006-07. The Australian HomeGrown campaign, \$890,000, continues to develop an

appropriate publicity campaign which engages industry support and consumer awareness. The bulk of the remaining Australian HomeGrown campaign funds will be expended for this purpose in this financial year. There is a requirement to rephase \$290,000 into 2007-08 to ensure sufficient ongoing funding to underpin the longer term viability of the campaign.

Senator O'BRIEN—Is that money to pay for an advertising campaign or something else?

Mr Bridge—It is certainly indicating here a publicity campaign.

Senator O'BRIEN—The department is not running that?

Mr Bridge—I am sorry, I do not know the detail of those. Our Food and Agriculture Division would be able to assist.

Dr O'Connell—As I suggested, Senator, when we go through the relevant areas we can provide more detail on each of these movements.

Mr Grant—It may be an information awareness raising campaign, just to advise people of the availability of funding arrangements and to give information about how they might apply for various grants under that program, but we can confirm that in Food and Agriculture. When you asked about campaigns, I was not quite sure whether you meant every time the department went out to its stakeholders or whether you meant a major organised campaign of a significant nature, such as Quarantine Matters!. So when I answered that there was nothing more on the horizon for us, I did not consider the individual programs where they go out and provide information to potential applicants to apply for funding arrangements to be in the context of your question on major campaigns—

Senator O'BRIEN—I did intend it to be broad, so this would be one that we would need to get the detail about.

Mr Grant—Having clarified that, there will be others as well from the various programs in the department where we do have funding arrangements and grants programs and where we do go out to provide information to stakeholders about the way they can apply for funds. There will be a number of those, yes.

Senator O'BRIEN—Do you have any idea how much in total is involved?

Mr Grant—No.

Senator O'BRIEN—Can you get that for us?

Mr Grant—I would have to take that on notice.

Senator O'BRIEN—Can you identify the campaigns individually?

Mr Grant—Not here now. I can take that on notice and come back to you.

Senator O'BRIEN—There are questions I would have. Rather than put them on the record orally, I will give them to the secretariat and they can pass them on to become a form of question on notice. I would appreciate it if we could have that back expeditiously.

Mr Bridge—Assistance to the vegetable industry, \$740,000: a strategic campaign was launched on 13 September 2006. Planning and investment is now under way to undertake the remaining six projects. However, not all projects will be completed in this financial year, hence the funding requirement for next year. The next item, international agricultural

cooperation, live animal trade program: due to longer than anticipated time lines, six projects will not be finalised by the end of June. This movement will allow the projects to continue into the next financial year. The Living Murray initiative: several states have been slow to bring forward final investment plans for the water recovery projects and the rephasing that is required of \$36.9 million into next financial year. I should also note for that one that that is one of the projects transferred to the Department of the Environment and Water Resources.

Senator O'BRIEN—So that money is rephased and goes out of this department?

Mr Bridge—Out of DAFF and into Environment, yes. On the recreational fishing community grants, \$2.5 million, I am advised here that there is a round of payments that was due to go out in this financial year but are now not expected until next financial year. Tobacco grower adjustment assistance: the underexpenditure of \$6.59 million is due to payments not being able to be made to those growers electing to sell their enterprises until these are sold, and the movement of the \$6.5 million will enable those payments to be made to those growers.

The Tasmanian community forest agreement program is due to cease on 30 June 2008. Sufficient applications have been received to expend all the money, subject to agreement of ministers to the applications. So it seems it is an administrative process to get that through before the payments can be made. They will be expected next financial year. Tasmanian water infrastructure: a second milestone payment of half a million dollars to the Meander Dam is not likely to be met this financial year. Also funding of \$600,000 for the South Esk Basin irrigation project is unlikely to be required in 2006-07 as the Tasmanian government has not finalised the proposal for consideration by government. Again, that is one that is also transferred to the Department of the Environment and Water Resources.

Senator O'BRIEN—All of that item or just the Esk?

Mr Bridge—No, all of that item, the \$1.1 million. On the document you have there, it is \$1.1 million and it is within those two components.

Senator O'BRIEN—That is the final Meander Dam payment on completion, is it?

Mr Bridge—The second milestone payment of half a million dollars for the Meander Dam, yes. I do not know whether it is the final payment.

Senator Abetz—The question is how many milestones.

Mr Bridge—I should know, but I unfortunately do not.

Senator O'BRIEN—I think the dam wall is due to be completed in September, isn't it?

Mr Quinlivan—Our Natural Resource Management Division can give you some definitive advice on that.

Senator Abetz—The fact that neither of us know, we will not tell on each other, Senator O'Brien.

Senator O'BRIEN—I think we already have! A number of the questions that I was going to ask clearly are going to arise in other divisions, so I am ready to proceed to the next area.

ACTING CHAIR—We are changing the program slightly here if we can because of some complications. We intend to do ‘International’ next and then ‘Food and agriculture—other’ after that.

Internation Division

Senator O’BRIEN—I will go back to page 21 before I forget. Could I get an explanation in relation to the funds which have been carried forward from 2006-07 into 2007-08 or beyond in the PBS as they affect this division.

Mr Burns—There are two programs that are affected there. The first one is the AAA International Agricultural Cooperation Program and there has been a small amount of funds moved forward into 2007-08. They reflect that it has taken longer than expected to get some of the project details finalised. One is a capacity-building project in Eritrea. It is actually administered for us by Volunteers International and they have had trouble finding volunteers wanting to go to Eritrea, so that is the problem there. The second one there is one of our projects under the Australia-China Agricultural Cooperation Agreement, which was a visit by the Australians to China concerning the persimmon industry. Again, that was just a problem with how well the persimmon industry was organised.

Senator O’BRIEN—Their persimmon industry, not ours? Is that what you mean?

Mr Burns—I am not sure. To be honest, these notes sort of contradict themselves, so I had better check that one. The Chinese government has delayed the visit by Australians to China because they were not prepared for the visit.

Senator O’BRIEN—So it is our persimmon industry that is going to China?

Mr Burns—That is correct.

Senator Abetz—I am sure that is clear.

Senator O’BRIEN—Where is the industry based?

Mr Burns—That is a good question. It is not one of our larger industries, I would have to say, but I can check the details for you, if you like. So those are the two under the International Agricultural Cooperation Program. The next item is the International Agricultural Cooperation Live Animal Trade Program. There we have, I think, a total of six projects that have been delayed—again, one in Eritrea, training in livestock nutrition. This project is spread over two financial years and the timing of the project is based on seasonal factors, so the original commitment of the money was in the last financial year but the actual spend will occur later. Next, the visit by the Qatar minister for municipal affairs and agriculture, the timing of the project changed, due to a change in the Qatar minister’s availability, to August 2007. Again, Eritrea, forage options for livestock—this is a three-year project, with the project timing based on seasonal factors, so again the payments will be delayed. Improved stunning practices in the Philippines: the industry was not able to provide a specialised consultant to meet the 2006-07 time frame, but we are hoping that will happen in 2007-08.

Facilitating live animal trade through improved government strategic planning, a South-East Asian component: this project has been delayed due to a temporary shortage of DAFF staff with the specialised knowledge required for the project. Again, we hope that that will

proceed in the next financial year. The last item, facilitating live animal trade through improved government strategic planning in the Middle East and North African component of this project, has been delayed because of the temporary shortage of DAFF staff. That is it.

Senator O'BRIEN—This area is very important, and I know I am receiving thousands of communications about it, so it is disappointing that the staff shortages are delaying the program. In a general sense rather than in an individual sense, how would you categorise the shortage occurrence? Is it unexpected resignations and retirements, or is it an inability to engage people to boost the existing staff, or is it transfers to other positions that are causing the problem?

Mr Burns—Quite often these projects are quite time-consuming and we do not have staff allocated to the department specifically to do this sort of work, so it is taking existing staff away from their normal work in the office to go away, quite often for extended periods of time, to do this. This is an issue that we have across the board where there is an increased demand for capacity building. We do have funding ourselves, as you know, but quite often there are projects that are funded by AusAID where AusAID requires expertise from our department, and so there is a very strong call on the department to do this sort of work. It is an issue. In fact, as a department, recently we have been looking at a strategy for how we might better coordinate and better plan for some of this work.

Senator O'BRIEN—Dr O'Connell, does that mean that this has been a relatively low priority for the department?

Dr O'Connell—I certainly do not see it as a low priority for the department. I think the animal welfare issues that Mr Burns was talking about are critically important and we certainly will be ensuring that we have a strategy in place to maintain quality staffing levels for these.

Senator O'BRIEN—How much money would you describe as allocated to the variety of projects in the animal welfare live trade area for the coming financial year?

Mr Burns—I could not give you an estimate off the top of my head on that one. We could take that one on notice. There is not only work being done in this area coming out of these specific projects but there are other areas as well that I might not be familiar with, so it is best if we give you a consolidated number on that.

Senator O'BRIEN—Is there a variety of slots from which the moneys come? Is that what you are saying?

Mr Burns—Yes. As I said before, there are several AusAID funded programs which require expertise from DAFF. A lot of it is even going away and doing import risk assessment training, and they might be people who are in Biosecurity Australia working on, as you know, important risk assessment. So actually prioritising and looking at the opportunity costs of devoting time to some of these is something we need to look at carefully.

Dr Samson—The issue is that the demand for the department's resources in this area has been quite variable so it is difficult to maintain a core group to deal with the peaks, if you like, when the troughs of demand were not fully utilised. What the secretary has asked me to do is

coordinate within the department an exercise, as Mr Burns said, to prioritise and make sure that we best use the resources that we have.

Senator O'BRIEN—How can we categorise the peaks and troughs? I might have assumed that you meant when there is a crisis you need to be putting more resources in and when there is not you do not, but I would have thought that the preparation factor in this area is critically important and that that would be ongoing. Could you describe for me this peaks and troughs arrangement?

Dr Samson—My understanding of what Mr Burns said was that because a lot of these are externally funded projects, the projects are generated from outside the department and, depending on the number, there would be a greater or lesser demand on the department's resources.

Mr Burns—The projects are not always the same in nature. There might be some which are about how to handle animals, others might be how to do risk assessments, so I would not think that you are always going to be able to anticipate exactly what expertise you need. That is another thing that we need to take into account in our planning.

Senator O'BRIEN—What has been the government expenditure in the current financial year and what is projected for next year related to negotiations of MOUs with the Middle Eastern countries?

Mr Burns—The budget estimate for 2007-08 in the program that supports those MOUs is \$1.29 million. The spending in the first six months is expected to be \$430,000 and \$860,000 in the second half. So we were underspent by \$290,000 in 2006-07 and that has been moved forward to 2007-08.

Senator O'BRIEN—So it was just over \$1 million and it has gone up to nearly \$1.3 million as a result of the carry-forward. Is that right?

Mr Burns—That is correct.

Senator O'BRIEN—And most of that expenditure is back-entered into the second half of the financial year?

Mr Burns—Correct.

Senator O'BRIEN—Why is that?

Mr Burns—As I was saying when I ran through some of those other projects, it is about seasonal issues. It is about when the trade happens. If we are looking at improved facilities for unloading sheep or abattoir facilities et cetera, the peak demand of that is in the latter end of the calendar year, so the expectation is that we would be spending more in that second half of the calendar year.

Senator O'BRIEN—How much are you spending in the second half of the current financial year? What is the budget there?

Mr Burns—\$1.4 million was the estimate for 2006-07.

Senator O'BRIEN—That is before you carry forward, is it?

Mr Burns—Yes.

Senator O'BRIEN—\$250,000 is it?

Mr Burns—Yes.

Senator O'BRIEN—So \$1.15 million, and you do not know how it splits, first and second half of the year, given your comment about the coming financial year?

Mr Burns—The trend has been that we have probably tended to spend two-thirds of it in the second half of the year rather than the first half of the year. That seems to have been the pattern for the last couple of years.

Senator O'BRIEN—How much has been spent on visits by the chief veterinary officer and other staff to check the shipment of live animals to the Middle East and on the negotiations with a dozen or so countries? Is that that budget figure you were talking about?

Mr Burns—Most of those visits would come out of that budget, but we would have to break that down and give you the exact figures.

Senator O'BRIEN—If you could, thanks. I know you have said that there are a number of problems with funding Eritrean programs, but do you know what the cost of the Eritrean facility is?

Mr Burns—I do not know that off the top of my head.

Senator O'BRIEN—Do you want to take that on notice?

Mr Burns—Yes.

Senator O'BRIEN—The Keniry review recommendations led to the pledging of \$4 million over four years to assist animal welfare in around 10 Middle Eastern countries and the employment of a veterinary counsellor, Kiran Johar. What has been expenditure so far against that program?

Mr Burns—Again, I would take that one on notice.

Senator O'BRIEN—Could you detail the outcomes that have been achieved and how those have been monitored.

Mr Burns—One of our officers who has been going on these visits and working with a lot of this is chairing a session at the QMA conference. We were expecting to be on later in the day—

Senator O'BRIEN—So was I!

Mr Burns—But he will be here shortly. If you have particular policy type questions on the live animal trade, could we suggest that that be covered under the product integrity area, and we would definitely make sure that that officer is here then, if that is okay.

Senator O'BRIEN—I have a lot of questions on that area which I thought would be dealt with in the international section.

Mr Burns—It is only because of the change in times that we have got the problem of the officer not being here. He is currently, as I said, chairing a session at the QMA conference but will be finished in 15 minutes or so.

Senator O'BRIEN—Where does he have to come from?

Mr Burns—The Hyatt Hotel.

Senator Abetz—Senator O'Brien, if I can intervene here, I do not know where you are going with these questions. If it is information seeking, if it would assist you we should be able to organise a private briefing. If you want stuff on the public record, of course that is different. But if there is an inconvenience caused by the change in scheduling, through the minister's office we should be able to arrange that for you if it would be of assistance.

ACTING CHAIR—We are going to break for morning tea in about three minutes, so if you have a couple of other questions by that time the officer may be here.

Senator O'BRIEN—That is true.

Dr Samson—We will certainly try.

Senator O'BRIEN—I go to the question of contributions to international organisations. Which international organisations in this portfolio area is Australia contributing to?

Mr Burns—The International Division is responsible for the contribution we make to the United Nations Food and Agriculture Organisation. That is a commitment of \$8.5 million. You will see that under 'Food and agriculture' there are some other contributions to international organisations, but the one that this division is responsible for is FAO.

Senator O'BRIEN—Is that contribution paid in a lump sum?

Mr Burns—It is paid in a lump sum, generally in the first half of the year.

Senator O'BRIEN—How far ahead do we know how much we need to contribute?

Mr Burns—The pattern is that we normally find out in about November and we try and pay in July.

Senator O'BRIEN—So the current budget allocation is an assumption, is it?

Mr Burns—It is an assumption. Last time you might have asked some questions about why there was a variation, and there is usually a variation based on exchange rate movements and things like that.

Senator O'BRIEN—So we are paying less this year?

Mr Burns—Correct.

Senator O'BRIEN—If things stay the same.

Mr Burns—Yes.

Senator O'BRIEN—How much did we pay in 2006-07?

Ms Freeman—I think it was \$8.57 million.

Senator O'BRIEN—What exchange rate was that based on?

Ms Freeman—We do a split between euros and US dollars, so that is according to the UN payment formula. Our payments are made on the basis of that formula.

Senator O'BRIEN—What are you projecting the saving will be on current exchange rates?

Mr Burns—It is not a saving for our department, Senator. It is a saving for DOFA.

Senator O'BRIEN—You actually do not get to keep it. Are you saying you do not make that calculation, that you leave it up to them?

Mr Burns—No, we check the calculation.

Senator O'BRIEN—I take it that it is not a heavy staff load in this area, is it?

Mr Burns—I think we calculated the administration payment as 0.001.

Senator O'BRIEN—What about participation?

Mr Burns—Participation in the FAO is spread across the department in terms of officers visiting. The most obvious contribution is that we do have a staff member based in Rome and their main function is to liaise with the FAO. We have a range of meetings which officers attend. These cascade down from the conference which is held every two years when the minister goes and there are two councils which are held every year. Then there is a range of committees such as the fisheries committee. There is the Codex Alimentarius Commission that comes under FAO. There is going to be a range of officers who will participate in those activities, and of course there is all the briefing that is required to support that. In terms of the actual administration of the FAO, it is really just our payment. The rest of it is based on the policy debates that happen in the organisation.

Senator O'BRIEN—Is it the participation that is the real cost?

Mr Burns—Yes.

Senator O'BRIEN—Is there some assessment of what that costs?

Mr Burns—We have never sat down and calculated that. It would be difficult to do because for so much of what happens—for example, in the Codex area and in the International Plant Protection Convention—there is integral work happening in the department all the time on those activities. But they are guided by the rules that come out of those organisations, and from time to time they will attend meetings to discuss how those rules are being implemented.

Senator O'BRIEN—Does not each division that is involved have a budget for how much they need to spend on their work?

Mr Burns—I do not think that you could break it down and identify that.

Senator O'BRIEN—How much does it cost to have the officer based in Rome?

Mr Burns—We could give you the exact cost, but for most of the people we have overseas we do a rough budget of about \$800,000. That varies from city to city.

Senator O'BRIEN—Rome is not a cheap city.

Mr Burns—No, but not as expensive as Tokyo.

Senator O'BRIEN—It depends on how you look at the exchange rate. At about ¥100 to the dollar it is a bit better.

Proceedings suspended from 10.32 am to 10.50 am

Senator O'BRIEN—What is the budget for the International Agricultural Cooperation program?

Mr Burns—The budget for that is split between administered funds, which are \$650,000, and departmental money, which is roughly \$950,000.

Senator O'BRIEN—Is that spread evenly over the financial year?

Mr Burns—Yes. A lot of that funding is available for projects that might come up. What we tend to do is allocate out of the administered funds early in the financial year to make sure that that is spent. In the second half of the year, funding tends to come from the departmental funds.

Senator O'BRIEN—Is this a recurring program? What is its history?

Mr Burns—I think it has been in place since 1996. It was not in place before 1996, but it has certainly been over eight years, from memory.

Senator O'BRIEN—Is it just a DAFF program?

Mr Burns—Correct.

Senator O'BRIEN—How many staff administer it?

Mr Burns—We have one permanent staff who works on that, but they also work on the administration of what we call the Keniry money. So there is one person who is working on the various programs that we have. We could look at how we divide that up; I would say roughly the pure administration of it would be 0.7 of a person. There are other staff who work on putting together some of the actual projects. They might be in some of the bilateral areas such as looking at Chinese policy et cetera.

Senator O'BRIEN—Is there a four-year forward estimate for the program?

Mr Burns—There is. The 2008-09 figure is \$664,000 in admin money; for 2009-10 it is \$678,000; for 2010-11 it is \$691,000; and for 2011-12 it is \$705,000.

Senator O'BRIEN—What about administered funds?

Mr Burns—That was the administered funds. The departmental figure for 2008-09 is \$1.7 million; for 2009-10 it is \$1.7 million; for 2010-11 it is \$1.7 million; and for 2011-12 it is \$1.8 million.

Senator O'BRIEN—That is a doubling.

Mr Burns—Part of the increase there reflects money that has been reallocated from other purposes, I think.

Senator O'BRIEN—What other purposes?

Mr Burns—We were drawing some money out of the National Food Industry Strategy for the overseas posts; some of that money has moved back into our division permanently. I think some of that is appearing under that figure, but let me check that one for you.

Senator O'BRIEN—What work is going to be performed with the extra money?

Mr Burns—This year, for example, some of the money that we are spending on the APEC activities that are taking place comes out of that program. We have a lot of work that is related to capacity building arising out of some of the FTA negotiations—with ASEAN in particular. What tends to happen from year to year is that we have small projects and they tend to be

capacity-building projects. Sometimes you might get a larger thing—like the APEC issues this year—that does chew up a lot of money.

Senator O'BRIEN—So clearly there is no supplementation from government for that particular activity.

Mr Burns—No, not for that. We could give you a breakdown on how that is being spent.

Senator O'BRIEN—Which area deals with contributions for membership of the world organisations for animal health?

Mr Burns—That is the product integrity division.

Senator O'BRIEN—Is there a register kept somewhere within the department of the international organisations and contributions that are made to them?

Mr Burns—I would not call it a register, but management services I suspect would be able to extract all of those figures quite easily.

Senator O'BRIEN—Is that right, Dr O'Connell?

Dr Samson—We could pull that information together and get it to you if that would help.

Dr O'Connell—Yes, we could get that to you.

Senator O'BRIEN—If I give you a series of questions I have, maybe you can assemble the information. At some convenient stage, we might do it all at one time rather than piecemeal through the various divisions.

Dr O'Connell—Yes, we will try that.

CHAIR—Are there any further questions while we await the arrival of the department's next witness?

Senator O'BRIEN—Could you help us on quarantine issues upon arrival in Israel?

Mr Burns—No, I could not. I am sorry.

Senator O'BRIEN—What about the Libyan MOU?

Mr Burns—The officer who is on the way here is the expert on the Libyan MOU.

Senator O'BRIEN—And questions about issues in Egypt such as the MOU?

Mr Burns—He is our Middle East specialist.

Senator O'BRIEN—He is very valuable then!

Mr Burns—I can give you a more detailed answer on the persimmon industry. It is not known how many producers there are in Australia. Currently the Persimmon Industry Association has over 80 members spread all over Australia from Mackay to Melbourne and across to South Australia. There is very little data on the industry but it is thought that the Australian industry is currently worth about \$20 million, and they would like to expand into China.

CHAIR—Have you given any thought to future global food supply? Let me colour that up a bit: one of the most glaring statistics that came from the 2,500 eminent scientists when they put out that document a month or two ago was that within fifty years 50 per cent of the

world's population is going to be water poor. And we know that within 15 to 20 years 600 million people in northern China, because they are mining the aquifer which produces their food, are going to run out of water. Are any great minds, with a whole lot of vague PhDs, putting their resources into thinking through what all this means globally?

Mr Burns—There are a lot of minds turned to it—I do not know how great they are but—

CHAIR—It is not a very high hurdle to jump if you have to jump beyond mine, I can tell you!

Mr Burns—We do not do specific reports ourselves but we do see reports coming in from various sources. We have not put together a specific report on this issue but lots of people are looking at it.

CHAIR—Would the Office of National Assessments be thinking about that?

Mr Burns—I cannot answer that; I do not know.

CHAIR—Would it be something that you blokes ought to be doing something about? It is a problem. I do not know how they are going to manage world food supply if that is true.

Mr Burns—It would be an interesting issue to look at.

CHAIR—Thank you. You might give us a response on notice at some stage. Obviously, that is what the Northern Australia Land and Water Taskforce is all about. What is Australia going to look like in 80 years time given the scenario of climate change?

Mr Burns—In fact, Senator O'Brien was asking about the FAO before. That is something that they do, for example. We participate and look at those reports et cetera.

CHAIR—Welcome, Mr Morris, your reputation goes ahead of you.

Mr Morris—My apologies. I hope I can answer the questions satisfactorily.

Senator O'BRIEN—Let us return to the question. I was asking about the veterinary counsellor Kiran Johar. What has the veterinary counsellor's role involved?

Mr Morris—Kiran's job in the Middle East is pretty much the same as the job of our counsellors all over the world, and that is to represent Australia's interests and in particular the interests of this portfolio in advancing our market access and other issues in that region. Kiran represents our portfolio and the Australian government on agricultural issues throughout the Middle East region. I think he covers about 15 countries. A lot of his work, to be frank, in the last couple of years that he has been there has been very much focused on the live animal issues because of the significance of those issues in the region. He has played a very important role in terms of the negotiations of the memoranda of understanding that we have been doing in that region. But his work is not exclusively limited to that. He does pursue meat, horticultural and other issues as they arise.

Senator O'BRIEN—How is his position funded?

Mr Morris—After the Keniry review was completed and the government made its response to that review there was an allocation of money to cover a number of elements of the recommendations that came out of that review. Part of that was some technical cooperation

money of \$1 million a year and part was allocated to pay for Dr Johar's position. His position is funded out of the money that was allocated from that response.

Senator O'BRIEN—How far into the out years does that funding go?

Mr Morris—From memory, it was a four-year commitment. That is due to expire at the end of 2007-08—the end of the next financial year. At that point it would be up to the government to consider whether to extend both that money and any other money associated with the Keniry review.

Senator O'BRIEN—At this stage there is no funding beyond the end of 2007-08 for that position?

Mr Morris—As I understand it—unless there is a decision made between now and then to extend it.

Senator O'BRIEN—How much a year is the total funding?

Mr Morris—The total funding for the technical cooperation was \$1 million a year. For Kiran Johar's position—I might need to take that on notice unless any of my colleagues has the amount—it was of the order of \$400,000 or \$500,000, but we will give you the exact amount when we can.

Senator O'BRIEN—Are there any further plans to influence animal handling in the Middle East, other than the technical cooperation and funding of Dr Kiran Johar's position.

Mr Morris—The approach we take to handling and animal welfare issues in the Middle East is to try to influence the countries in the region to improve their handling conditions and the slaughter feedlot conditions in those countries. We do that through a combination of the efforts that Dr Kiran Johar makes in terms of travelling around the region, the money we put in through the technical cooperation money as well as working very closely with industry—Meat and Livestock Australia and LiveCorp, who also allocate money for doing technical cooperation activities and capacity building in the region. It is very much a joint effort between us and industry in terms of trying to improve those standards.

Senator O'BRIEN—What has been the cost of investigating shipboard compliance with marine order 43 and to investigating the high mortality shipments?

Mr Morris—That is a question that AQIS would need to answer because the compliance issues are covered by AQIS.

Senator O'BRIEN—I note that it is on the departmental website; you are saying that AQIS would be putting it on there.

Mr Morris—I believe so, yes. They are the ones who undertake those investigations.

Senator O'BRIEN—Does the department receive a copy of the full report of those incidents?

Mr Morris—AQIS is part of the department. Is that what you mean?

Senator O'BRIEN—Does this division receive a copy?

Mr Morris—Not as a matter of course; we do occasionally see them when we ask for them or when they are provided because we have become interested in a particular issue. It would depend on the circumstances.

Senator O'BRIEN—So the international division is not monitoring the way that animal welfare issues are playing out in the industry in that sense.

Mr Morris—We do monitor the issues in a general sense along with the product integrity area of the department. Animal welfare specifically sits within product integrity but, because of our active involvement in MOUs in general in the region, we of course take an interest in what is happening in those issues as well and work closely with both PIAPH and AQIS on those issues. To that extent, yes, we do take an interest in what is going on there.

Senator O'BRIEN—Dr O'Connell, I know you have only just come to the department, but how is all of this drawn together? Clearly this issue spreads across a number of divisions. It is, as I indicated earlier, an area in which there is high public interest.

Dr O'Connell—AQIS incident reports are provided to the product integrity division. That is where the bulk of the animal welfare issues are handled. The International Division works off on the policy implications of those. The linkage is there; it is just that the detail of those reports is really handled under product integrity. They will be available tomorrow to discuss that.

Senator O'BRIEN—So I will need to ask questions of AQIS and product integrity.

Dr O'Connell—Yes.

Senator O'BRIEN—In relation to that matter, can they be heard together. I am fearful that the usual thing will happen: I will ask questions of one and they will put it back to the other and then someone will say, 'Well, it's not really ours.'

Dr O'Connell—They are adjacent—one after the other—so I am sure we can manage to make sure your questions are covered at the time.

Mr Morris—We would normally have the International Division there too so if for some reason you have missed something in this part that is really relevant to us we can come to the table at that time.

Senator O'BRIEN—Has the July 2006 report on mortalities on all shipments been tabled, or is that another matter for them?

Mr Morris—That would be AQIS.

Senator O'BRIEN—Okay. In regard to the live export trade, can the department provide an update on countries with which Australia has signed memoranda of understanding?

Mr Morris—Yes, I am happy to do that. The only change from the last hearing was the addition of Libya, which was signed just this month—May 2007. I will remind the committee of the previous ones which were signed: the United Arab Emirates in December 2004; Kuwait in March 2005; Eritrea in April 2005; both Saudi Arabia and Jordan in May 2005; and Egypt in October 2006.

Senator O'BRIEN—Does the Egypt MOU cover all animals exported from Australia to Egypt?

Mr Morris—There are two MOUs with Egypt. The first is the standard MOU similar to what we have signed with other countries, which is the MOU requiring that all animals be unloaded regardless of the health conditions. That covers all of the animals covered under the normal AQIS legislation, which are all the major types—sheep, cattle, camels, goats et cetera. The second MOU with Egypt goes beyond the requirements that we have had in any other country. It requires Egypt to apply the OIE—the World Organisation for Animal Health—standards to the treatment of all animals that are unloaded into Egypt. It includes sheep and cattle. In addition to that, it also has some very specific conditions which apply specifically to cattle. These conditions go beyond the OIE animal welfare standards; they require a number of things, including things like tracing of the animals from arrival through to slaughter, as well as various requirements in terms of use of slaughter boxes and slaughter facilities and so forth. That just clarifies that there are those two different MOUs for Egypt.

Senator O'BRIEN—Since the suspension of the cattle trade to Egypt in February last year, there would have been a lot of activity with the Egyptian industry and government about ongoing arrangements, wouldn't there?

Mr Morris—That would be a question for the Egyptian government but as far as we are concerned there has been a lot of activity.

Senator O'BRIEN—I did mean the department, not the Egyptian government.

Mr Morris—It is hard for me to comment on what the Egyptians have or have not been doing. I can comment on what we have been doing and we have certainly been doing a lot, alongside industry, in terms of putting in place arrangements which would enable trade in cattle to recommence. As yet there has not been a recommencement of trade in cattle, and there will not be until we are satisfied that conditions will meet the requirements.

CHAIR—Are these cattle mainly for slaughter?

Mr Morris—Yes.

CHAIR—What is the traditional slaughter method?

Mr Morris—The slaughter process for cattle is that they go through a number of abattoirs—

CHAIR—Do they knock them or do they slit their throats?

Mr Morris—The traditional halal method involves slitting the throat and bleeding out to death.

CHAIR—That is a bit more untidy than a bullet in the brain and then slitting the throat and bleeding them out.

Mr Morris—It is different from the method we use in Australia, that is true.

CHAIR—Having done a few, I cannot imagine having to do it without shooting them first.

Senator O'BRIEN—So the trade in cattle remains suspended.

Mr Morris—Certainly, in practice the answer is yes, trade will not recommence until conditions are in place that will enable AQIS to be happy to certify that the conditions have

been met. Whether you regard that as a formal suspension or not you would have to ask the lawyers. But for all practical purposes it is not happening.

Senator O'BRIEN—So what safeguards need to be in place to ensure the humane unloading and slaughtering of cattle in Egypt, from our point of view?

Mr Morris—The conditions of the MOU require that the animal welfare standards, for one thing, as specified by the world animal health organisation, are being met. More specifically for us, we have had some additional measures put into the MOU that require there be an electronic means of tracing the animals through to the feedlot in Egypt. Beyond that there is further tracing of the animals from the feedlot through to the slaughter facilities so that we can monitor that the animals have actually gone through to approved slaughter facilities. There will be a limited number, and there are a limited number, of approved slaughter facilities in Egypt that we will allow to be used. In those slaughter facilities the animals have to go through a hall which requires the use of a slaughter box so that we can ensure that the animals are being handled and slaughtered in an appropriate manner. For one particular facility where there is more than one way to get into the abattoir we have required arrangements to be put in place so that there is an inspector approved by Australia to oversee the slaughtering of the animals to make sure they are going into the slaughter box and not onto the normal floor. They are the main arrangements that have been put in place to ensure that cattle are going through an appropriate process. We are open to other arrangements but at the moment they are the ones that are written into the MOU.

Senator O'BRIEN—I have been told that an ABC online news story on 13 April this year noted that the minister, Mr McGauran, said:

A memorandum of understanding governs cattle slaughtering in Egypt, but sheep can be sold privately.

Are there differing provisions relating to the sale of sheep and cattle in the MOUs with Egypt?

Mr Morris—Yes, there are. For cattle, there are the additional specific requirements that I mentioned earlier. For sheep, the only requirement is that the Egyptians apply the animal welfare standards specified by the World Organisation for Animal Health.

Senator O'BRIEN—In practice, does that mean that sheep can be sold privately for slaughter?

Mr Morris—That is correct.

Senator O'BRIEN—So the MOU does not differentiate between the treatment of sheep when sent to abattoirs or sold for home slaughter.

Mr Morris—At this stage all we require is that they meet the international standards.

Senator O'BRIEN—What does that mean?

Mr Morris—Under the World Organisation for Animal Health, they lay out a range of provisions in terms of the most appropriate means of handling sheep and transporting all animals—not just sheep. They involve ways of ensuring that there is available feed and water and that they are not mistreated. There is quite an extensive range of measures. We would be happy to provide a copy of the guidelines and standards if you would like to view them.

Senator O'BRIEN—Thank you. I accept that offer. In regard to a question I asked during the additional estimates in February this year about Australian sheep being sold in Egypt and being placed in the boots or on the roofs of cars to be transported, answer ID 06 was received and it says:

... the Minister ... wrote to his Egyptian counterpart, Minister Abaza, seeking advice on how the Egyptian Government intended to ensure that the undertakings agreed in the Memorandum of Understanding (MOU) would be implemented to avoid such practices occurring in the future.

Have you received a response from Minister Abaza?

Mr Morris—The letter was handed over by our ambassador in Egypt and me when I visited Egypt in March this year. At this stage, we have yet to receive a response.

Senator O'BRIEN—What assurances have been received from the Egyptian government that handling and slaughtering practices will have improved by the time the next shipment of Australian sheep arrive for the celebrations following Ramadan at the end of September?

Mr Morris—No further shipments are being sent at this point. We are still awaiting the advice from the Egyptian minister before we decide what will happen in terms of the next shipment.

Senator O'BRIEN—If there is no response by the end of August, does that mean that no shipments will be approved?

Mr Morris—I think we would have to make a decision based on the information we have at that point. It may involve information provided by someone other than the minister. At this stage we will have to wait for what advice we receive at the point of the next shipment. It would then be a decision for AQIS to decide on whether the legal requirements have been met in terms of issuing export certification health certificates.

Senator O'BRIEN—What is the minister's role in this?

Mr Morris—Did I say minister? I thought I said AQIS.

Senator O'BRIEN—I know you said AQIS. I am asking what the minister's role is, if any, in determining whether further shipments are permitted.

Mr Morris—When we get a response from Minister Abaza, we will consult with our minister on that response and ask him for his views in terms of the way forward.

Senator O'BRIEN—Does he have a determinative view in the matter?

Mr Morris—I do not think so. I think the delegated authority is with the Director of Quarantine. He passes that down through AQIS. It is probably more a question of AQIS, but I understand that the authority is actually with the Director of Quarantine and is delegated down to his delegate.

Senator O'BRIEN—I am keenly interested as to whether there is a deliberative view—if for no other reason than it might need to be exercised at times during a caretaker convention. If I could get an answer to that on notice, I would appreciate it.

Mr Morris—Okay. AQIS may be able to answer that when they are on tomorrow.

Senator O'BRIEN—Historically, what percentage of sheep go to Egypt for the Eid religious festival, for Ramadan, as compared to any other time of year? Is it most of them?

Mr Morris—The statistics I have seen would suggest that over the last two to three years all of the animals have gone for religious festivals. For example, 40,000 were provided at the end of last year just prior to the Eid. In the previous year, I think 35,000 were provided just before the Eid, and there were no other shipments of sheep in either of those two years.

Senator O'BRIEN—Do we know how many are primarily for private or home slaughter?

Mr Morris—We do not have an estimate of that.

Senator O'BRIEN—How does the department monitor shipments to Egypt to ensure compliance with MOUs?

Mr Morris—Obviously, the MOU has only been in force since October 2006—if we are talking specifically about Egypt, that is—and so there has only been the one shipment of sheep since that time. In fact, that shipment was a bit unusual in that it was diverted from another market, so it was a little unexpected at the time. Since then we have had reports of alleged poor handling practices, which Animals Australia have provided to us. The way we have responded to that is to raise those concerns with the Egyptian government, both at an official level and through the letter that the minister has written. We are waiting for that response before we decide on what actions we might take in the future. No cattle have gone over there, and so at this stage it is not a case of monitoring; it is a case of establishing the arrangements.

Senator O'BRIEN—What is proposed for monitoring future shipments?

Mr Morris—For cattle, we have a commitment in place that we will, for the first few shipments at least, if not beyond that, monitor very closely—that is, we will have people on the ground on arrival of those cattle to make sure that the new arrangements, particularly the specific ones for cattle, are being adhered to so that we can be assured that those measures are being met. We will do that at least for the first couple of shipments and then we will have to make a judgement as to whether we need to continue to do that in the future or whether we can rely on the systems in place.

Senator O'BRIEN—What about sheep?

Mr Morris—In light of the reports that came out of the previous shipment, I think we are going to have a look at what the Egyptians come back to us with and then we will have to make an assessment on how we manage that in the future. I should say, though, that because some of the sheep go to slaughter in an abattoir and some go to the private system they are fundamentally much more difficult to track and monitor than the cattle. There is always going to be much greater difficulty in monitoring what happens to the sheep than what will happen to the cattle.

Senator O'BRIEN—Can we only permit export for slaughter in acceptable facilities, as we do for cattle?

Mr Morris—That would be quite difficult, given the traditional marketing and trade patterns into that region. It would start to raise issues not just about Egypt but potentially about other countries as well, so in making a decision along those lines we would have to take

into account what happens more generally in other parts of the world and consider the precedent that might set.

Senator O'BRIEN—Are you saying that the issues about home slaughter will probably be the same in all of the markets?

Mr Morris—There could be some issues in other markets; that is right.

Senator O'BRIEN—Do we know?

Mr Morris—We believe that there are a combination of practices which occur in other markets. There is probably more home slaughter in Egypt than in other places, but it would not be unheard of in other parts of the region.

Senator O'BRIEN—We have not sought to implement an understanding that only abattoir slaughter will take place?

Mr Morris—For sheep, no; for cattle in Egypt, yes. Our approach generally in the region has been to ensure that the welfare of the animals is protected right up to the point of unloading and then to work with the governments in the region in terms of issues beyond the point of unloading. When it is the responsibility of the governments in those countries for the animal welfare generally in those countries, it is difficult for us to make demands on them which we do not have the power to enforce. Egypt is a somewhat unusual situation where we have gone one step further because of the problems that were raised there and we have sought to put additional requirements in place. But, generally, that is something that is very difficult to do in most countries because it goes beyond the powers that we have to control those issues.

Senator O'BRIEN—Who is paying for all of this activity to ensure that animal welfare concerns, as far as it goes, are being met?

Mr Morris—In Egypt or in the region generally?

Senator O'BRIEN—The region generally and Egypt specifically.

Mr Morris—As we said earlier, the main source of funding for us to work on this is obviously that Keniry money, and that is what we have been using. There are industry contributions that go into it as well through MLA and LiveCorp. But, fundamentally, it is a commercial activity and the money needs to be sourced locally by the commercial interests, the importers and other people in the region.

Senator O'BRIEN—But paying for the activities of the department: where does that money come from—off budget or out of industry levy?

Mr Morris—The activities of the department on the ground are paid for through projects which are funded out of the Keniry money.

Senator O'BRIEN—So that is off budget.

Mr Morris—My activities and the activities of officers of the department who are going over negotiating these MOUs is out of normal departmental appropriations.

Senator O'BRIEN—So it is all taxpayer money from the department's activity point of view.

Mr Morris—The same as any other technical market access issue that we work on; we work to advance the interests of our portfolio industries in terms of getting access to these markets. An important part of getting access to markets in the Middle East has been trying to reduce the risks in those markets. That is why we have been negotiating the MOUs and putting in place, as part of those MOUs, very explicit import protocols which provide certainty in terms of the requirements of those markets. So it is very much a risk management and certainty type procedure we are going through to provide greater assurance around that trade, which is worth hundreds of millions of dollars.

Senator O'BRIEN—Is it a profitable trade?

Mr Morris—That is a question for industry, I think, Senator.

Senator O'BRIEN—The department does not know whether it is profitable or not? Presumably it is, because people keep wanting to do it.

Mr Morris—I would suggest, going by the great demand by industry to continue to do it and to open new markets, that it would seem to be quite profitable. There was a review done by industry which talked about the overall benefits from the trade. There were a number of figures released at that time in terms of the overall value of the trade. If you give me a couple of minutes I have probably got a media release that was put out by the minister at that stage talking about that.

Senator O'BRIEN—You can vouch for that one's accuracy, can you?

Mr Morris—I can only report what was written, Senator.

Senator O'BRIEN—Yes; that is what I was worried about!

Mr Morris—There was a report done which was released on 12 July 2006 which talked about 12,000 jobs in Australia being dependent on the live animal trade, with wages and salaries totalling more than \$900 million, adding \$1.8 billion a year to Australia's gross domestic product. This is talking about not just trade to the Middle East but the live animal trade generally. It does not talk specifically about profit, but certainly in terms of contribution to Australian GDP and to employment of workers it seems to be contributing quite a bit.

Senator O'BRIEN—So presumably the information I am going to get about costs will tell me how much the department spends on animal welfare activities. What can the department do to enforce the MOU with Egypt in the case that it is not adhered to?

Mr Morris—The MOU is not a treaty-level document; it is a government-to-government agreement, so it is not legally enforceable internationally. All we can do is rely on the commitment made by the Egyptian government to the MOU and by the Australian government to the MOU, and to use whatever force or push we can to make sure that they adhere to it. But at the end of the day the ultimate sanction we have is to not allow the trade to happen. Other than that it would be through the weight of government-to-government pressure.

Senator O'BRIEN—Has the department investigated the breaches of the MOU as documented by Animals Australia video footage?

Mr Morris—We certainly reviewed the video. There are concerns over a number of practices in there, and the approach we have taken, as I mentioned earlier, has been to raise those concerns with the Egyptian government and to provide a copy of the footage to the Egyptian government to review, asking them to provide a response to that so we can consider what our next steps may be. That is the process we have used to date.

Senator O'BRIEN—Do we know how much the live sheep export trade to Egypt is worth to Australian farmers? You gave a number of sheep: 40,000, and 35,000 the year before.

Mr Morris—I think I have got raw numbers here, but not the actual values. We could probably find out for you on notice what the value of that trade is. As I mentioned earlier, it was 40,000 in 2006 and 35,000—

CHAIR—What those figures will not show, Mr Morris, is the value adding that having the secondary outlet of live export does to the box meat. It is a supply and demand situation, and if we lost that market the other market would get a big pain in the guts.

Mr Morris—Yes, that is right.

Senator O'BRIEN—Perhaps you can give us the figures for box meat as well, then. In relation to Libya, on 7 May the minister announced in a media release that live exports are to start up after the signing of the MOU you discussed. He announced that under this MOU the industry will have to adhere to the highest animal welfare standards from the time the livestock is purchased in Australia until they are unloaded in Libya. Does the MOU include protocols for handling once the cattle, sheep, goats, camels and horses are unloaded?

Mr Morris—Not specifically. As I mentioned earlier, the only country where we have done something which goes beyond the point of unloading is with Egypt at this stage.

Senator O'BRIEN—So there are no protocols for the humane slaughter of animals exported to Libya?

Mr Morris—No. Our responsibility in the main is to ensure that the animals get there in the best possible condition and are unloaded in a way which ensures that their welfare is protected. Then, as I mentioned, we do pay quite some concern to what happens after they are unloaded in terms of working with the countries to try and improve their standards. But, as I mentioned earlier, it is difficult to take full responsibility for that when it is in another country's sovereign domain to manage that. So we have found that the best way to try and improve standards is to work with those countries to improve their facilities.

Senator O'BRIEN—All that tells us is that if the animals get there, apart from how they are handled in the voyage, the Libyans will allow you to unload them.

Mr Morris—Yes, which was obviously the key area of interest a few years ago with the *Cormo* issue, where we had that major concern about animals not being unloaded. So the focus of the MOU has been to ensure that when shipments get there they will actually be unloaded on arrival. There are some fairly general provisions in the MOU which mention that we both respect the OIE standards generally, but, as I mentioned earlier, Egypt is the only one where we have really gone the next step and started to try and impose on another sovereign government some animal welfare standards.

CHAIR—Are we formally signed up to an OIE protocol on that?

Mr Morris—A number of countries including Australia and Egypt are members of the OIE, the world animal health organisation. That organisation develops standards and then it is up to countries to decide whether they will apply those standards or not.

CHAIR—Are other countries we live-export to also signed up?

Mr Morris—Most of them are members of the OIE, that is right. We are going to be holding a workshop in October this year in the ASEAN region which will encourage ASEAN countries to adopt those world animal health organisation standards.

CHAIR—So that would be a good platform on which to raise the concerns that Senator O'Brien is alluding to, rather than trying to muscle their sovereignty?

Mr Morris—Absolutely. That is what we have also done in the Middle East. We had a very successful workshop there which has resulted in the Gulf Cooperation Council countries reviewing their animal welfare standards and looking at applying a higher set of standards based on the OIE standards. So that is the approach we have been taking, trying to work with those governments to get them to adopt those international standards. We are going to try and apply the same model now in the ASEAN region to try and improve the standards there. I think we are one of the few countries in the world being so active in promoting those standards that have been developed by the world animal health organisation.

CHAIR—I think I should just let the minister know we do not kill our own anymore.

Senator Abetz—Thank you for that.

Senator O'BRIEN—The monitoring regime for the Libyan MOU: what will it be? Is there one?

Mr Morris—The MOU is basically the same as what we have negotiated with the other countries I mentioned in the Middle East and requires the animals to be unloaded. So we will obviously be keen to ensure that happens. We are not anticipating any problems because the health of Australian animals is so high and the Libyans do want these animals. We are sending Dr Kiran Johar over there in mid-June or thereabouts, I think, to have a look on the ground and see what the conditions are. There will be an industry person with him, and as with other countries in the region we have made the offer to provide technical cooperation assistance to improve their standards and provide whatever assistance we can to improve facilities and so forth.

Senator O'BRIEN—Have there been any quarantine issues with shipments of cattle to Israel?

Mr Morris—I am happy to answer the question as best I can, but it is an issue that is with AQIS and perhaps when AQIS are here tomorrow either they or I can add a bit more. I understand there was an issue last year on Israel. I am not sure I have got the specific date here, but what had happened—as I understand it, and again it is probably best to get AQIS to give you more detail—was an incident where the number of deaths on board a vessel was above the normal cut-off, which I think is one per cent for voyages to the Middle East. So we had approached the Israeli government for information and advice on that particular shipment. I understand that we may have received a report from them in the last day or so, but at this

stage we are still analysing that report. I understand there has not been any problem since then, but could I please ask you to seek further details from AQIS.

Senator O'BRIEN—I am happy to do that.

[11.48 am]

Wheat Export Authority

CHAIR—We are now moving to food and agriculture, starting with the Wheat Export Authority. Would anyone like to make an opening statement? You do not have to.

Mr Besley—Not this time, thank you, Chair.

CHAIR—The less you say, the smaller the target is!

Senator Abetz—Speaking from experience!

CHAIR—Well, I don't mind being a large target. Mr Besley, it seems to me that a couple of things are quite apparent. The government has now adopted a new position on wheat, so I am not going to comment on that. But it seems to me that if the courts, the law and the truth intersected there would be a fair chance, if I were the judge, that there would be a few people going to jail over some of the stuff that went on at AWB. Your report reflects some concerns—and congratulations on your report—on, for instance, the Tigris matter. My understanding—and you correctly set this out in your report—is that there was a legitimate transaction with BHP through the pool, everyone got paid and it was what you would call a normal transaction in that BHP wanted to source some wheat and the bulk export provider provided the wheat and got paid for it. Is that your understanding?

Mr Besley—That is, yes.

CHAIR—Then I would have thought the next step that was taken, where there was collusion between AWB and BHP for whatever reason—whether it was just jiggery-pokery or God knows what—to recover that money through using the pool, was actually a fraudulent use of the pool. Do you think it was?

Senator Abetz—Can I just sound a note of caution here as to, whether somebody thinks somebody has been fraudulent or not, the request for an opinion, possibly a legal opinion. Also, I am not sure what the state of play is, whether people are still investigating—

CHAIR—I accept your advice; you are the lawyer and I am the welder. But my understanding was that an officer who at various times worked for AWB and BHP was involved in this business, and the money that was recovered through the use of the pool was used by BHP to retire a certain gentleman out of their system, and there was a commission paid by BHP to the pool for the provision of services. I have a view, Mr Besley, that, given that AWB Ltd is the provider of services to the pool, perhaps the payment, which could be seen as a facilitation fee or a bribe, should have been to Ltd; that there was no real capacity for the pool to accept a commission for a service it did not provide, because the services are provided by Ltd. Does the Wheat Export Authority have any comments or concerns it would like to raise about that sort of behaviour by a monopoly organisation?

Mr Besley—Two comments. First, on the issue you raised first, which the minister correctly said is something we should not comment on, I will just observe there is a joint task

force looking into all of that which was set up by the Attorney-General. Second, the comments that we have on that are on page 13 of our addendum to the *Growers Report*. The issue we raised there is whether in fact AWB acted outside its authority in inflating the contracts. So we have raised that issue. And also: was the subsequent authorisation of the transfer of funds to the national pool validly made? Again, we are commenting on why they say that was done and noting that while they claim it was to secure markets the Cole inquiry made it clear that that had nothing to do with securing wheat markets. So all we are doing is exposing the issue.

CHAIR—So you are powerless. I mean, it is not within the will or the legal wit of the Wheat Export Authority to in any way prosecute this further on behalf of Australia's wheat growers, who were obviously duded?

Mr Besley—No, all we can do is draw attention to it, and we have done that in as clear and frank a way as we can.

CHAIR—Can I also then take you to something else. During the Cole inquiry there was the identification of a parcel of wheat that was sold when Russia defaulted on a shipment to Iraq. In its wisdom, AWB—according to the evidence at the Cole inquiry—provided that wheat from the Argentine. They did not actually identify—I presume that was through the Geneva desk. Are you aware of whether that was through the Geneva desk?

Mr Besley—I think it would have been. I cannot answer specifically about the issue you raise—instead of a Russian shipment. But certainly quite a lot of wheat has gone through the Geneva desk.

CHAIR—In recent times, there has been some elevation given to the operations of the Geneva desk. There was someone else's wheat—was it Pakistani wheat?—that was identified. I think it was only 20,000 tonnes. Do you recall that one?

Mr Besley—Not that specific one. Looking back over the Geneva office operations—which as you know operates under business rules that give AWBI the power of veto over any sale, whether it is Australian wheat or other wheat—about 70-odd per cent of the wheat that has gone through the Geneva office in recent times has been Australian wheat. The other reason why wheat is sold through Geneva is if the credit risk is one that AWBI does not want to take. So it has raised in our minds, in light of recent information we have put together about Geneva, that it is an area that we need to give a great deal of focus to in our next review of what is happening in the AWBI-AWBL framework.

CHAIR—So the response to AWB, and the clambering from the mob on it being only 20,000 tonnes of wheat, was that it was only 20,000 tonnes of wheat and that is insignificant. But if it was a market that was identified by one of these box providers in Australia for Australian wheat, and then the box sale was vetoed and it was fulfilled with Pakistani wheat—or wherever it came from—the bigger issue for me on behalf of the wheat growers would be: what were the reasons that we did not fill it with Australian wheat? Could it have been that there was a bigger profit for the shareholders by going outside the pool? After all, the Geneva desk is outside the pool—all profits go to the shareholders as opposed to the growers. The response of AWB—and I notice they have a person sitting in the back of the room—was that there is the opportunity to veto this. Do you know, from the Wheat Export

Authority's operations of all of these sales through the Geneva desk, if you get the chance to look at this before the sale occurs or after the sale occurs?

Mr Besley—It is after. As I have said before in this forum, we report post facto. We do know that AWBI has exercised its power of veto seven times—I think we referred to a couple of them in the growers addendum report—and that is over a lengthy period. So all we know—

CHAIR—Of the Geneva desk?

Mr Besley—Yes, the Geneva desk. AWBI can under the business rules that apply to the Geneva desk—

CHAIR—Could you provide the details of those seven sales to the committee?

Mr Besley—We would have to check with AWBI but, off the top of my head, I would not see a problem in that.

CHAIR—I have some further questions but I should give Senator O'Brien a bit of a crack at it.

Senator O'BRIEN—I want to pursue something quite different. In April, Caroline Overington reported that AWB had incurred massive hedging losses on US wheat futures markets from both the 2005-06 and 2006-07 pools. The story was based on leaked minutes from AWB's corporate risk review committee which included four separate papers: 'AWBI Market View and Commentary (US COB Friday 29th September 2006)'; the minutes of the corporate risk review committee 5 October 2006, the same minutes for 12 October 2006; and the same minutes for 19 October 2006. The leaked minutes show that AWB was deeply engaged in abnormal and, according to experienced traders, absolutely massive speculative trading on the US wheat futures market. AWB took a punt that wheat futures prices would fall despite knowing that there were production concerns in Australia, Argentina and Brazil and that there was a sharp increase in US wheat futures prices. In the space of one week—between 29 September and 5 October—AWB had increased its bear spreads in the Chicago CBT by 920,000 metric tonnes, or nearly a 75 per cent increase in a week.

In that context, I wanted some comments in relation to this: according to the same article by Caroline Overington, the minister, Mr McGauran, was warned about AWB's hedging losses on 11 October last year during a meeting with the Pastoralists and Graziers Association of Western Australia and the minister said it was regrettable that these losses occurred. He goes on to say:

The strategy of hedging by AWB is well known to wheat growers and there is general acceptance that it has been overall to their advantage.

Would the authority agree with the minister's statement that AWB's hedging strategy is well known to wheat growers?

Mr Besley—I suppose it depends how carefully they read the *Growers Report*, because we do talk about it there. But that is the result, not the philosophy. Perhaps Peter could say something; I would like to say something general in a minute but, Peter, can you answer that?

Mr Woods—As part of AWB's overall management of the pool, they have a benchmark—the wheat industry benchmark. There is a hedging benchmark within that. The AWB International board also give maximum levels that can be hedged at any particular time. The

WEA is kept informed of those at the moment and we get monthly reports that go to the AWBI board on that.

Senator O'BRIEN—So you knew that this increased position was going to take place?

Mr Woods—No, we did not. We have only started getting these reports this year. On the actual hedging, the comment I would make is that at any particular time that any hedging strategy is put into effect it has an unwinding or an execution date. That date—let us say you were hedging futures—would be to coincide with when you expect to make some sales of that wheat. So on that particular day, whether it be tomorrow or nine months in the future, the prices are supposed to align with each other. The issue is if you unwind the position earlier: then you will get either a gain or a loss in the futures or options market.

CHAIR—So the loss from a hedged position can be accounted to the pool—right?

Mr Woods—Yes.

Mr Besley—Yes, it can.

CHAIR—But the difficulty we have got is that because of the funny business about the 2005-06 pool, which no-one has really fully owned up on yet—

Senator O'BRIEN—We will come to that.

CHAIR—We will come to that. What is the protocol? Given that that is normal business—that you hedge—if you hedge in a speculative way, is it from the Wheat Export Authority's view dodgy, shall I say, or unusual might be a better word, to present those losses to a pool prior to the one in which they hedged? In other words, if they hedged the 2006-07 position and ran a loss, is it all right to bill it to the 2005-06 which can be a completely different lot of growers with a completely different lot of wheat?

Mr Woods—The hedging policy that AWB services operate under on behalf of AWB International will not let hedges occur across pools as a transfer as you have just said. The particular hedge is written and documented on the day it happens for a particular pool. If there is a loss, it has to be worn with that pool.

CHAIR—So you can carry forward one pool into the next pool and achieve it that way?

Mr Woods—No, because that is a whole different thing. What you are actually doing is carrying forward wheat, so that comes up with the transfer pricing of wheat.

CHAIR—But that would be one way to cover off unusual losses.

Mr Woods—No. For example, if there are two million tonnes in one pool that is unsold and they are transferring it into the next pool, they have to organise a price for that. So the pool in the future, say the 2006-07 pool, has to pay that to the 2005-06 pool so that those growers get that benefit. Then that pool, the 2006-07, will hopefully sell that grain at a higher price than what was transferred or at the same price. But once it is transferred then that price is hedged under the 2006-07 pool. The hedging for that wheat does not transfer across pools.

Mr Besley—I think it is relevant to make the point that when we received those documents—like lots of people did—under cover of an unsigned letter, I wrote to the chairman of AWBI and said that normally I did not respond to unsigned letters but because the documents attached to that letter had been given fairly wide circulation, including to the

minister and other members of this parliament, I asked: 'What's the story, Ian?' That was in April I wrote to him, and I wrote to the minister saying that I had written and this is what I had said to the chairman of AWBI when I wrote. He came back to me recently with a letter which led us to conclude that we should write to the minister again—which we did—saying that we have had a letter from Donges which we believe is a reasonable explanation of what happened. We said in our correspondence that we were not in a position to comment on any alleged hedging losses for either the 2005-06 or 2006-07 pools; until each pool is closed we do not know the upshot. The 2005-06 pool is going to close some time in the next few months, we thought. The 2006-07 pool will close in 2008. Until that happens and we do a report on those pools—which, as I said, is a retrospective look at them—we cannot really come to a conclusion on whether the hedging losses were excessive or what they were and how much the pool got charged. Donges's response to my letter to him I think was a reasonable explanation. He said, in effect: you cannot take things out of context; they do not provide a comprehensive picture; there is a partial analysis of one component of the hedging structure—

CHAIR—Do you think any ordinary old wheat cocky out there would have any idea what that meant?

Mr Besley—I beg your pardon?

CHAIR—Do you think any ordinary wheat farmer would have any understanding of the mumbo-jumbo that is involved in all of that correspondence?

Mr Besley—It is a fairly complex issue that would not necessarily be something that the wheat farmers would be constantly studying.

CHAIR—You can say that again! Does the Wheat Export Authority believe that it has sufficient powers of discovery and access to sufficient information to make an assessment of the performance of AWB's management of the 2005-06 pool?

Mr Besley—Yes, we do. We can, as you know from that 2003 amendment, issue a notice requiring the production of certain documents, provided our request is specific and relates to what we have to do, which is to monitor the management of the pool. In that sense, we have got that power.

CHAIR—So when AWB says, 'We think we might have to have an audit of the inventory'—for instance—'of the durum pool,' what do you think that means? Do you think that means they do not know what they have got?

Mr Besley—I do not know that I could say what they thought it meant.

CHAIR—Are you aware of the fact that they have said that?

Mr Besley—No, not personally. Are you, Peter?

Mr Woods—An audit of the pool to me would mean that—

CHAIR—Of the inventory.

Mr Woods—Inventory is stocks, so they would want to know if their book value equals the stocks that they have sitting in a bulk handler.

CHAIR—You do not think it would mean that because they are getting to the bottom of the barrel—which is like the bottom of a dam when you discover whether it is full of mud or water—that it is an indication that they are not really sure if the wheat is there?

Mr Woods—That is a question that you would have to put to AWB.

CHAIR—I would have to describe some of the behaviour that has been discovered through the Cole inquiry as, at best, cowboy behaviour, which you would expect to be the lazy outcome of a very powerful monopoly. If a trader in the futures market—whether he was authorised or not—speculated in futures to gross up the outcome for the shareholders and himself, and they turned into as they say, custard, do you think that it would be fair that the pool and the wheat growers should wear the consequences?

Mr Besley—It is not a passive hedging policy. In other words, they have a policy to hedge, but they are allowed to take action to do better than might otherwise be the case if they did not take action. There have been a number of years in which they have earned quite a bit of money for the pool through their hedging policies. But what we have said in our growers addendum this time is that the essence of the situation is not that AWB mismanaged the hedging of the pool; the issues are more the world situation and the size of the Australian crop were changed, and to accurately manage price risk with volatile markets and weather requires crop information at levels which are difficult to accurately assess at a national centralised level. We tried to put it into a proper context. I do not think anybody expected the market to move as rapidly as it did.

CHAIR—If you were watching the weather you might have—especially the domestic market. For some, 2005-06 was a reasonable harvest followed by what I would call irreverently a bad harvest, and the domestic market, of course, was way ahead of the international market at one stage. At the time of the 2005-06 pool, world stocks were at an all-time low and prices were also low. At \$150 a tonne I can guarantee you that there is no money in growing wheat. It is just a joke. Whether it was the power of the providers of all the facilities to traders that allowed the stocks to be at an all-time low and the price to be more or less at an all-time low in 2005-06—you would agree with that, wouldn't you?

Mr Woods—I do not know that I would say traders let it get that way. Consumption outstripped production.

CHAIR—No, but global stocks were at an all-time low and prices were also at a reasonably historic low. Yes?

Mr Woods—They were at a mid sort of level; I would not say that they were at a low.

CHAIR—You can err on the side of caution; I do not want you to get a smack somewhere. Obviously if you were half awake here you could see what was happening with the season, so there was some anguish for people who were exporters who were not able to take advantage of the domestic situation. Wheat, like oil, works on import parity, so it seemed amazing to ordinary old cockies that they did not get rid of the whole 2005-06 pool because there was a world shortage. As I understand, there was still two million tonnes a little while ago sitting in the pool. In the circles in which I move that raised questions about what that really all meant. Do you have a view of why that was not cashed out? They would not have wanted to carry it forward into the next year's pool to protect their hedge position?

Mr Woods—I have already been to that; they cannot roll it into the pool to protect their hedge position. Any hedging they do on a pool is recorded for that pool and unwound for that pool. The two million tonnes that you are talking about—

CHAIR—I might be right off the mark, and I do not mind being told so, but, with respect, if there is a couple of million tonnes left in the 2005-06 pool you can actually sell that forward into the 2006-07 pool—right?

Mr Woods—Transfer pricing, yes.

CHAIR—Given the global lows of supply and price and, all of a sudden, the elevation of price if you established the transfer in the period when, for whatever reason—whether the market was being globally manipulated or what—price was not so hot, you could trade it forward knowing that the price was going to rise in the new pool, couldn't you? I mean, you could acquit it.

Mr Woods—If you were devious, yes.

CHAIR—And you would have the capacity to protect your position in that with a hedge position—in the new pool.

Mr Woods—They cannot do that until the wheat is actually in the pool because they have not set a price for transfer pricing.

CHAIR—The difficulty was—I do not know what the hedge position was; maybe some of these blokes at the back of the room can tell us—the next pool turned to custard. That would be the most polite way to put it—custard. The wheat was not there, so that 2005-06 wheat would have been very handy to determine a price and move into the next pool. You only get to know about this after it happens, don't you?

Mr Woods—It depends what you say we get to know about it. Consider the transfer pricing of, say, the two million tonnes across into the drought pool, we will call it—the 2006-07 pool. If you priced two million tonnes—let us pull a figure out of the air; it is nice and easy at \$200 a tonne. That is \$400 million and only three million tonnes was received into that pool. That is too big a price risk for a pool of that size to pay out. They have to pay out \$400 million to the 2005-06 pool so that growers can be paid. That is a price risk for that wheat.

CHAIR—I am not the mathematician.

Mr Woods—There is an issue there with that one. Regarding the two-million-tonne carryover, not all of it, as I understand it, was forward sold. But once October came and we all saw that the wheat crop had declined very rapidly in October—the best bets were about 10 million tonnes in total and we certainly did not get anywhere near that—the two million tonnes was used to supply markets that they could not, because only three million tonnes of export wheat was available.

CHAIR—Does the Wheat Export Authority have a view on the reporting obligations to the Australian Stock Exchange and to ASIC on holding those loss positions in the futures? Would there have been breaches of reporting obligations, do you think, given that they had the AGM and did not disclose it until the AGM? Should they have disclosed it earlier?

Mr Besley—I would not think so because if you look at the letter of response that I got from the chairman of AWBI he was in fact saying that this was all taken out of context and that you cannot deal with it on a bits and pieces basis; you have to look at the whole. There are a number of elements, not just the dollar hedging issues. As we have said, we will not know the final wash-up until the pool is closed. One other point that ought to be put on the table at this stage is that sometimes the closure of a pool is delayed to assist in the prices to growers. That has happened in the past. Indeed, the closure of this pool has been delayed.

CHAIR—Given that it was a complex issue that had to be seen in context, what was the context they put to you for the Tigris deal? Or is that a different context and a very complex issue too?

Mr Besley—We have reported on the Tigris one.

CHAIR—But what was the context that they put it in to you? How did they explain their little fiddle to you?

Mr Besley—They have now told us what happened and we have said that we do not think they acted with proper authority. All we can do is report that and we have done precisely that in our addendum to our growers report.

CHAIR—They did not offer you a context? They just said, ‘Oh shivers, we slipped up; we got caught.’

Mr Besley—No, they did not say that. We said, ‘Look, we want to know about this,’ because we did not know about it until it was exposed in the Cole commission. That is why a lot of what we are now dealing with has come about—because of the Cole commission. It had powers that we have never had and it turned up things which, when they turned up, we looked at.

CHAIR—Yes, it was good stuff.

Mr Besley—When the Tigris issue came up, we said, ‘What’s all this about?’ They told us what it was about and we said, ‘We’ve raised a number of questions including did’—

CHAIR—What did they tell you it was all about—as stated: that it was a way of getting their money back because they did not want it to be seen as a bribe?

Mr Besley—No, they did not say that.

CHAIR—What did they say?

Mr Besley—They simply said, ‘Here are the facts.’

CHAIR—And too bad for you!

Mr Besley—There was a debt to be recovered. We recovered it; we got a commission and the commission went into the pool. It had been spread over two pools. We asked why that was and we raised the question: did AWBL act within its authority, and was the subsequent authorisation of the transfer of funds from one pool to another one—

CHAIR—What was the answer to that? Did they act within their authority?

Mr Besley—We do not know the answer to that. We have just raised that question right now.

CHAIR—God help us! When did you find out about the break fee?

Mr Besley—I think we discussed that last time.

CHAIR—Just remind me because it was probably seen in the wrong context.

Mr Besley—What I said last time was that the revised services agreement—and there have been a number of services agreements—not the penultimate one but the one before that did have a termination provision in it. As I said when we talked about it last time, that was capped and it would not terminate simply because an agreement in similar terms was not entered into in the future. There were a number of much less onerous conditions in that agreement. The one after that did not have a termination clause in it but that was apparently an oversight. The one we are now talking about—which was given effect to in 2004—had these conditions of a break fee in it. We did not find out about that until the Grains Council—

CHAIR—And neither did the growers, so don't feel out of it. What would have been the circumstances under which they came to that arrangement? We had this farce where there were two boards which allegedly had this serious Chinese Wall between them, but we discovered during the Cole inquiry that they used to have joint board meetings. Did anyone disclose whether they had one of these joint board meetings to agree to this break fee?

Mr Besley—We obtained information as to how this negotiation took place. The dependent directors did not participate. We were concerned to know whether, as a matter of law, the agreement should have force and effect. So we went and got advice from the Commonwealth Solicitor. We said, 'This is what happened, can you inform us whether that means the agreement is valid or not?' The advice we got back was that it was validly executed; therefore it stood. That was one issue that we wanted to know about, and we cleared that up. To answer your question, we did not know that it existed—this is the agreement we are currently talking about, which runs until September this year—until the Grains Council, who had heard something about it, asked us to investigate. We did, and we found out that it was somewhat onerous and we reported on that to the minister. We also put out a press statement to say—

CHAIR—The word 'onerous', is that code for generous to the shareholders and not so generous to the wheat growers?

Mr Besley—I think 'onerous' is not a bad word.

CHAIR—That is my interpretation of your description.

Mr Besley—The other point I need to make is that it has always been understood, for a number of months now, that that agreement is to be renegotiated between the parties. The intention is that, once it is enforced, it will be made public and we will of course comment on it in one of our subsequent reports. But at this point, the negotiation of the new agreement, which was going to be in force around now and the months preceding this, is on hold pending the government's decision on future wheat marketing arrangements.

CHAIR—The poor old wheat cockies out there like the idea of a buyer of last resort and some sort of a safety net. As the goddamn Yanks say: the US farm gate aid program is their safety net. The episode in Iraq where there was the van with the suitcases full of cash: has the Wheat Export Authority looked at that episode in terms of whether it was beneficial to Australia's wheat growers that there was whoever he was driving around with a van with

suitcases full of \$US100 bills and doling it out wherever he pulled up for whatever reason? Did anyone account and acquit and audit that process?

Mr Besley—We did not. Our understanding is the money that was paid came out of the UN fund and that the contracts were authorised by the UN.

CHAIR—Given that the UN, it has been established, were in on the deal and they got whoever he was over in Cyprus under house arrest at some stage—the bloke who was vetting the contract had his hand in the pocket of the contract—would it be a reasonable expectation for Australia's wheat growers to say that the UN has ticked it off, therefore it is all right?

Mr Besley—I would imagine that would carry some weight—

CHAIR—Not for me, it wouldn't.

Mr Besley—but let us look at it from the point of view of what our role is. Our role is to see whether the management of the desk is being conducted in a way that benefits the growers. That is where I started on this whole trail two or three Senate estimates ago.

CHAIR—It has been quite a journey for you, Mr Besley; I hope you have enjoyed it. I will pass over to Senator O'Brien and then there are some others who also have questions, but the lesson out of all of this is that the oversight of the management of a monopoly and the Wheat Export Authority's role in the oversight was flawed in that you did not have the right capacity to do the job.

Mr Besley—I have said before this committee a number of times that the act is not only not clear, it is somewhat ambiguous. I have said that we strongly support Cole's recommendation that the role and responsibilities of any body that continues to oversight whoever it may be that has a monopoly export role should be thoroughly reviewed. We have said publicly in the growers report and in our annual report, which has been tabled, that that is something we strongly support. I said it here at the last Senate estimates hearing too.

CHAIR—So it would be fair to say that AWB Ltd had the ultimate power and as a consequence of it having ultimate power there were some corrupt practices.

Mr Besley—Those are yet to be determined by this task force.

CHAIR—Yes, right.

Senator O'Brien—I will return to the questions I was asking about the minister's statement that the strategy of hedging by AWB is well known to wheat growers. Do you think that AWB's hedging strategy is well known to wheat growers?

Mr Woods—No, I do not. Every hedging strategy is different depending on the crop, when it is coming in, your position on soil moisture, how much rain and what yield you are going to get—it is going to vary along the way. It also depends upon whether you are using futures or options and upon the hedging currency.

Senator O'Brien—Is that your explanation of AWB's hedging policy, or is it what you would understand to be a sensible approach to hedging?

Mr Woods—A sensible approach to hedging would be looking at all those things and coming up with: where is the crop at; what is the minimum estimate; are we within the bounds of where the board of AWB(I) say that we can hedge.

Senator Abetz—I do not think we should read too much into what the minister may have said there. Whether growers are aware of a hedging policy is one thing. The detail of their knowledge of how it all works may well be another thing. The minister made that assertion. Whether or not somebody else agrees with it—and who actually knows what is in the minds of the growers—is not something that anybody sitting at this table necessarily has a great deal of expertise in.

Senator O'BRIEN—Mr Woods seems to have some understanding of it, and I can understand you seeking to defend the minister. What I wanted to know is what the Wheat Export Authority's understanding of AWB's hedging policy is—and was at the relevant times.

Mr Besley—We know that the hedging policy is part of the WIB. We know it is one of the elements there. As I said to you last time, that WIB arrangement was set up by an independent consultant because AWB(I) said, 'We need to know how we are doing.' One of the elements of that is in the hedging area. We were given the opportunity—which we took—of talking to the consultants so that we could understand how they had come to the view that this was not a bad measure. So our knowledge is based on the explanation given to us by the consultant who independently structured this WIB.

Senator O'BRIEN—Doesn't it follow that growers would rarely have a clear idea of what the AWB's hedging strategy is, or how it might deviate from time to time?

Mr Besley—I think Peter just made the point that he did not think that growers in general probably would. AWB(I) does report regularly on what it is doing and so on. Those things are public documents. Whether every wheat farmer reads them and understands the hedging policy, I could not possibly say.

Senator O'BRIEN—We are having enough trouble. Is hedging otherwise described as a bet? Futures activities—

Mr Besley—It is not an uncommon method of doing business.

Senator O'BRIEN—Sure.

Senator Abetz—It depends if you call betting 'risk management', or not. We can play with words but I think we know what hedging means. It is, I think, an accepted practice.

Senator O'BRIEN—I did not say it was acceptable or unacceptable. It is a terminology that I have heard used to describe a futures transaction.

Senator Abetz—I think most people would take exception if they thought people were betting with their funds. Whereas if people were being told a risk management strategy was being undertaken with their funds they might be more disposed to smile kindly on such a transaction. The way we want to describe it is for us to determine.

Senator O'BRIEN—Are you aware—apart from describing the loss as regrettable—whether the minister took any further action regarding the hedging losses?

Mr Besley—No, I am not. As I said, we got a letter of explanation from the chairman of AWB(I), which we judged—

Senator O'BRIEN—When did you get that?

Mr Besley—Quite recently—9 May.

Senator O'BRIEN—When did the Wheat Export Authority first become aware of the hedging losses?

Mr Besley—When we got the leaked documents that, I think, were scattered around widely.

Senator O'BRIEN—Okay. When was that?

Mr Besley—It was in mid-April. Straight away we wrote to the minister and also to the chairman of AWB(I) saying, 'We've got these documents—what's the story?'

Senator O'BRIEN—You only heard about it in April.

Mr Besley—Yes.

Senator O'BRIEN—But the minister heard about it on 11 October last year, or earlier.

Mr Besley—Did he?

Senator O'BRIEN—That is what I have been telling you. That is what was in the article in the *Australian*. He was told during a meeting with the Pastoralists and Graziers Association of Western Australia. Having seen that allegation, did the Wheat Export Authority make any inquiries to see what was known more widely about this, given that apparently—according to that article—pastoralists and graziers knew about hedging losses back in October?

Mr Besley—Last year?

Senator O'BRIEN—Yes.

Mr Besley—I am blissfully unaware of that. As I said, when we had these documents delivered to us under cover of an unsigned letter, we took immediate action to let the minister know. We also wrote to the chairman of AWB(I) saying, 'What's all this about?'

Senator O'BRIEN—So if the minister knew in October, he certainly did not tell you?

Mr Besley—No, he did not—if he knew.

Senator Abetz—I can indicate that the minister did seek to be kept informed.

Mr Mortimer—The minister was aware of the allegation and the minister asked to be kept up to date from the department and from AWB(I). I made the comment earlier that the transactions were part of the management of the totality of the 2005-06 pool. In other words, how the pool outcome would end up was unknown. Mr Besley read the comments made by the chair of AWB(I) earlier, saying that this was part of their management strategy for the pool over a period of time, there would be movements within that from time to time, and it was too early to say what the pool outcome would be.

Senator O'BRIEN—What was the strategy in not advising the Wheat Export Authority?

Mr Mortimer—Pardon me.

Senator O'BRIEN—What was the strategy, given that the minister was aware of these allegations in October, of not advising the Wheat Export Authority of that intelligence?

Mr Mortimer—The Wheat Export Authority had no particular role to go and make an investigation at that point unless they had some serious material in front of them. What were being put around were comments and allegations. The extent of those was unclear.

Senator O'BRIEN—The allegation was that there was a serious impact on a return from a pool. That is information that I would have thought the Wheat Export Authority needed to know in their dealings with AWB.

Mr Mortimer—The Wheat Export Authority does not watch all the transactions that AWB makes through its management of the pool. It deals with the issues in light of the pool outcome. That has been explained a number of times here. The Wheat Export Authority would need to have some very clear and strong material in front of it to require it to go in and effectively do an audit or some such. Mr Besley read to you the broad thrust of the comments from Mr Donges about the situation as AWB(I) saw it.

Senator O'BRIEN—Some people might say, 'They would say that, wouldn't they?'

Mr Mortimer—Quite so, but on the other hand I think that it is fair to give the AWB the opportunity to put their position—they are actually running it.

Senator O'BRIEN—You are saying that there was a deliberate decision not to communicate this information to the Wheat Export Authority?

Mr Mortimer—No, I am not saying that at all. I am saying that the minister asked AWBI to keep him posted. We in the department briefed him and kept a watch on the issue.

CHAIR—When did they take the position?

Mr Mortimer—I cannot answer that; I really do not know.

CHAIR—Does anyone know? Does the Wheat Export Authority know?

Mr Woods—It depends which position you are talking about.

CHAIR—Some of the spectacularly out-of-bounds, likelihood of loss positions.

Mr Woods—The leaked documents indicate—if that is what you are talking about—that they were taking some positions on hedging risk in late September, early October 2006.

CHAIR—So the season would have already started to look like what it was going to be.

Mr Woods—If you remember, at that stage the crop was looking reasonable and in about two days it turned sour quickly.

CHAIR—With great respect, old mate, it did not look any good from the day we put it in. I do not know where your information is coming from. We had no subsoil moisture, so to say that is bloody outrageous. You would have had to have some sort of miracle. There was no subsoil moisture, with great respect, when we were putting the crop in.

Mr Woods—An inch at the right time would have rescued a fair bit of it.

CHAIR—Rubbish! The crop had already made up its mind that it was a dry year. It was about this high with about six grains in each head. That is nature at work. There was never going to be a big crop last year. Please go ask someone in the paddock. So, Mr Mortimer, that was not reported to the Wheat Export Authority and they would not have been able to do anything if they had got the information anyway. Do you think they should have reported that to the Australian Stock Exchange and ASIC?

Mr Mortimer—I cannot comment on that. That is a matter of Corporations Law in which I will not claim to be an expert.

Senator O'BRIEN—In relation to that, has the Wheat Export Authority undertaken any process to satisfy itself the AWB has complied with its disclosure obligations under the Trade Practices Act and the listing rules of the Stock Exchange?

Mr Besley—Specifically, no, we have not. We have had an explanation from Mr Donges, which, as I said, we judged to be reasonable, and we told the minister that. We will not really know until the pools are closed.

Senator O'BRIEN—Do you know whether ASIC has undertaken an investigation into AWB's hedging practices?

Mr Besley—No, I do not know.

Senator O'BRIEN—Has the authority had any communications with ASIC or APRA concerning AWB's hedge trading practices or disclosure?

Mr Besley—No.

Senator O'BRIEN—The addendum to your growers' report, the hedging analysis, is written in what I described as 'very plain' language. Why is that? Is that because you expect that it needs to be very plain to communicate to growers generally?

Mr Besley—We like to think that we do not make the report convoluted. We do not do that because we think that growers do not have much understanding. We just believe that it makes sense to produce a report which is easy to read and which, hopefully, is clear as to its intent.

Senator O'BRIEN—On page 5 of the addendum the authority described the hedge position as 'out of kilter' and, according to the addendum the key reason for that was that 'AWB(I) does not have this level of information about production in such a timely manner.' What information were you talking about?

Mr Woods—The ability to assess the wheat crop on a paddock-by-paddock basis the same as a farmer does. A grower can walk out into the crop every day and see where it is, as Senator Heffernan just said, and know his subsoil moisture and what sort of yield he will achieve given where he is at. That is on a very specific level that he can assess on a daily basis. AWB has to get that for the whole of Australia to be able to do that, and that takes a little bit of time.

Senator O'BRIEN—On pages 6 and 7, the addendum report concludes:

The essence of the situation is not that AWB(I) mismanaged the hedging of the National Pool. The issue is more that the world situation and the size of the Australian crop changed.

Are you suggesting that any underperformance of the pool is not because AWB mismanaged its hedging but because of drought and global supply? Is that what the authority is saying?

Mr Besley—Yes, we are. I do not think anyone expected the market to move the way it did as quickly as it did.

CHAIR—As I said earlier, the difficulty is that it is easy to be wise after the event and to be a smart Alec. But the world supply was at an all time low. As you said, the world price was a medium thing. Anyone who had a crop in the ground knew that mother nature had decided it was a tough season and the supply would not be there. It was just that the moon and the stars and everything lined up the wrong way.

Senator O'BRIEN—So, Senator Heffernan is saying that the authority's report in that respect is wrong. Do you accept that?

Mr Woods—No, I do not accept that.

Mr Besley—I actually did not hear him say that.

Senator O'BRIEN—The issue is more the world situation and the size of the Australian crop rather than hedging. Do you still maintain that that is the reason?

Mr Woods—Given our knowledge at that particular time, and I do not see—

CHAIR—Is that the reason for the increase?

Senator O'BRIEN—No, you are still saying rather than at that particular time. Do you still say that?

Mr Woods—Yes.

Senator O'BRIEN—Do you still say that that is the reason?

Mr Woods—Yes.

Mr Besley—Yes. This is a fairly recent report.

Senator O'BRIEN—I understood that, but the qualification was 'at that particular time', Mr Besley. So, I thought we had better be clear whether that was still the case.

Mr Woods—Yes, it is. If you are talking about hedging, it probably comes back to where we started. If as those leaked papers indicate there were losses on options and futures on those dates in the leaked papers, that does not mean there are still losses of the magnitude indicated then still sitting there for those positions.

CHAIR—They had a little punt that it was going to rain.

Senator O'BRIEN—A big punt.

CHAIR—That is what they did. I know from my own experience that wheat went from, say, \$160 or \$155 at harvest to \$300 in August because of the way the season looked. Mind you, that was on the domestic market. We took full advantage of that. They punted, and that is fair enough.

Mr Woods—That is your view of the world, Senator.

CHAIR—That is fair enough; it is fair enough to have a punt. They punted to protect the interests of the pool—that it would go the opposite way to which it did. It is not very complicated.

Mr Besley—It is in their interests for the pool to be successful anyway.

CHAIR—Yes.

Mr Besley—Because they have an out performance incentive.

CHAIR—They picked that median you were talking about. They did not necessarily want to catch the top of the market; it is a risky thing to do. You are better off trying to protect the bottom line rather than the top line, and that is what they did. It is just that it all turned to

custard. I am not sure whether it was all designed to protect the pool or whether some of it was speculative.

Senator O'BRIEN—What process did the Wheat Export Authority go through to satisfy itself that AWB(I) did not mismanage its hedge trading?

Mr Besley—As I said, we will not know whether for a particular pool—that is what we report on, a particular pool—over the length of that pool in total terms it was mismanaged.

Senator O'BRIEN—So how can you say in your report that the situation with the hedging is not mismanaged? That is what we are talking about, and now you are saying you did not have the information to say that.

Mr Besley—No, I am not saying that at all. I am saying—

Senator O'BRIEN—That is what you just said.

Mr Besley—At the end of the day—and we made the point very clear a minute ago—the upshot will not be fully known to us until the pool is closed. We are trying to make a comment here about what we saw at the time we looked at this, which does not mean that will necessarily be reflected in the final report we make on this pool.

Senator O'BRIEN—So the bulletin might come out saying, 'Sorry, we were wrong when we told you that they hadn't mismanaged the hedging.'

Mr Besley—It might. I do not mind admitting that I am wrong, Senator. Do you?

Senator O'BRIEN—No, I do not either. But you put out a report to growers saying, without qualification, that the essence of the situation is not that AWB(I) mismanaged the hedging of the national pool, but you are now saying you cannot yet know that.

Mr Besley—Given our knowledge at the time we wrote that, that was the view we had, and I maintain that was the correct view to have.

Senator O'BRIEN—But now you are saying you could not have had that view because you do not have enough information.

Mr Besley—No, I did not say that at all. We must report on a pool-by-pool basis. We therefore report on all aspects of that pool, including hedging. We do not know how that will be until the pool is closed. We were trying to give growers a view of the world as it stood at the time we wrote this. That was a view we honestly came to, and therefore we reported it. It does not mean—

Senator O'BRIEN—I find it absolutely amazing that you could say that then and now tell us that you cannot make an assessment until the pool is closed.

Mr Besley—You are talking about Granny Smiths and sturmers. I am saying to you—

Senator O'BRIEN—Apples and apples.

Mr Besley—But they are different apples. This small apple is a snapshot of that time. I am saying that we do not know about the big Granny Smith at the end of the pool.

Senator O'BRIEN—Some mature later, but they are all apples.

Mr Besley—That is right.

Mr Mortimer—The point Mr Besley made is actually in the paragraph above the one that is being discussed, if I can put it nicely, on page 6. It starts off talking about the time and speed with which AWB(I) unwinds its position. It then goes on to say that the outcome will not be known for almost 18 months, until some time in August or October 2008 when the WEA receives the audited national pool performance report from AWB(I). The WEA will then make its own assessment of the national pool performance. That is in the paragraph immediately preceding the one we are discussing.

Senator O'BRIEN—And it then goes on to say, categorically, that the essence of the situation is that there is no mismanagement.

Mr Mortimer—It is saying that there is a whole pile of factors that determine the outcome.

Senator O'BRIEN—That is doublespeak, Mr Mortimer.

CHAIR—The price of 2005-06 wheat peaked in the domestic market at about \$320 a tonne. What did the pool pay?

Mr Woods—It has not been finalised.

CHAIR—I know it has not been finalised, but what has it paid so far?

Mr Woods—Eighty per cent—

CHAIR—Of what? How many dollars a tonne has it paid?

Mr Woods—I could not tell you offhand.

CHAIR—Can you come back to us with a figure?

Mr Woods—I think we probably could.

CHAIR—Then you might let us know what is expected in the final payment; that is, how it is predicted to wind up. The 80 per cent is a much lower figure. There were unusual circumstances. Do not feel bad all together about this, Senator O'Brien. Shepherd's Siding cooperative went bust for the same reasons that these losses stood in the market. A whole lot of blokes at Dubbo lost their crop because the bloke they traded it with went bust for the same reason. He bought the wheat and did not offset it with another trade. He speculated and the market went like that and they all went the other way. Of course, one of the great beauties of the pool is that you bury all your mistakes and no-one ever discovers them.

Senator O'BRIEN—Would you agree with that, Mr Besley?

Mr Besley—With what?

Senator O'BRIEN—With the statement the chairman has just made.

CHAIR—No, do not get drawn into it.

Mr Besley—It sounded profound, but I would like to think about it.

Senator O'BRIEN—So you have taken that on notice. I am glad to hear that!

Senator Abetz—It does not mean it was.

CHAIR—We can all be wise after the event.

Senator O'BRIEN—So there is no evidence available to demonstrate that the AWB's hedge trading at the time was consistent with its hedging strategy. I think that is what you are saying.

Mr Woods—We have reports and have asked for and received only this week the complete set of documents that surround the leaked documents that affect the national pool. We are assessing them at the moment. But, at present, we would say that it appears that the hedging strategy was within policy.

Senator O'BRIEN—So, how long did it take for that material to arrive from the time you asked for it?

Mr Woods—Off the top of my head, about 10 days. That would be about right.

Senator O'BRIEN—Given that comment, I refer you to the minutes of meetings of the AWB risk management committee that have now been widely circulated in the community, and I take it from your earlier answers, have been seen by the authority.

Mr Besley—We certainly received a large bunch of documents under the cover of an unsigned letter, yes. I presume they are the same ones that have done the rounds.

Senator O'BRIEN—Throughout the document, AWB(I)'s traders use a term 'tactical deviations'. Does this indicate that the traders were operating outside of their hedging guidelines chasing speculative gains?

Mr Besley—As Peter said, we have documents that, on a quick scan, suggest to us that they were not operating outside their guidelines. But we have not finished our analysis.

Senator O'BRIEN—According to the minutes of the AWB's risk committee meeting held on 29 September last year, AWB was well aware of concerns about production problems in Australia, Argentina and Brazil, and that the long-term technicals were 'very bullish'. So, they clearly knew a lot about drought and global production problems. At that early stage—29 September—it seems that the rationale for the bear spreads had little to do with fundamentals, but that is not what your analysis shows you. Is that a fair comment?

Mr Besley—No, because we have only just begun to look at the documents we have only recently received.

CHAIR—Who is 'we'?

Mr Besley—The Wheat Export Authority.

CHAIR—Do you have a forensic accountant who does this?

Mr Besley—If we need to get expert advice, we will get that.

CHAIR—Who is actually doing the work?

Mr Besley—Peter and his team are doing that.

CHAIR—Do you have someone with a CPA or a forensic background doing the work? It would be like putting me in there; it would be a waste of time.

Mr Woods—Senator, we would not say you are a waste of time.

CHAIR—Do you have KPMG-type people on the job?

Mr Besley—We do not have in the authority a large stock of accountants, but we use a firm that provides us with accounting advice.

CHAIR—Which has forensic accounting skills?

Mr Besley—Yes, they do. And to the extent we need—

CHAIR—And you have the budget to pay for that?

Mr Besley—Yes, that is right. I think I have said before, it is a small organisation and we cannot afford to have all the specialists.

CHAIR—I realise that.

Mr Besley—It is more cost-effective to buy them in.

CHAIR—I realise that you are doing a difficult job. I commend you for your tenacity. You have a difficult job and a little team.

Mr Besley—Thank you.

Senator O'BRIEN—Going back to those documents, on 13 October, AWB's risk committee confirms that supply and demand fundamentals were tightening. According to the documents, AWB(I) increased its total long position in absolute terms on the Chicago Board of Trade by 920,000 tonnes, or by 75 per cent of its spread, in the space of a week. Are you saying that your initial analysis suggests that that is consistent with their trading policy?

Mr Woods—That is correct. You are talking about a specific day in that case, and we have not got down to that level yet. We need to keep digging at that level. As you have suggested, that may be a big turnaround and we want to ensure it is within policy.

Senator O'BRIEN—How long have you had those minutes?

Mr Woods—We got some documents earlier on this week. We are going to have to go back with more questions on trades on specific days and those sorts of things to ensure that we can report on what is going on.

Senator O'BRIEN—So, do you not really know or do you think they complied with policy? I am confused.

Mr Woods—At this stage, our view is that with the information we have, it is within policy, but we are digging deeper.

CHAIR—But you need more information?

Mr Woods—We need more information. You are talking about a specific day. The detail that we get at the end of the pool says what happens for different pools on different days, what futures they locked in at what levels and what options they have done.

CHAIR—Do you have the legal capacity to demand documents you need to make that judgement?

Mr Besley—We do, yes. But I have to say that the—

CHAIR—I take it that this is a tortuous process.

Mr Besley—If we have to issue a demand under a section of the act, it is. However, in recent days there has been a great willingness on the part of AWB(I) to provide the documents we have asked for.

CHAIR—That is very good. I note that during the Cole inquiry they kept providing all the documents that they knew to be available, but every now and then they said they had not looked in a cupboard, and another lot would come across and then another lot. I wish you well on your adventure.

Mr Besley—Thank you.

Senator O'BRIEN—Would the level of trading that is referred to be consistent with standard industry practice?

Mr Woods—What standard industry practice—the banking industry?

Senator O'BRIEN—The wheat industry.

Mr Woods—AWB is the largest; there is a monopoly. There is no-one in Australia that is similar against which we can benchmark and say whether it is standard practice.

Senator O'BRIEN—There are other big internationals.

Mr Woods—We would have to go overseas and get information from them. They do not like sharing that information because they are private organisations.

Senator O'BRIEN—So there is no information about whether that is standard practice?

Mr Woods—Not that we have at hand at the moment.

CHAIR—Is that private in that they are a public company?

Mr Woods—Yes.

CHAIR—So they are no more private than AWB.

Mr Woods—No, but to get an individual hedge position on the wheat market in Chicago or Kansas on any day is a difficult thing for someone to tell us.

CHAIR—My point is that you would think that they would not be likely to cooperate if you went over there, in much the same way that it is a very tortuous exercise to get an aggressive public company in Australia to cooperate.

Mr Mortimer—It is fair to say that all companies protect information about their commercial operations. AWB has clear reason to cooperate with WEA. But if you are Cargills—

CHAIR—I understand that. They are all tarred with the one brush. I understand that implicitly.

Senator O'BRIEN—I also refer you to the fact that on 12 October AWB the risk management committee concluded that the Chicago bear spreads were the key driver of the deterioration. In other words, by 12 October AWB's own risk management committee was conceding that its trading behaviour over the previous three weeks was the key reason for the losses, not the drought or the world situation. I find it hard to come to the conclusion that your statement in your addendum report is a reflection of fact.

Mr Besley—There is another issue—that is, how fast you do and are able to unwind your positions as things change.

Senator O'BRIEN—But this is their own risk management committee saying that.

Mr Besley—They are obviously saying that they did not do it fast enough.

Senator O'BRIEN—That is right. They were saying that the driver was their strategy, not the drought or the world situation.

Mr Besley—That is being brutally honest, I suppose.

Senator O'BRIEN—It would be good if your report was.

Mr Besley—Senator, I think that is a very unfair comment to make.

Senator O'BRIEN—I do not think so at all, because we have just had a debate about what you said.

Mr Besley—Well then, we will just agree to disagree, shall we?

Senator O'BRIEN—We just had a debate about what your report says. It says the situation is not that AWB(I) mismanaged the hedging of the national pool; the issue is more that the world situation and the size of the Australian crop changed. But their own risk management committee is saying the opposite. You are not prepared to accept that, but you are prepared to accept—

Mr Besley—As the chairman said say moment ago—

Senator O'BRIEN—Hang on, I will finish what I am saying and then you can answer.

Mr Besley—Okay, fine.

Senator O'BRIEN—You are not prepared to accept that, but you are prepared now to accept the top management of AWB(I)'s spin on the issue.

Mr Besley—I think the benefit of hindsight is a wondrous thing. We did not have those documents at the time we wrote this; the issue was not out and about as far as we are concerned.

Senator O'BRIEN—Concede that you are wrong.

Mr Besley—I stand by what we have written here. We will at the end of the season give a comprehensive report on how their hedging policy went.

CHAIR—Obviously you had to gather the editorial comments to take it to the printer. When did you actually assemble this document?

Mr Woods—In mid-March.

CHAIR—This year?

Mr Besley—This year.

Mr Woods—Just because the risk management committee has said that those particular bear spreads caused a problem at that time, that does not mean that that situation is now reversed. You cannot look at the situation on a particular day when you are trying to hedge something that could be nine months out. Of course, things will be positive one day and you

will have a gain on the futures, but the next day the market goes against you and you have a loss on the futures, so you have a margin call. It happens every day until it unwinds. It is when it unwinds on the day the product is sold—and that is the day you bought the products for—for it to unwind on the day you are going to sell the wheat, that the whole thing is summed up. You have to look at this in three separate areas: the futures are locked in separate from the foreign exchange and that is locked in at the price. You do two of those together to end up with where you want to be six or nine months down the track.

CHAIR—And then you are buried in the pool.

Senator O'BRIEN—And then you explain it as down to the drought or the world situation.

CHAIR—Then you are buried in the pool. Is that right?

Senator Abetz—That is a rhetorical question, no doubt.

Proceedings suspended from 1.00 pm to 2.04 pm

Mr Besley—With your indulgence, I had a memory jog over lunch. The minister did in fact write to us on 10 November last year and asked us for advice on how we thought the AWB(I) were performing in managing the 2006-07 pool to date. We wrote back on 22 November with some initial advice indicating we would be watching it, which we did and which has culminated in what we said in the growers report—the growers addendum.

Senator O'BRIEN—So he did not deal with the hedging matters?

Mr Besley—No. He just said, 'Tell us how you think they are going at this stage.' What motivated him I of course do not know, but that is what he asked.

Senator O'BRIEN—That is remarkable. Does the minister usually communicate with the Wheat Export Authority about any concerns he has?

Mr Besley—He does from time to time, but it is not unusual for the minister to write and say, 'How are things going? Give me a note. Let me know,' or for us to take the initiative and go back and tell him something, which obviously we did on the services report, for example, and on the leaked document.

Senator O'BRIEN—Yes, subsequently. But you did not get the leaked document until later.

Mr Besley—I know. But I am just making the point that we do not wait always to be asked. We volunteer.

Senator O'BRIEN—Sure. But in that case the minister had been approached about hedge losses in October and he wrote to you in November and did not mention that.

Mr Besley—Well, I do not know whether he had been approached in October. But the fact is he wrote to us on 10 November and we responded on the 22nd.

Senator O'BRIEN—In any case, he did not mention the issue of hedge losses?

Mr Besley—No.

Dr O'Connell—I would not want us to impute anything in terms of the intention of the minister in how he wrote. The scope, as I understand it, of the request would have also covered hedging issues.

Mr Besley—Yes. It was the whole management of the pool. But he did not specifically—

Senator O'BRIEN—He did not mention the hedge losses.

Mr Besley—He did not specifically single that out, no. And he could have said, 'This and this and this and this and this,' but he just said 'the management of the pool'.

Senator O'BRIEN—You may need to ask the minister, but can we have a copy of that letter?

Senator Abetz—We will take that on notice.

Senator O'BRIEN—In relation to understanding the relevance of that hedge action, which is described in the risk committee's minutes as 'bear spreads', you—that is, the authority—did not think to inquire of industry participants, major international players who operate here, about whether 900,000 tonnes in a week was a more than significant position?

Mr Besley—No. The answer is we did not.

Senator O'BRIEN—Do you think you should?

Mr Besley—Well, with the benefit of hindsight. But as I said earlier—

Senator O'BRIEN—I am not asking about hindsight. I am asking now. You are still assessing that.

Mr Besley—We are, yes. As I have said to you a number of times, we will not really know the upshot of all of this until the pool closes.

Senator O'BRIEN—Yes. But will you ask other industry participants who—

Mr Besley—Yes, we will. As part of our examination of the documents we recently received—only this week—which Peter referred to, we will, as appropriate, ask others about it.

Senator O'BRIEN—So Cargill and Louis Dreyfus have—

Mr Besley—But I think as Peter has also made the point, there are no readily available benchmarks. The point was made by a number of people, including the chairman of this committee, that people guard their information and their trade secrets—

Senator O'BRIEN—They may.

Mr Besley—so it may be difficult to get a benchmark.

Senator O'BRIEN—They may, or they may be prepared to—

Mr Besley—They may.

Senator O'BRIEN—give you the benefit of, without telling you which particular trades, the volumes they trade in.

Mr Besley—They may.

Senator O'BRIEN—But you will ask players like Cargill and Dreyfus?

Mr Besley—We will endeavour to find some way, other than our own forensic analysis, of seeing whether we can get a hold on whether that is reasonable in the circumstances.

Senator O'BRIEN—I understand you are saying that. I am asking a specific question. Will you ask players such as Cargill and Dreyfus what sort of volumes they would trade?

Mr Woods—As part of trying to provide a balanced PMR report and growers report to be produced in December, we will go out to the market and ask current people in the market what sort of volumes they hedge on a daily basis and what sort of tonnages they would sell in a year. That will give us some sort of comparison that we can look at. We will also as a matter of course seek independent advice from someone who is a specialist in this area.

Senator O'BRIEN—I draw your attention to that 12 October risk committee minute, which confirms that the AWB was aware of the drought and the impact it would have on domestic production, of production risks in Argentina and Brazil and of tightening fundamentals in the market. I draw your attention to the fact that, despite knowing these risks, AWB dramatically increased its exposure during that time. So as soon as is possible, wouldn't you think it is appropriate to go back to growers and advise them that the question as to whether AWB(I) was taking extreme risks in its trading behaviour is a question still to be answered and a question that has not been resolved?

Mr Besley—I think with these things we are on target about that because of the response we have had already from AWB, which makes the very real point that you cannot just pick a point in time. You have to look at the whole thing. So we would need to think very carefully. We would not want to be alarmist.

Senator O'BRIEN—I do not think saying that your position is that you have not come to a conclusion yet and that that question remains open is being alarmist, is it?

Mr Besley—Well, what would be the point of telling them that?

Senator O'BRIEN—Because you have told them something different which might lead them to a different view. You are on the record as saying it was not the hedge position; it is drought and world market situations.

Mr Besley—Yes. But we also said, as was pointed out by Mr Mortimer, that the whole picture would not emerge until the end of the period, and that is in the paragraph above the one we have spent some time looking at. They would have read that too, I assume.

Senator O'BRIEN—Yes. They would have read that too. If that is all you said, I do not understand you saying that. But you went on to say something much more definitive.

Mr Besley—Well, I think we will reflect on your advice to us.

Senator O'BRIEN—My suggestion is that growers deserve to know. People are out there contemplating what they are going to do with whatever they get out of the current pool and all they have got to go on at this stage is your statement, which paints an unfair picture, in my view, of AWB.

Mr Besley—But what they are going to get out of the pool will depend on how the pool ends, not how it is at this moment.

Senator O'BRIEN—What they get out of the pool would assume they are in it.

Mr Mortimer—I understand the line of discussion, but it has never been the role of WEA to be advising growers throughout a pool season as to market information and market movements and potentially having the situation of becoming their guide in how they manage or hedge their crops or some such. I think you raise some fairly fundamental issues about the role of the WEA and, indeed, the responsibilities it has.

Senator O'BRIEN—But they certainly have a responsibility to be accurate and correct the record, don't they?

Mr Mortimer—Yes. We have had the discussion about the accuracy of the record and it has been put into context that the outcome for that pool is not yet known.

Senator O'BRIEN—Yes. The 2005-06 pool outcome is not yet known and one does not really know when the outcome will be known, does one?

Mr Mortimer—I think it does, actually, because only AWB(I), as manager and operator of that pool, has got the capability to determine that outcome.

Senator O'BRIEN—But we do not know. They determine what it is and when, in a sense.

Mr Mortimer—That is right.

Senator O'BRIEN—And we do not know when.

Mr Mortimer—Indeed, that is the essence of the arrangements that we have. It seems to me mildly unreasonable to be suggesting that WEA should be coming in and telling them how to do their business along the way.

Senator O'BRIEN—Telling who how to do their business?

Mr Mortimer—AWB(I), for example.

Senator O'BRIEN—And who suggested they should tell them how to do their business?

Mr Mortimer—Perhaps I inferred too much in your comment that there was an issue that WEA should have a greater participatory role in the management of the pool.

Senator O'BRIEN—The WEA does not have a role in the management of the pool other than reporting to growers on how it is managed.

Mr Mortimer—Exactly.

Senator O'BRIEN—If there is an issue as to how it is managed, they should report it to growers, shouldn't they, Mr Mortimer?

Mr Mortimer—To the extent that they know and can speak with authority on the matter, yes.

Senator O'BRIEN—And they should speak with authority on the matter and they should not make statements which might lead growers to the wrong conclusion. Would you agree with that?

Mr Mortimer—Quite so.

Senator O'BRIEN—The article published in the *Australian* on 20 April quotes Peter McBride, the AWB spokesman, justifying AWB's hedge losses on the basis that the position of the hedge book had no material implications for shareholders if not 'material to our bottom

line.' That would seem to suggest that AWB's share price is immune to the negative impact of its hedging strategies, wouldn't it, Mr Besley?

Mr Besley—That is taken at face value. But that is not a role that we have anything to do with. That is the publicly listed company. It is way outside our camp.

Senator O'BRIEN—The chairman was talking about how he extrapolated that the hedge trade was about delivering benefit for AWB Limited, not the pool. Isn't that statement of Mr McBride consistent with the chairman's comment?

Mr Besley—I do not know what Mr McBride had in mind when he said that. You would have to ask him. From our point of view, we are concerned to see that the pool does not suffer from these things. That is what we look into at the end of each pool and will do again this time.

Senator O'BRIEN—Given the discussion about the AWB and the knowledge that the company would share in hedging profits through that, isn't it fair to say, in other words, that growers would be carrying the downside risk and share only a percentage of the upside risk?

Mr Woods—I would tender, if I may, that that is pulling hedging out of perspective. Of course, if there is downside risk, it is offset by the other side of the equation in the physical sales. One offsets the other, which is why you undergo a hedging policy in the first place.

Senator O'BRIEN—If the hedging policy is being followed and if it is a reasonable policy. But if the hedging policy is speculative, it is more likely to be about a benefit for the entity that gets a benefit if there is a windfall profit.

Mr Woods—If the hedging is proved to be speculative by AWB(I), there are facilities under the services agreement for them to seek recompense and be compensated by AWB Services.

Senator O'BRIEN—Who would have to prove that?

Mr Woods—That is a good question. We have not come to that yet. But certainly in our investigations as we go through seeking independent advice and talking, as you said earlier, to other companies who undergo this, we will have to write a balanced report on the PMR.

Senator O'BRIEN—So the potential is for a massive class action against AWB(I) or AWB Limited or both if the hedging were felt to be speculative, if it were felt there was a case to be put?

Mr Woods—If it were felt to be speculative, AWB(I) would have to take that to AWBS under the services agreement. It is for those two entities to sort that out.

Senator O'BRIEN—So growers would not have a say in the matter?

Mr Woods—If growers are concerned, I believe they should voice it through to AWB(I) so that they can put them at ease or say, 'Yeah, we agree with you. We're taking AWBS to task over this.'

Senator O'BRIEN—This is the body that has joint board meetings with AWB Limited.

Mr Besley—The growers have two means of redress. One is through the Grains Council, which is the umbrella body, of course. And they are shareholders who appoint the directors, so

they can go to the directors. We have encouraged AWB if it has a problem certainly to come and ask us if we can assist, as they did on the services agreement. But they also, in our view, have a role and they ought to exercise that role.

Senator O'BRIEN—I was interested that the chairman described the exercise as 'having a punt', because an experienced trader who has more than 15 years experience in the global wheat trading market has reviewed these documents and described them to my office as an absolutely massive punt and definitely not normal industry practice, this behaviour of AWB. The AWB pool manager is quoted in the Caroline Overington story as saying AWB 'had only a small amount of hedging in place and those losses might not eventuate'. What are the mechanics of avoiding those losses when the minutes of the AWB risk committee have already recorded a 'raw hedge loss for the 2005-06 pool as at 13th October of \$US200.2 million'? How do you avoid that loss?

Mr Woods—To my understanding—and we are only looking at parts of the documents and we are still reviewing the balance of them—we do not know what percentage of those hedge positions were unwound on that date for that loss or if that was a market-to-market value, and we are investigating that. If all those positions were not unwound, then that loss, depending on which way the market has moved, has either got worse or has improved and could now be in a position of gain. Until we have more information and know exactly where it is at, it would be unfair to comment.

Senator O'BRIEN—So how would that be achieved? By continuing a hedging strategy?

Mr Woods—Yes. The day you undertook to hedge, whatever position it was, on whichever futures exchange, was set in place because that is the day to expire—on the day you presumed you would sell a certain amount of wheat. It is a sum game on that day as to the price you get in the market, if it is close above or below your hedge point.

Senator O'BRIEN—Is it possible that the losses have not been recovered?

Mr Woods—Depending on whether the amounts of hedge were unwound on that particular day. That is what we are investigating.

Senator O'BRIEN—Is it possible the losses have grown?

Mr Woods—It depends on the futures market and, again, the hedges—whether they have unwound some, taken others, changed positions. Again, it is not whether there is a loss on a particular day. It is the endgame. What are you hoping to achieve by hedging? By hedging you will get losses and gains on any particular day in the market as the market moves up and down. You cannot look at it on a particular day. It is the day at the end you need to look at it. They are unrealised losses at that particular stage when they are market to market on a daily basis.

Senator O'BRIEN—So they are talking about the book value?

Mr Woods—That is my understanding: market to market, today. What is it when we walk into the boardroom? What are we going to tell the board? Here is our unrealised market to market value today. Tomorrow it could be different. It might have only been \$100 million. That is what we are investigating. We have to wait until the pool is wound up to see where it is all at.

Senator O'BRIEN—So that would require trades of a similar magnitude over time, would it? I do not see how you get back the loss on that volume unless you hedge that volume again in some other way.

Mr Woods—If you have not unwound your hedge, the market moves. If the market moves in the opposite direction to what caused you to have a loss, then your position is reversed and your loss declines and may turn into a gain. It depends on whether we are overhedged at the moment and we need to unwind some. So whatever you unwind on that day, you have realised the gain or the loss on that particular day.

Senator O'BRIEN—What does AWB mean when in April this year it deferred payment of the 2005-06 pool until after 30 June and said, 'The reason was to carefully manage supply throughout 2007?' What does that mean; do you know?

Mr Woods—That comes back to the earlier question that was raised about the two million tonnes. Rolling over the two million tonnes from the 2005-06 pool into the 2006-07 pool was seen to be too much of a price risk because you have a pool of only three million tonnes trying to pick up a value of two million from a previous pool. The pool was extended so the sales could be made and that price risk did not go across into a small pool. So it was for the sales to happen.

Senator O'BRIEN—I am still a bit confused. What advantage could there be to growers by AWB refusing to sell the 2005-06 pool to the world market with historically high prices and low world inventories?

Mr Woods—AWB's position that they indicated to us was that they had to look after some long-term sales. But I could not answer your question unequivocally at the moment.

Senator O'BRIEN—Did you ask them what they meant by 'look after some long-term sales'?

Mr Woods—The answer I got was: 'We are looking after our long-term sales to certain markets because of the small volume of the next pool.' It depends if you look at a physical price as 'maximise today' or 'maximise in the long term', and that is for—

Senator O'BRIEN—You take the loss on the 2005-06 pool because we want to keep markets for the 2006-07 pool or the 2007-08 pool; is that how I should interpret that?

Mr Woods—Well, what I am hearing is that you are saying because they did not sell it at the supposed top of the market, they have lost money. Again—

Senator O'BRIEN—Not necessarily. I am asking whether you can explain why they would not do that.

Mr Woods—Again, it comes back to the futures we were talking about. If they have already got some futures locked in and then they make the physical sales later, they may actually get the top of the market when each individual part is combined. We will not know, but the information they have told us is they are looking after the long-term sales of customers at the moment.

Senator O'BRIEN—The Wheat Export Authority does not investigate this? You have a consultant who investigates it. Is that right?

Mr Besley—We investigate it. To the extent we feel it needs more skills applied than we have in house, we bring expertise in.

Senator O'BRIEN—I thought your answers to the chairman's questions about a forensic auditor, a CPA, were indicative of your bringing someone in.

Mr Besley—Yes. I said we use an outside accounting firm to assist us with our financial stuff on a regular basis. They do have skills of the kind we think we need. But if they do not, we will then take someone else in.

Senator O'BRIEN—Who has looked at this issue for the Wheat Export Authority so far?

Mr Besley—Well, nobody yet because we have only just got the papers.

Senator O'BRIEN—Have you got the expertise to assess what you are being told so far?

Mr Besley—We will see what we think of it when we analyse what we have got and decide whether or not the resources available to us, including the accounting firm we use, are sufficient or not.

Senator O'BRIEN—You got the documents in April?

Mr Besley—No. This week.

Senator O'BRIEN—This week?

Mr Besley—This week.

Mr Woods—This week we got extra information from AWB. But we will be going back to them asking for more information because this is an area that we need to look at very closely. We need to get sufficient information to be able to start assessing things correctly. It depends on the questions you ask and what you get back.

Senator O'BRIEN—Exactly.

Mr Woods—Sometimes you need to ask more questions to then say, 'Okay, we believe we've got enough information. We'll talk to someone now that we've got this all in perspective, because it's out of our depth.' But at the moment we are—

CHAIR—Mr Besley, the documents have turned up this week. Obviously you have not had time to peruse them yet. Were they requested or volunteered?

Mr Besley—We asked for them.

CHAIR—How long ago?

Mr Woods—Only about 10 days ago.

CHAIR—Have you got increased powers to what you had when we first started down this path three years ago or are you operating on the same set of rules?

Mr Besley—No. The amendment in 2003 was what gave us the powers of requiring legally to get documents. We have not had to use it more than once, but nothing has changed since then.

Senator O'BRIEN—So when is the 2005-06 pool expected to close?

Mr Woods—At this stage we do not know—only what has been in the media. June or July.

Senator O'BRIEN—Unless AWB decide to extend it again.

Mr Woods—That would be their choice.

Senator O'BRIEN—When is the 2006-07 pool expected to close?

Mr Woods—It would normally close in April 2008.

CHAIR—How much is in it?

Mr Woods—It has 3.1 million tonnes.

CHAIR—Do we know how much got forward sold in anticipation of a bigger one which could be made up through the Geneva desk?

Mr Woods—It is in the documents that Senator O'Brien has been asking us questions about. They say how much of the 2006-07 they hedged in that, or certain sections of it say that.

CHAIR—I am asking how much they physically sold forward. Three million tonnes is a pretty small harvest.

Mr Woods—I do not know. I have not got that information at the moment.

CHAIR—Did they provide you with that information? Would they if you asked?

Mr Woods—Yes, they would. They do give us forward allocations and shipments.

CHAIR—Have you asked?

Mr Woods—At this stage, no.

CHAIR—Would you like to?

Mr Woods—We will be.

CHAIR—Because it would be an indicator of what is going to happen to what is left in the 2005-06 pool if they are way out. That could happen to anyone. It is no big deal. It is just that if they anticipated a 10-million tonne harvest and end up with three, it could leave you, as it surely left a lot of small private traders, in a deep hole.

Senator O'BRIEN—So you do not know what the impact of hedging losses will be for 2005-06?

Mr Woods—We do not know what the hedging losses are until the whole position is finalised.

CHAIR—Will you know when it is finalised, or will it be just buried in the paperwork of the pool?

Mr Woods—No. It will not get buried in the paperwork. Certainly with the interest there has been in this we will be taking a very close look at it and asking extra questions on it. We will be seeking an external consultant to go through the areas that we are not comfortable with.

CHAIR—When you finally report to the wheat growers on the outcome of the 2005-06 pool, if there is an offset to a loss in the pool dollars per tonne, you will identify that in dollars per tonne, will you?

Mr Besley—We do that. We get an audited statement when the pool is closed. That is some time after it is closed, by the way, so we will have all the information we need.

CHAIR—Would that be around before March next year, when there is a repositioning apparently going to occur in how we do business with our wheat?

Mr Woods—It depends.

CHAIR—Could you insist that it is?

Mr Woods—The 2006-07 pool will not be around by then.

CHAIR—2005-06?

Mr Woods—2005-06 has been extended. But we have asked for early information unaudited so we can start looking at some things.

CHAIR—It would be fruitful for wheat growers to have that information before the autumn of next year when—

Mr Woods—The 2005-06 growers report will be out in late December or early January. It will be on our website before the end of December.

Senator O'BRIEN—If the pool is closed.

Mr Woods—We will have a PMR report regardless.

Senator O'BRIEN—Regardless. What will you tell them?

Mr Besley—Whatever we can.

Senator O'BRIEN—What can you tell them? You are telling me that until the pool is closed you will not know whether there are hedge losses.

Mr Woods—That is one part of what the WEA is doing. As you have seen with our documents now, we are trying to do some things—provide information on current issues, stakeholder issues. There are other things we are looking at that do not just revolve around the 2005-06 pool.

CHAIR—I think you are doing a lot better than what was the case some years ago.

Mr Besley—Thank you.

Mr Woods—And we are trying to provide a lot more information. We hope that it is creating debate like it is here today.

Senator ADAMS—Nice to see you again. As far as maximising growers' returns, I would like to ask a question. Under the current legislation, would you recommend to the minister an application which comes before you with a higher return to growers than the actual pool?

Mr Besley—As you know, we have guidelines. We would have to assess it against those guidelines, which we have done. It is a bulk application, I guess. We have done that with all the 78 bulk applications we have had so far. There are a whole lot of issues in the guidelines. We would go through them and then come to an informed view and give the minister our recommendation. He would then in turn make his mind up on public interest grounds.

Senator ADAMS—Getting around to public interest, there is clause 57(1)(a) in the current act. Do you believe that it is in the public wheat growers' interest that AWB(I) should be exempt from applying for an export licence?

Mr Besley—Well, that is a policy issue. The government has gone to the parliament. The parliament has made that decision. It is not up to us to give policy advice.

Senator ADAMS—I will go to another one. I do not know whether this is going to receive the same answer. Section 5E of the current act deals with confidential information. It is on page 6 of the Wheat Marketing Act. It is the same as you have there. I ask the Wheat Export Authority: do you believe this clause has caused your organisation to be restricted in its role as far as commercial-in-confidence reporting?

Mr Besley—I do not think so. We have two roles in terms of reporting. One is to the minister, which is a confidential report so there is no worry about running the risk of breaching confidentiality because we do it in a confidential report. But it does mean that when we do the growers report we cannot put in some of the backup information that goes into the report the minister gets. There is no difference in substance between the two reports, but the one to the minister does contain confidential information, backup information. But the substance of our findings is conveyed to growers in a publicly available report. So I do not think it has.

Senator ADAMS—My second part of this question is: do you think that these clauses have affected your performance on past issues as to reporting?

Mr Besley—No. I do not think so. I think the problem that I have with the act is that it is not sufficiently clear. I have made this comment before here—

Senator ADAMS—Yes. I realise you have. There is a reason now why I want to get a little deeper with this.

Mr Besley—As I said to you, and we said in our annual report and the growers report, we strongly support Commissioner Cole's recommendation that there should be a thoroughgoing review of the powers and responsibilities of whoever it is that monitors the owner and operator of the single desk—whoever that is—because there is a great lack of clarity. I think I have said to Commissioner Cole that people tend to judge us on the basis of what they think we should do, not what we are allowed to do under the act.

Senator ADAMS—Yes. I have actually supported you quite a lot outside in the public arena on exactly that—what the Wheat Export Authority was doing. I have said, 'Well, unfortunately, they're constrained by the act and they can only do what the act states. They can't go outside that.' I have been looking at the legislation as far as amendments go. The jail term really was quite frightening. The fact is that if anyone does divulge information, be it you, your staff or even the minister, there is a problem with a penalty of imprisonment for a year. I just think that is—

Mr Besley—Fairly draconian.

Senator ADAMS—That is right. Do we need this type of legislation? I wonder if it had caused a problem. I move to AWB(I). AWB(I) is currently exempt from the Trade Practices

Act. That worries me. I wonder if this would have made a difference with the problems that we have had in the past with Cole.

Mr Besley—The reason it is exempt is for the competition provisions of the Trade Practices Act. That was a decision that the government took to the parliament and the parliament agreed with that when they passed the legislation. But if you are talking about other provisions of the Trade Practices Act, such as false and misleading conduct, Commissioner Cole would probably say it is a pity that that part of the act did not apply to AWB. That is the only comment I could sensibly make on it.

Senator ADAMS—I turn to more recent occurrences. I was interested in the 2005-06 crop. I wonder how the Wheat Export Authority is going to cope with the next issue. AWB get full control of the marketing of the 2007-08 crop. As we are all aware, a lot of people think that that is it—it is cut off at 2007-08. But of course there may be parts of that crop that still have to be marketed further when this new entity takes over. So they take over on 1 March, whoever or whatever or however they establish themselves. Where do we go from there as far as the grain that is already there? Is that transferred to that entity? Just what would happen?

Mr Besley—I think that would be a good question to put to the department.

Mr Mortimer—It is something that remains to be determined by the government. As you point out, the government has announced a position on wheat marketing for the way ahead. Indeed, it has said there could potentially be a variation in the marketing arrangements for the 2008-09 crop. But until they are in place and settled, it is hard to really say much about them. I guess it would be fair to say that if there was to be change, there would need to be transitional arrangements that would need to take account of the pool arrangements in place. I think behind that there would be some issues. If, for example, growers had delivered wheat into the pool in 2007-08 under conditions announced and settled at that time, it would be hard to imagine that they would not be grandfathered in some shape or form. Beyond that, I think it is not possible to say anything.

Senator ADAMS—I am from Western Australia and I am a wheat grower. My phone and my emails have been running hot because people are very, very concerned about putting their grain into AWB. So WA is going to end up in a worse position than it was last year with the wheat warehouse. Under this, they do not know who will be running the pool in 2008. This is the problem with this type of trading. It is not a cut-off. You cannot just cut off on 1 March and that is it.

Mr Mortimer—Something the government needs to, and will, deal with through its processes is to set out those—the minister made a statement yesterday. I am sure there would be further work on them. It is something that the government is determined to work through over the period ahead.

Dr O'Connell—At this stage, it is simply something we are not able to comment on here. It is a matter of how that policy is fully developed.

Senator ADAMS—I had a lot more questions on it. But if that is the case, I will hand back to Senator O'Brien while I think about it.

Senator O'BRIEN—I go to the Wheat Export Authority report addendum. Analysis indicates at that time that the 2005-06 pool should have risen by \$13 to \$14 a tonne, which equates to a loss of around \$200 million. Can you in simple terms explain why the price did not achieve that level?

Mr Besley—No. We cannot. Our role is to report. We have done that. As you would see, we have tried to draw a comparison between two similar periods. We have concluded that if that similarity existed right across all issues of those two similar pools, they ought to be in that price rise. But we cannot explain why.

Senator O'BRIEN—That is without knowing all about the hedge losses, or was it including them?

Mr Woods—We did not know the hedge losses at that stage.

Senator O'BRIEN—That is what I thought.

Mr Woods—Again, the hedge losses are a specific day. So until the pool is wound up, we are just saying it looks to us like there are anomalies there at the moment and we need to be aware of it.

Mr Besley—Do not forget that those losses are not all realised losses.

Senator O'BRIEN—When the call comes out, if they still hold the position, you will be able to make a final judgement. Do you know at the moment if there are book losses?

Mr Woods—We do not know. They are market to market on a daily basis.

Senator O'BRIEN—So your position on the \$13 to \$14 a tonne underperformance was based on an historical analysis of pools, as I understand it. Is that right?

Mr Besley—That is right.

Senator O'BRIEN—Is there any reason you would depart from that methodology now?

Mr Woods—The methodology was to look at the interaction between pools and drought. The only way we could look at that was to look at the last drought in 2002-03 and what happened to pools between 2001-02 and 2002-03. It is a very simplistic look because we have only used one indicator. There are all sorts of other things in there that complicate it. We are trying to write different reports. We are trying to inform people—'Here's where we see things at the moment'—and put it out there. At times we will get it wrong, but at least we are trying to keep people informed.

CHAIR—Hunter Grain brought in two 50,000-tonne loads and they dropped the price \$50 a tonne in about three weeks. That is what happened. We referred ourselves to the global market.

Mr Woods—Yes.

CHAIR—That did not happen this time.

Senator O'BRIEN—On 13 March, AWB announced that the 2006-07 estimated pool returns were revised downwards by \$4.50 per tonne and the 2005-06 estimated pool return was revised upwards by between \$1 and \$2 a tonne. Those figures are not reflected in your addendum report, are they?

Mr Besley—No.

Senator O'BRIEN—On 16 April, AWB announced that all pay grades for the 2006-07 pool were revised downwards by another \$3 a tonne. Has the authority carried out any analysis of that new information in relation to the performance of the 2006-07 pool?

Mr Woods—No.

Mr Besley—No.

Senator O'BRIEN—Would you normally have done so?

Mr Woods—No. Again, we started to go down a different path at the WEA. We have always looked at things completely retrospectively. Previous to the last two reports, they have only had information on the pool that they were looking at. For example, we have only just finished reporting on 2004-05. So in December 2005, we were looking at the 2002-03 pool and that only reported on 2002-03. There were no current issues, from my recollection. I had only started a month prior to that at the WEA. There was nothing on stakeholder issues or anything. It was just the 2002-03 pool. We have tried to put all sorts of other information in there to make what we do current and relevant to growers today.

CHAIR—What is the EPR for 2006-07?

Mr Woods—For which grade?

CHAIR—AH2, APW1 or something.

Mr Woods—Okay. APW 2006-07 at the moment is unchanged on 14 May at \$234.50.

CHAIR—For?

Mr Woods—For 2006-07.

CHAIR—So that would be \$200 per tonne.

Mr Woods—GST exclusive.

CHAIR—And the domestic market is still \$50 to \$60 per tonne dearer than that, even though it is coming back.

Mr Woods—It is coming backwards.

CHAIR—It was \$120 dearer than that at one stage.

Mr Woods—Yes. In answer to your earlier question before lunch, depending on what grade, if we look at, again, APW for the 2005-06 pool, AWB have indicated that they have paid \$167.37, which is 87 per cent of the estimated silo return.

CHAIR—That is 2005-06?

Mr Woods—That is the 2005-06 pool. So they paid \$167.37, which is 87 per cent of the ESR or EPR.

CHAIR—They must have had a lot sold before the wheat season started to fail. That is a bugger of a return.

Senator O'BRIEN—Given that there are about three million tonnes of wheat in the 2006-07 pool, could a wheat grower expect the majority of their wheat to have been priced by now and the appropriate foreign exchange cover to have been taken?

Mr Woods—I am not sure where the pricing on that is up to. We got a report that would give me that information earlier in the week. But because it is confidential I believe I could not say even if I did know at this stage.

Senator O'BRIEN—I am not asking whether they should. I am asking: could they expect that? Is that reasonable?

Mr Woods—Given that we are in May and given this particular stage after harvesting, I think that that would probably be something that you would think is correct.

Senator O'BRIEN—To date, the 2006-07 pool has declined \$16.50 since opening. Is that the sort of performance we should have expected?

Mr Besley—I am not sure we could go down that track with you. We are not involved in marketing or anything like that. I do not think it is a role for us to have a view on that sort of thing. It is not our bag. All we can do is see if there are any anomalies when we report stuff, but we cannot really speculate on whether that is a fair market value or not.

CHAIR—Have we established, by the way, who is going to foot the legal bill? They would not be making a forward budget provision for—

Mr Besley—For Cole?

CHAIR—For Cole and any other consequential flow-on. I do not know how much they are spending on the US and other places that want to take him to court for all sorts of reasons. Have we established that the shareholders and Limited are going to foot the bill out of their income and not out of their bearing in the pool?

Mr Besley—The chairman of AWBL has made statements to that effect—that it will not be a cost on the pool. But that was especially referring to Cole. Whether or not these various actions which are foreshadowed and maybe even have gone past that will be funded by AWBL is a question we do not know the answer to.

CHAIR—So as of a while ago, Mr Besley, there were a couple of million tonnes, I think, unsold from the 2005-06 pool. I just wonder whether they were not holding some of that as insurance against the likelihood?

Mr Besley—Do you mean to pay for the legal costs?

CHAIR—Would that be too much of a conspiracy theory?

Mr Woods—I would not go there.

Mr Besley—I think that is being a bit cynical.

CHAIR—I am just wondering what I would be doing if I were them, though. As you know, Minister, if I were in charge, I would get rid of two out of three lawyers. You would be one of the ones I would not get rid of.

Senator ADAMS—I have a couple of questions. I do not know how far, because of confidentiality, you can go. My concern is, firstly, AWB have got the 2007-08 wheat crop.

Would you be able to ascertain whether they used that opportunity to accumulate the funds for the break-free? As the Wheat Export Authority, are you able to say?

Mr Besley—Well, who knows whether a break-free will accrue and how much it will be, if it does. There is a figure being bandied in the press of \$30 million. Where that came from I do not know. But, no, we would not know that.

Senator ADAMS—So you would not be able to find that out at all. As far as maximising returns to growers, can you find out that? I am not asking you to divulge it to us. I am asking whether, in the process, as the Wheat Export Authority, you are able to find that out.

Mr Besley—We could certainly ask that question. But we have not so far contemplated asking it.

Senator ADAMS—I was just really trying to see the process, because it is quite complex and a little hard for us to understand just how much you can actually ask, even though the answer is confidential.

Mr Besley—I think that is pretty hypothetical and to speculate about that would be unwise of me at the moment. But if it came to the crunch, there is no reason why we could not ask a question of that kind.

Mr Mortimer—The questions that can be asked under power of direction need to relate to the operation of the pools.

Mr Besley—We could not use that section of the act to get that information.

Mr Mortimer—In other words, the legislation does not provide for an open-ended power to question on all potentially related activities.

Senator ADAMS—So we will all be in the dark. That is it. I am not going any further.

Senator O'BRIEN—On a number of occasions you have talked about your inability to do certain things under the terms of the act as it stands. Have you asked the minister to consider amending the act to increase the power of the Wheat Export Authority in any of those regards?

Mr Besley—By implication at least in respect of two things. That is what the 2004 panel recommended. We said we supported those two things, which were the power to rescind a consent and the power to charge variable fees for people who apply.

Senator O'BRIEN—Sure. But in relation to your scrutiny of AWB, have you asked for any increased powers?

Mr Besley—No. We have not. That is a matter for the minister's policy department to advise him on. They know our views. If we are asked to comment on them, we would be happy to do so. But that is not our role as such. Our role is only to say we see that we cannot do some of the things that people expect we ought to do. Therefore, the act needs some clarity. Therefore, we supported strongly the recommendation of Commissioner Cole.

Dr O'Connell—I think the regulator obviously works directly within the constraints of the act. Any change or extension of that is a matter of policy and so is not really appropriate.

Senator O'BRIEN—But a regulator would be able to quite properly say, 'Because of the constraints of the act, some things we would like to do to achieve the aims of the act are limited by the act.' I know the ACCC has done that.

Dr O'Connell—I think those are matters of policy.

Senator O'BRIEN—But you are saying that bodies such as the ACCC have never advised the government of the limitation that exists under their act?

Dr O'Connell—No. I think what I am saying is that these are matters of policy and so not appropriate for the estimates.

Senator O'BRIEN—No. I am asking whether a certain thing has been done. What the government's response might be is policy. I am asking whether certain things have been done. That is not asking for a comment on policy. I am asking in the context of a number of comments by Mr Besley about some inefficiencies, as he saw it, in the act.

Dr O'Connell—I understand that. I think we are perhaps talking at cross-purposes there. He has made that response. I was just saying beyond that point—

Senator O'BRIEN—I do not think it is unreasonable to ask whether that has been drawn to the attention of the minister. It is not a matter of policy.

Dr O'Connell—No. I understand that, but I think he has already made that response. It is going beyond that response. I think that the issues then become matters of policy.

Senator O'BRIEN—He has already made the response that he has not drawn it to his attention?

Mr Mortimer—I will make a comment. I think what Dr O'Connell is saying is that the minister is aware of the comments made by the WEA and its chair, and the minister will deal with those when the government is of a mind to do so. The minister supervises the operation of the act and the arrangements as best possible within that context.

Senator O'BRIEN—So to date the minister has declined to do so?

Dr O'Connell—I do not think we want to put any words into the minister's mouth in the end. The issues have been described by—

Senator O'BRIEN—I am not putting them in your mouth. You are describing his action.

Dr O'Connell—I am not inclined to discuss the minister's intentions. The issue has been raised and I think that has been made clear.

Senator O'BRIEN—And you say the minister is aware, I take it, because he has heard those comments from the Wheat Export Authority, or is it because he has been advised by the department?

Mr Mortimer—I think a comment on the nature of the department's advice to the minister is not something we are able to give.

Senator O'BRIEN—Is he aware because of the comments of the Wheat Export Authority?

Mr Mortimer—Sorry?

Senator O'BRIEN—Is he aware because of the comments made by Mr Besley?

Mr Mortimer—I expect so, because they are on the public record.

CHAIR—I am not too sure whether there was a doubt about it. There was an ad in the paper the other day and it was something along the lines of, ‘Wanted: a dog that can herd cats.’

Mr Mortimer—Quite so.

CHAIR—I think that is what we need.

Mr Mortimer—Quite so.

Mr Besley—It is easier than shovelling frogs into a wheelbarrow, though, isn’t it.

Senator O’BRIEN—So should I interpret that as your description of the role?

Mr Besley—If you wish.

CHAIR—Let the record show.

Senator O’BRIEN—Again, the addendum to the growers report we have been referring to states at page 13:

The WEA considers that AWBL acted outside its authority in pursuing the recovery of the Tigris debt through the inflation of the price of wheat. That is, AWB(I) did not authorise the inflation of the wheat sales price to recover the payment.

Could you explain any further what that passage means?

Mr Besley—It means what it says. As I say, we cannot direct AWBL or AWB(I). We have to analyse these issues. The Tigris was a big issue during the Cole inquiry. Therefore, we felt we needed to report to growers what our consideration of that issue was. That is what it is here. It is not then up to us to say to AWBL, ‘Look, you’ve breached your duty.’ All we can do is bring these things to light.

CHAIR—And hope someone goes to jail.

Senator O’BRIEN—Was the authorisation of the transfer of funds from the national pool to Tigris valid?

Mr Besley—That is a question that I would not care to speculate about.

Senator O’BRIEN—You say in the report that the AWBL acted outside its authority.

Mr Besley—We consider that it did, yes.

Senator O’BRIEN—Have AWBL communicated a different view to you?

Mr Besley—No, they have not.

Senator O’BRIEN—Has AWB broken any law?

Mr Besley—That is not for us to judge. That is something which you would know is a matter that is being pursued with some vigour by a task force set up by the Attorney-General. But I have to say this report—

Senator O’BRIEN—The vigour is not apparent, but it may be.

Mr Besley—Anyway, this report was seen by AWBL or certainly by AWB(I), anyway, in draft before it came out. They did not say, ‘Hey, you can’t say that,’ or, ‘We’d like you to put a footnote in and say something else.’ They did not do that.

Senator O’BRIEN—Do they normally do that?

Mr Besley—They sometimes say they would have a problem with that, and we would respond to that. I think we have said here somewhere that AWB(I) disputes that and says something or other else.

Senator O’BRIEN—Do they sometimes see the report before it goes out?

Mr Besley—They always see it.

Mr Woods—They are part of the drafting process.

CHAIR—So they obviously concluded to take another step to dig the hole deeper.

Senator O’BRIEN—Why has AWB(I) carried forward \$US441,973 of the commission it received by AWB(I) in the 2005-06 national pool when the Tigris funds were collected from transactions occurring in the 2001-02 and 2002-03 national pools?

Mr Besley—We do not know that. But, as we say, their response is they are waiting because of ‘legal uncertainty’ until the Tigris payment issue is resolved. We asked the question and that is the response we got.

CHAIR—Would that be code for ‘in case we’ve got to give it back’ or something?

Mr Besley—I do not know, Senator.

CHAIR—Because they should never have received it.

Senator O’BRIEN—On page 15 of the addendum it states that the authority would strongly welcome Commissioner Cole’s recommendation regarding the need to review the powers, functions and responsibility of the wheat export regulator. Apart from that statement, what action has the authority taken to acquaint growers for the government?

Mr Besley—We made that statement very clear in our annual report, which was tabled in the parliament in February this year.

Senator O’BRIEN—As to what powers, functions and responsibilities?

Mr Besley—We have simply quoted what Cole said and said we strongly support that recommendation. It is then a matter for the people who make decisions on policy to consider that, as they consider policy issues, and decide what, if any, action they will take.

Senator O’BRIEN—So that is in the hands of the minister?

Mr Besley—That is in the hands of the government, yes.

Mr Woods—Certainly, with the addendum report, in the same package growers received two facts sheets. One was on the WEA’s functions and the other one was on the WEA’s roles and powers. Growers and the wider community have that and can read it and say whether they want it changed.

Dr O’Connell—In the media release that Minister McGauran has made regarding the new arrangements, which we have here, it is stated:

The WEA will be given extra auditing and reporting powers to increase its ability to ensure transparency and compliance with international and domestic law by the single desk operator.

Senator O'BRIEN—That is from 2008?

Dr O'Connell—Yes.

Mr Mortimer—Yes.

Dr O'Connell—So clearly, that decision has been made for the future operations.

CHAIR—Will that apply to the box trade operators? The box trade could jump to a million tonnes this year if they get stuck into it.

Mr Mortimer—I think the government's decision, as part of that package, was that the trade in grain in containers would basically be deregulated as of this year.

Senator O'BRIEN—As of this year rather than next year?

CHAIR—Yes.

Senator O'BRIEN—AWB officers gave evidence to the Cole royal commission that the FOB price had been artificially inflated by factors not related to net pool returns, such as after sales service and facilitation fees. But on 30 November last year, Western Grain Growers wrote to the authority asking it to investigate the impact of inflated FOB prices on out-performance payments dating back to 1999. This was the second written request for the authority to investigate, the first being in February 2006. What action has the authority taken in response to their request?

Mr Besley—We have expressed our own concern about the out-performance indicator. That is why we wanted to come to grips with what was happening in respect of, for example, the commission that came into the pool as a result of their assisting BHP recover this debt. We were assured that that amount of money did not get into the equation which was used to calculate whether or not—

Senator O'BRIEN—Sorry, you were assured?

Mr Besley—We were assured, yes.

CHAIR—That is the \$500,000?

Mr Besley—Yes.

CHAIR—The encouragement to do the deal money?

Mr Besley—Yes, the commission.

CHAIR—The commission—some would call it a bribe, but we will call it a commission. What about the additional \$10 per tonne, or whatever it was, on all the tonnes to get the money back? Did that add to the bonus scheme?

Mr Besley—I think that was after the FOB price. The OPI is based on the value of the pool as deduced from the sales as they leave Australia, not what happens on the insurance and all that. So that extra money was a post leaving Australia cost.

CHAIR—So that was built into the shipping and any profits from that go to the shareholders?

Mr Besley—Depending on who did the cartage. L does not do all the shipping; it does less than 50 per cent.

CHAIR—But in the facilitation of the shipping, any profits would accrue to the shareholders, not the pool?

Mr Woods—There are two things there. Our understanding is that the service fee and anything else that was added was deducted before the OPI was calculated. So it has not affected staff bonuses at the moment for L.

CHAIR—Just say, for instance, you lobbed the wheat into Iraq and you have some crooked sheikh, or whoever it is there, who says, ‘Mate, I want \$10 a tonne as a facilitation’ to whoever the transport company was. Can you be sure that there was not a commission paid out of the \$10 per tonne back the other way as a facilitation, that some of that did not go back to the shareholder side of the arrangement?

Mr Besley—No. I do not think we could stand up here and say we can be sure. But you need to bear in mind that the money that was taken off came out of that UN oil for food fund. So as I have said on a number of occasions, what we were concerned about was whether the growers were being disadvantaged. As far as we could see, no, they were not.

CHAIR—Has the government or the Wheat Export Authority or anyone else been given an assurance that any of those suitcases full of \$100 notes did not disappear?

Mr Besley—We certainly have not had either the right or role to look into it so I cannot answer that question.

CHAIR—God help us, it is almost better than Tom Mix!

Mr Besley—I would not want to speculate on that.

Senator O’BRIEN—You said you were assured by AWB, I take it, that the allegation that FOB prices had been artificially inflated by factors was not true? That is what you told us, isn’t it?

Mr Woods—To Iraq it was a CNF price, so it was added onto the top of that. For the calculations of the OPI—and we have looked at the calculations and the sales prices and the freight—we have tracked it back. On the examination we have done it appears that there has been no flow-through to staff bonuses of OPI. The OPI has been calculated on the FOB price, the original sales price, not the additions for inland transport, sales, service et cetera.

Senator O’BRIEN—Is that why you are not going to investigate the impact of inflated FOB prices back to 1999?

Mr Besley—No, I do not think we have done that. Are you talking about the letter?

Senator O’BRIEN—Yes. The letter requested that you do that.

Mr Woods—We have not gone back to 1999.

Senator O’BRIEN—That is what I am asking: is that the reason?

Mr Besley—I must say that letter is something I cannot recall. Is that a letter to us?

Senator O’BRIEN—Yes.

Mr Woods—We would have to check on that. We are unaware of that at the moment.

Senator O'BRIEN—Mr Besley, I think you signed off a reply for the authority to Western Grain Growers on 14 December referring them to the 2006 growers report and addendum. But neither of these documents investigated the impact of inflated FOB prices dating back to 1999.

Mr Besley—If I signed that letter, then that is what we said. Just as I did not recall this morning a letter from and to the minister, I apologise for that.

Senator O'BRIEN—It is signed off with your name. I do not know your signature, but it is under the authority's letterhead.

Mr Besley—If it has my name and my signature, I guess I signed it.

Mr Woods—We just cannot recall when.

Mr Besley—I do not recall it, I have to say.

Senator O'BRIEN—Will the authority investigate the impact of inflated FOB dating back to 1999 and make their investigation outcome public?

Mr Woods—We have looked at, as I just said, the 2004-05 book and found that had not been affected. We still have questions that we are asking on Tigris along this one to be assured of that. But we will go back to that letter and our response and see if we need to investigate it further back to 1999.

CHAIR—Would there be a reasonable paper trail? One of the obvious things from Cole is that everyone had memory loss. Would there be some compensatory capacity in a paper trail as opposed to memory loss and everyone got the bonus and got sent over the hill—sacked or sold off?

Mr Woods—We actually tried to ask specific questions and get contract data and sales prices and shipping data and then compare that with what happened—the prices that were given in Cole and that sort of stuff—to make sure that the price we were looking at on an FOB basis agreed with the contract price, not an inflated price. So we tried to be very careful in looking at this.

CHAIR—You have to be. Any unattached, unbiased person standing at the back of the Cole inquiry would have to form a view that a lot of the stuff there was not believable—the memory loss stuff I mean. So I wish you well.

Senator O'BRIEN—Subsequent to the government's response to the Cole report and related amendments to the Wheat Marketing Act, the authority received a total of 77 applications for the export of bulk wheat, of which three were withdrawn. According to the addendum, 70 out of the 74 valid applications were rejected by the minister. Did the authority give the minister any advice in relation to those applications?

Mr Besley—All of them. We are required under this regime to give the minister our advice about those shipments. Our advice is based on our guidelines, which are published. He takes into account our advice and then makes his decision on public interest grounds. It is announced by us. He directs us then whether or not to approve or reject the application.

Senator O'BRIEN—So you gave your view as to whether an application should be approved or rejected?

Mr Besley—Yes.

Senator O'BRIEN—Did the minister reject advice in relation to any of those export permits?

Mr Besley—I am not sure we can tell you what we told the minister. But if you look at his statement of reasons, which is public, for one of them he did say that we had supported it or supported it in part. But it was in the end knocked back. There is now an issue which we should not talk too much about because it is coming before the courts.

Senator O'BRIEN—So the inference is that the minister did not accept an application in at least one circumstance?

Mr Mortimer—I think that if you want to ask questions about that process the department can answer them to the best of its ability. But it is probably not helpful to be going to an inference of how the minister came to a decision in this case.

Senator O'BRIEN—It is a matter for decision. The performance of the government, the authority, the department and the minister are all open to questions today, surely.

Mr Mortimer—Quite so. The minister made his decision. Some questions of ours can be taken, but the question to Mr Besley seemed to be asking him to make some comment about the minister's decision making.

Senator O'BRIEN—Only whether he accepted their advice or not.

Mr Mortimer—Okay.

Senator O'BRIEN—That is all. I have merely said that, in relation to one application, clearly the minister did not accept their advice by implication of what was said. I just want to know on how many applications the minister did not accept the authority's advice.

Mr Besley—I do not think it would be proper for me to say other than what I have said, which is based on what is public.

Senator O'BRIEN—Why not?

Mr Besley—Because I do not think we should be required to tell you what our advice is to a minister.

Senator O'BRIEN—I am not asking for any particular advice. I am asking for the number of occasions on which the advice was not accepted.

Mr Besley—That is getting close to it.

Senator O'BRIEN—It may be close, but it is on the point you make.

Mr Besley—I am sorry, Senator, but I do not feel able to answer that.

Senator O'BRIEN—I think you are obliged to answer questions that—

Mr Besley—I do not know that I am, but I would like to take advice on that. Minister, can you help me on that?

Senator Abetz—Perhaps you could rephrase or reapproach the topic. I think you are getting into an area that has historically been accepted as not being ground which is traversed.

Senator O'BRIEN—I will try rephrasing. I do not accept your view, but I will try rephrasing it to get over the point. Of the 74 applications, how many did the authority recommend be approved?

Senator Abetz—That is again the same thing.

Senator O'BRIEN—I am not asking for particular details of advice.

Senator Abetz—Yes, but the fact that it is not asking particular advice does not make it right. It is any advice that is not traversed.

Senator O'BRIEN—Particular advice is not traversed.

CHAIR—Anyhow, putting my wool classer's hat on, I think we should move to the next question, Senator O'Brien.

Senator O'BRIEN—I am not convinced that your wool classer's hat is giving you the wisdom to deal with this.

CHAIR—That is why I said I will put my wool classer's hat on, mate.

Senator O'BRIEN—The wool has come down over your eyes, perhaps.

CHAIR—Mr Woods, are you able to provide us with the details of every contract that the Geneva desk have written for wheat?

Mr Woods—We would have to talk to AWB.

CHAIR—For this committee to get an idea of the operation of that side of AWB I think it would be a reasonable thing for us to get an understanding of the scale and the significance of the individual sales. You say there were seven that have been vetoed. We would be very interested in not only the ones that have been vetoed but the ones that were not vetoed. Would you be able to give us on notice the details of that?

Mr Woods—We will check on that. At this stage I would like to correct something. We have information that there have been eight vetoes done by AWBI on sales by Geneva, the international trade list.

CHAIR—Since Geneva was invented?

Mr Woods—Since 2002.

CHAIR—Thank you very much.

Mr Woods—The total tonnage we are looking at is just in excess of five million tonnes that has been traded. Seventy-two per cent of that is Australian wheat. As a previous—

CHAIR—And the Australian wheat that is traded through that goes through the Geneva desk. Where do they strike the price in the interests of the grower? I take it that it came out of the pool—or is it cash accumulation?

Mr Woods—It comes out of the pool.

CHAIR—So it is not wheat they bought for cash at harvest?

Mr Woods—Not domestic wheat, no.

CHAIR—Is it possible for the AWB to accumulate cash wheat at harvest and export it?

Mr Woods—Not without a licence from the WEA.

CHAIR—Have they?

Mr Woods—No.

CHAIR—It has all come out of the pool?

Mr Woods—Yes.

CHAIR—When they strike the price that they are going to pay the pool and sell it through the Geneva desk, do you establish the end result of that transaction? Once it leaves the pool at a price and proceeds through the Geneva desk, anything that happens to it after that is loss or profit that ends up in the shareholders' kitty?

Mr Woods—Correct.

Mr Besley—That is right.

CHAIR—Can you give us the details of that?

Mr Woods—Normally, AWBI would be negotiating a sale with someone in another country, whatever country, whatever end-user—and there are normally two—and if for some reason AWB are not happy to pick up either the credit risk or there are some facilities that that particular company wants, AWB will ask Geneva to pick that up. My understanding is that the price that AWB International have negotiated is the price that they sell to Geneva. Geneva then charges a premium for the extra risk that they are taking on in that area. A few years ago the WEA looked closely at Geneva and it is something that the board wants the WEA to do this year. We will be looking at this on a ticket-by-ticket basis.

CHAIR—I have the view that the government should audit the operations of the Geneva desk. You tell me that 72 per cent of the wheat, or five million tonnes, as I understand you said, have been traded since the Geneva desk started. That is not an extraordinary amount of wheat, I have to say.

Mr Woods—No. It isn't.

CHAIR—I presume the Geneva company of AWB Limited has a different corporate identity.

Mr Woods—AWB Geneva, generically speaking, is all the international offices that are allowed to trade wheat. Some only buy domestic wheat from a country that—

CHAIR—Anything that goes wrong there is picked up by the shareholders—right?

Mr Woods—It is called international trading in broad terms, yes.

CHAIR—So it would be a fine judgement that you would have to make—and I will be interested to see how they make it—between that being in the interests of the shareholders versus a risk to the growers in the pool. I am sure if they have the capacity to make a judgement, they would say, 'Oh, no. We're selling wheat to Heffernan. He's too much of a credit risk. We'll let Geneva do it.' Geneva would not do it either unless they were able to

insure the transaction in some way. I am sure that if they can do it, International could do it whether or not there is some loose arrangement, shall I say. I think all this should be officially audited because it all sounds—

Mr Woods—It is part of a similar question you asked us last time and a response that we provided to that question on notice last time. We have also included an area on the trading of other origin grains that was included in that. That is an eight-page document that should give most of those answers that you are looking for.

Mr Besley—But that having been said, we are going to make Geneva a point of particular focus in our next lot of reporting.

Senator NASH—I have a couple of quick questions around the two permits that the minister had the WEA issue last December. There was the one for 300,000 tonnes for Wheat Australia and another for 500,000 tonnes for CBH. I want to look at them separately. The first is Wheat Australia. Can you outline the events that happened after the permit was issued? I assume the wheat went to Iraq.

Mr Woods—No, nothing has been shipped on that particular consent at this stage.

Senator NASH—Why is that?

Mr Woods—It is a commercial arrangement between Wheat Australia and the ones they are trying to sell or put tenders to in Iraq.

Senator NASH—That is interesting. How long is the permit for?

Mr Woods—Twelve months. It ends on 31 December this year.

Senator NASH—All permits are 12 months?

Mr Woods—This is non-niche, so it is for 12 months. Niche permits are for 24 months. But in both cases, the consent you are talking about is for 12 months. So they started on 1 January this year and end on 31 December this year.

Senator NASH—What happens to the wheat if they do not ship it by 1 January?

Mr Woods—It is their wheat; they can do what they like with it.

Senator NASH—So if the permit runs out and they have got the wheat and they want to export it, they have got to go through the process again?

Mr Besley—Correct. That is right.

Senator NASH—And the 500,000 CBH permit?

Mr Woods—At this present stage, CBH have shipped just short of 200,000 tonnes. They will be shipping the rest through until September this year.

Senator NASH—So by September that will all be gone?

Mr Woods—Yes.

Senator NASH—There was a \$4 per tonne levy for both of them?

Mr Woods—It goes to prior to loading a vessel. It is estimated what weight that vessel can take and \$4 per tonne is paid into an AWBI account. We monitor that.

Senator NASH—So obviously none from—

Mr Woods—It will not go until it is shipped.

Senator NASH—So it will not go until it is shipped. The tonnage that is being shipped already by CBH, the \$4 per tonne, has already gone in?

Mr Woods—Correct.

Senator NASH—Is there any impact on the pool from the fact that the wheat in a lot of those instances has yet to go so that \$4 per tonne payment has not happened? Has there been any impact on the pool to date, in your view, because there has not been that \$4 payment?

Mr Woods—Unless the pool had accounted for it coming in at a certain stage, I do not think I could answer that with any greater clarity.

Senator NASH—Could anybody from the department answer that, perhaps?

Mr Mortimer—I think it is essentially a hypothetical question. I do not mean that—

Senator NASH—I think a lot of our questions are hypothetical.

Mr Mortimer—to cause any offence.

Senator NASH—That is what we do.

CHAIR—It is hard to offend us.

Mr Mortimer—Thank you very much. The \$4 was essentially for the purpose of ensuring that growers who had already contributed to the pool before the government made those changes in arrangements were not disadvantaged. So to the extent that those exports do not go, there is no disadvantage to the pool. If the exports, for example, do not go to Iraq, there is not a diversion of wheat from the pool or potentially the pool.

Senator NASH—I thought it was because there was going to be less grain, less tonnage actually in the pool, so that the relative costs would increase to growers.

Mr Mortimer—I think the minister's stated reference has been to ensure there is no disadvantage to people.

CHAIR—Is it limited to the provision of services or just into the pool?

Mr Mortimer—It is paid into the pool.

Mr Besley—Into the pool.

Senator NASH—So it is paid to the pool. Go on.

Mr Mortimer—Exactly that. I think the minister said quite clearly in the statement in late December that essentially the situation arose in part because growers were not happy with contributing to the pools, as you might be aware, and because it was suggested that better returns would be had elsewhere. So the minister, in his statement, set out that the \$4 per tonne would be set to ensure no disadvantage to people who had already contributed to the pools on the expectation that the arrangements were not going to change.

Senator NASH—Just to clarify that: \$4 goes to an account?

Mr Woods—To an AWB International pool account.

Senator O'BRIEN—Did the authority seek the advice of AWBI or AWBL in relation to any export applications?

Mr Besley—We are required under the act—

Senator O'BRIEN—But in relation to the current arrangements?

Mr Besley—Of those 78 bulk applications, we did seek and get advice from AWBI, which, surprisingly, was rejected in every case.

Senator O'BRIEN—I am surprised.

Mr Besley—But that is a requirement under the act; we have to do that.

Senator O'BRIEN—The authority is required to consider the national interest when making its determination of applications.

Mr Besley—No, we are not; the minister is.

Senator O'BRIEN—I think you might be right. Is the authority aware of any bulk consent applications that have been refused to exporters here in Australia and then the market overseas has been filled by wheat from other destinations?

Mr Besley—It is a bit speculative, but I think we have some indication that a bulk shipment that was to go to the UK, which was refused, was in fact filled by other wheat. In fact—

CHAIR—The Geneva desk, in other words.

Senator O'BRIEN—US wheat, actually.

Mr Besley—We had a letter too from somebody who said that they wanted to ship wheat to a certain country and the bulk thing was refused. They had said to us that that has now been filled by US wheat.

CHAIR—I have heard of that.

Senator O'BRIEN—Does the authority have any financial analysis on export business that has been denied to exporters from Australia and then filled by other origin wheat?

Mr Woods—No.

Mr Besley—No, we do not.

CHAIR—So if, for instance, I made an application to sell a load of wheat to somewhere and got knocked back and AWB Geneva filled that, you would not be able to tell?

Mr Woods—Even if it was Cargill USA, Louis Dreyfus or any company around the world, we would not know where that wheat came from.

CHAIR—No. But the point I am making is that if I am a struggling wheat trader in Australia and find a nice little niche market somewhere and apply for a permit and get knocked back, having identified the market to the veto people, they would then have the opportunity to fill that market.

Mr Woods—No.

CHAIR—Why not?

Mr Woods—Because, with the information that the WEA provides to AWB, they do not get the name of the company or the end user that it is going to and they do not get the name of the person in Australia who is applying for it.

CHAIR—And they make a decision, then, vetoing it?

Mr Woods—They know the grade, the tonnage, the shipping period, the quantity and the country.

CHAIR—And on that basis, not knowing where the market is—

Mr Woods—They know the country, which would give them an idea. They are supposed to know the country, but they do not know the buyer or end user.

CHAIR—They would know. It is the same as if you walked through the sheep yard. You can soon figure things out at Wagga saleyards. It is called market intelligence.

Senator O'BRIEN—Regarding the 74 valid applications, I understand that 46 of those applications were received by 15 December, which was the first cut-off date, and they covered 5.3 million tonnes of wheat across 22 countries. Should we take it from that that Australian traders believe they are in a position to gear up to supply the export market within a very short timeframe?

Mr Besley—There was a rush to get applications in when the new arrangements were announced. I think that is reflective of the way we got such an onslaught of them at that time. I think that is why we got so many and for no other particular reason. Since then, the rate at which they have come in has slowed down. I guess it is now a couple of weeks since we have had one.

Senator O'BRIEN—Of the remaining 28 applications, what was the volume of wheat and how many countries were covered?

Mr Woods—A total of 26 countries were applied for. I will have to check the tonnage. In excess of seven million tonnes has been applied for, with 78 applications.

Senator NASH—Do all the applicants physically have the wheat?

Mr Besley—No.

Mr Woods—At the stage they apply, no.

Mr Besley—There is not seven million tonnes sitting around out there. A lot are chasing the same market.

Senator NASH—That is why I ask the question.

Mr Besley—They are confident that if they get the permit they can negotiate to get the wheat.

Senator NASH—So it is not as though 78 have been knocked back and they could have all shipped something out?

Mr Besley—No.

Senator NASH—There is only X amount of wheat. If you look at it and say 78 people have been knocked back, it is really not quite so cut and dried.

Mr Besley—That is right. It is the same with bags and containers. If you look at our statistics, you will see that we have approved X applications to ship out so many million tonnes. But then we say the actual quantity shipped was significantly less because, again, the same thing occurs. People are going after the same market.

Senator NASH—It is good to keep that perspective.

Mr Woods—We make that point on page 22 of the addendum. We actually say that.

CHAIR—Which is one of the risks growers wear in talking the market down—to get that sale. It is something they have to come to terms with. You can talk the market down.

Senator NASH—It is quite risky, in a way, isn't it, if somebody can apply for a licence to export without physically having the grain? I am speaking hypothetically. If a licence is granted, it is quite risky.

Mr Woods—Then you have two or three people or whatever going out to compete for the business if it is to the same buyer or end users. It may be to different countries. But if it is to the same buyers and end users, only one of them will get it. Then they go and pay for the wheat and the grower will sell to them at the highest price on the day.

CHAIR—That is how they sell the flowers in the Netherlands. They have a reverse auction. It goes backwards.

Senator O'BRIEN—The point I was seeking to make is that when the opportunity arose, or it was believed that it might arise, there were plenty of players keen to enter the market.

Mr Besley—There were. I think to an extent too there was some testing of the new arrangements. People were so used to applying for bulk shipments and getting a no because of the requirement to consult AWB(I), I think some probably speculated that with the new arrangement, with the minister doing this, the world might be quite different.

Senator O'BRIEN—There are a whole lot of things being said. One of the exporters who was denied a permit, which was then filled by wheat from other origin, said that the two bulk export consents for a total of 110,000 tonnes was offering \$32 per tonne over the pool then. The pool has deteriorated since. Hopefully that was one of the ones you recommended to the minister, even though the minister may have knocked it back. I am not expecting you to answer that.

Senator ADAMS—I have a query here from a constituent who applied to supply wheat to a country where AWB does not have any existing marketing. They have been knocked back. Unfortunately, the quote is from the Wheat Export Authority. It is quite a senior person, who said: 'We are not here to help farmers; we are here to protect AWB.' There has been a lot of toing and froing there, but it was a licence where this country had not bought Australian wheat before. They had an opportunity to get some wheat in there and they finally ended up, after a second application, of getting a very small tonnage. Is that a comment that comes from your senior officials?

Mr Besley—Was that a bulk application?

Senator ADAMS—It was.

Mr Besley—The bulk application would be—

Senator ADAMS—It was for a lot larger than the one they got.

Mr Besley—One that we would have had a comment from AWB(I) on, and then we would have had to go to the minister. I would be amazed if any of the people in WEA said what that person said they said. That is not the way our guys—

Senator ADAMS—I hope it is not.

Mr Besley—that includes girls as well in a generic sense—operate.

Mr Woods—We do everything we can to help people apply. If they are knocked back and want to talk to us about why, as best we can we tell them what sections under the act apply and that sort of stuff, other than putting words in their mouth, such as, 'Here's how you apply to get an application for that particular thing.' If we think someone is applying and they are applying for a non-niche and we think it would be better applied for as a niche, we ring and discuss it with them. We would never make a statement like that.

Senator ADAMS—It was non-niche and they were declined.

Mr Besley—And it was a bulk application?

Mr Woods—The minister had to consider that, not us.

Senator ADAMS—What I am getting at—

CHAIR—What is the source?

Senator ADAMS—I cannot say; it is a constituent.

Mr Woods—That is probably how they felt, from information we gave them. We said to them, 'Here's where we're at.' It is probably their words. But no-one in our place would say that.

Senator ADAMS—I will follow it up anyway.

Mr Woods—Give them my phone number. They are more than welcome to talk to us.

Senator ADAMS—Thanks.

Senator O'BRIEN—AWB Ltd announced some structural separation from AWB International in October 2006. In the growers report addendum at page 16, the authority stated that it had been provided with some detail of the costs of some functional separation of AWB International from AWB Ltd, but due to market sensitivity these costs could not be made public. Is that still the case? Does the authority remain unable to reveal those costs?

Mr Woods—That is correct.

Mr Besley—Yes.

CHAIR—Would a reasonable question be, then: what services currently provided by AWB Ltd exclusively would provide the greatest benefit if tendered out?

Mr Besley—Which will not be provided under the new arrangements? Yes, we have set those out on page 17 of the report and made some comments about the merits, as we see it, of them not being provided any more.

Senator O'BRIEN—How many staff are now domiciled with AWB International?

Mr Woods—There are 33 employed at this time.

Senator O'BRIEN—Do you know how many are with AWB Ltd?

Mr Woods—No, I do not.

Senator O'BRIEN—On page 16 of the addendum, the authority refers to one of the features of the proposed separation of AWB(I) from AWBL as improved contestability of services to the national pool. In the October announcement, AWB Ltd specified it would be providing bundled or integrated services to AWB International. Can you explain the distinction?

Mr Woods—Bundled services compared to integrated?

Senator O'BRIEN—Bundled or integrated services to AWB International.

Mr Besley—Are they our words?

Senator O'BRIEN—No. They are AWB Ltd's words. I am comparing their words with what you report.

Mr Besley—That is their view. I do not think we would want to comment on that.

Senator O'BRIEN—But if it is improving contestability and they are providing bundled or integrated services, how does that improve contestability?

Mr Besley—Our comments are on page 16, as you say. AWB say that they are contestable, but we believe the current level of integration between the two companies and the scope of bundled services creates questions about the extent to which services are contestable. We doubt that, even under the new arrangements. Those functions in the box on figure 11, which AWBL will provide, are pretty much the same as they are providing now under the service agreement. In a sense you could say that the separation is a bit Claytons like.

Senator O'BRIEN—Okay. I think I agree. Pages 17 and 18 of the addendum report refer to cost savings that AWB Ltd made for the administration of the national pool last year. Has the authority identified any cost savings that have been achieved from the functional separation?

Mr Woods—No.

Mr Besley—Not really.

Mr Woods—We are yet to investigate it in more detail.

Senator O'BRIEN—On page 17, you report the reduction of 40 per cent in the base fee charged to the national pool and go on to specify that one of the methods that AWB Ltd has used to achieve these savings is the 'transfer and direct employment of staff from AWBL to AWB(I)'. Where is the money coming from to pay those staff?

Mr Woods—That money will come from AWB(I), from income to the pool. So that will come out and needs to be added on to that \$39.5 million base fee that has been paid to AWBL. It is not a full, 'Well, we're taking this from L and we'll do it ourselves in I.' There is not a direct \$25 million cutback. But we will be asking questions—and have—about total staff remuneration and how that will affect the base fee and all that.

Senator O'BRIEN—So have they have reduced their services at the same time as reducing the cost? Have they transferred the cost on to the pool?

Mr Woods—Some of the cost in staffing.

Senator O'BRIEN—Have you been able to identify what the actual saving will be?

Mr Woods—No. Because the number of staff in both organisations has been rather liquid lately, we are waiting for AWB(I) to come back to us with their total salary and cost of running AWB(I) under the separation.

Mr Besley—It is still really a work in progress. I think it will be in progress for some little time.

Senator O'BRIEN—I have been advised that there has been a significant loss of staff at AWB(I). That is referred to in an article by Michelle Grattan in the *Age* on 16 May.

Mr Woods—That would be loss of staff in AWBL, because AWB(I) did not have any staff until a few months ago.

CHAIR—It would be the people who had the memory loss and the bonus and were told to disappear over the hill.

Senator O'BRIEN—Yes. You are right. The chairman of the Grains Council, Murray Jones, is reported to be concerned about staff losses in AWB. Are you aware of those concerns?

Mr Woods—Yes. I think everyone in the industry would be aware of the staff losses at AWBL.

Senator O'BRIEN—Has the authority undertaken any inquiries regarding those concerns?

Mr Woods—No. Our link is to the national pool and as to what AWBL do as a corporation. As long as it does not affect the national pool, we really do not have a link.

Senator O'BRIEN—So it is not an issue for you to look at how the trading section is staffed and the capacity of AWB to manage future pools?

Mr Woods—If you are talking about the expertise within a certain area, if that affects the management of the pool, then it is something that we would have to consider.

Senator O'BRIEN—Has the authority undertaken any investigation to determine the veracity of claims that a new alliance of state based grain groups in Victoria, New South Wales and Western Australia is organised by a front for AWB Ltd? In other words, AWB Ltd is playing a manipulative role in the grain grower representation market.

Mr Woods—It is not something we would need to comment on.

CHAIR—If they were, so what, I guess?

Senator O'BRIEN—Is that your view: so what?

CHAIR—No. What I am saying is that that would be what you would expect the market to work to. It is like meat buyers or wheat buyers. They are all interesting people. Obviously if you are referring to the likes of Jock Munro, my good and learned farmer friend from Rankin

Springs, and his email trail, which he checks with AWB before he sends out, that is par for the course stuff.

Mr Woods—We all get copies of it.

CHAIR—He says I am the devil incarnate.

Senator O'BRIEN—Groups like that are trying to influence the authority, sending their—

Mr Woods—Influence the Wheat Export Authority?

Senator O'BRIEN—You said you all get copies of them.

Mr Woods—I suppose it is the same thing as you having copies of AWB's internal documents that someone has sent you. We get copies of those, and we get copies of emails that someone thinks we should see.

Senator O'BRIEN—It was not clear from what you said as to whether you got it from the principal or simply were copied in.

Mr Woods—It is the same thing. I imagine you ended up getting a copy of Jock Munro's latest email. Someone thought we should have it, so they sent it to us.

CHAIR—Jock had a shower of rain the other day; he might be on the tractor.

Senator O'BRIEN—He might have broadband in it.

CHAIR—It would not surprise me.

Mr Woods—Not in the tractor, I would think.

Senator O'BRIEN—You know, he might be talking about the Great Wall of China.

CHAIR—Actually, up that neck of the woods towards Lake Cargellico, Euabalong and Condobolin they missed the rain. They got about 70 points.

Senator O'BRIEN—Is that right?

CHAIR—They did.

Senator O'BRIEN—Seventy points or seventy mils?

CHAIR—Points, mate. Old-fashioned points. If you are listening out there, Jock, good afternoon. While Senator O'Brien is pondering his next question—

Senator O'BRIEN—'Pondering' is too technical a word.

CHAIR—one of the curiosities, Mr Besley, that I have had in terms of what the pool is good for and useful for is competing for storage. AWB built storage between Gundibindyal and Stockinbingal, which is on the Temora line from Cootamundra. At one stage of the game they were encouraging people with a freight subsidy to, instead of putting wheat into the Grain Corp facility, say, at Junee for \$10 per tonne or whatever the price was, to—

Mr Woods—They would pick it up on farm and put it into their own facility.

CHAIR—That is right. In terms of the Wheat Export Authority's looking after the interests of growers, how do you balance that up? Given that whoever the wheat grower is that gets the subsidy gets a benefit the other blokes allegedly do not get, who gets charged with the subsidy? Is it the provider of the service that is limited, or does it get charged to the pool?

Senator NASH—That is a good question.

Mr Woods—I am not sure exactly what is happening there. Do not forget there were other companies also offering those services, where there were some Grain Flow sites, to get grain into their storage and handling. It was not only at that one. It was at the one at Gilgandra as well. It is a grower's decision as whom he wants to deal with. To that extent, unless there is a link back to the pool, it is not for us to investigate.

CHAIR—But we do not know if there is a link back to the pool. You do not know either, do you?

Mr Woods—No. I do not.

CHAIR—Maybe we ought to take that on notice. It is not as though you have not much to do.

Mr Woods—And we are overstuffed, of course.

CHAIR—We ought to look at your budget!

Senator O'BRIEN—Do not be ironic with *Hansard*. The irony is lost.

Mr Woods—Thank you for the advice. Would you like to rephrase that?

CHAIR—They are all the sorts of vagaries you could ponder forever.

Mr Woods—Grain Flow is an AWB Ltd organisation. We will investigate, but you would not expect that grain getting into there would be cross-subsidised into the pool. They are different organisations. But we can have a look at it.

Senator NASH—That is a good question.

Senator O'BRIEN—Australia used to export 2½ million tonnes of wheat to Iraq, and AWB(I) performance reports record tonnages of 2.7, 2.3 and 2.2 million tonnes between 1999 and 2001 and some large tonnage in more recent years. I understand that, historically before the series of events that led to the Cole royal commission, those tonnages achieved good returns and boosted the value of the pool. Has the authority carried out any analysis to assess the impact on wheat growers of being locked out of the Iraqi market?

Mr Besley—We have. We did say something in this growers report that it seems, with the benefit of an analysis of what has happened, that AWB(I) went for a short-term gain at the expense of long-term costs. While it did get the market early on, its market share—there is a graph which shows that quite dramatically—has dropped hugely since the Cole inquiry. It has been filled pretty largely by, as we understand it, US wheat. If you look at the diagram on page 14, it is a pretty graphic story.

Senator O'BRIEN—On page 14?

Mr Woods—In figure 10 of the addendum.

CHAIR—In the Iraqi sales history with Australia, there was the period which involved the default payment era. Do you remember that? This committee, in the lead-up to the last election—and Senator O'Brien might recall this—looked at the default payment.

Mr Woods—Are you talking about the arrangements around trade in the first Gulf War?

CHAIR—What year was that?

Mr Mortimer—It think it was 1990 to 1991.

CHAIR—There was encouragement by AWB not to worry about the shortfall. I think we might have got within an inch or two of discovery in that inquiry and did not know what we were about to discover. There was a decided reluctance on the part of AWB to progress the legal process to collect the default.

Mr Mortimer—I cannot remember that, I have to say.

CHAIR—They said there was a big premium being paid by Iraq at the time for other wheat sales. I presume that, if we had kept going, we might have discovered all the jiggery-pokery. But we did not keep going.

Proceedings suspended from 4.01 pm to 4.25 pm

Senator O'BRIEN—Do you know whether AWB International—I am following up questions I asked about the Iraq market—has subsequently directed sales to other markets that are more difficult to service? I suppose it is pretty difficult to service Iraq at the moment.

Mr Besley—There is a grades question there that is a bit different—the grades of wheat that Iraq needs are different from those that go to India, for example.

Senator O'BRIEN—They have mentioned India as a market showing strong new sales. The Indian deals do not appear to be so good for growers, with the national pool wearing more than \$9 million in demurrage and washout charges. Has the authority conducted any analysis as to the performance of AWB(I)'s export market to India?

Mr Woods—Only what we reported about demurrage. It certainly is something, now that it appears all the deliveries to India have been completed, that we will be looking at to see if there have been other demurrage costs along the way.

Senator O'BRIEN—Work in progress?

Mr Woods—Yes.

Senator O'BRIEN—In recent weeks I have been advised of concerns within the grower community that AWB may be mismanaging its wheat inventory. In particular, it has been suggested there are potential problems in relation to weighing shipments sent on to the domestic market—that AWB relies on weight receipts from customers and there is no reliable method for measurement of orders prior to dispatch. Are you familiar with those concerns?

Mr Woods—That is something with which we are familiar and that would be something for AWB(I) and the bulk handlers to take up.

Senator O'BRIEN—So there is not a role for the authority in that regard?

Mr Besley—We need to be aware of it because it could have an impact on the pool. But really, they have to try and sort it out. We are watching that space with considerable interest.

Senator O'BRIEN—What process does the authority have in place to audit AWB's claims in relation to the physical size of its various wheat pools?

Mr Besley—We can't go and audit that; all we can do is inquire and get answers to hopefully sensible questions.

Senator O'BRIEN—Does any other third party conduct an audit procedure of the physical wheat stocks?

Mr Besley—I do not know the answer to that.

Mr Woods—We do not know the answer.

Senator O'BRIEN—I take it that the authority cannot guarantee growers there has been no loss of physical wheat in shipments on the domestic market?

Mr Besley—No, we are not in a position to do that.

Senator O'BRIEN—Or, indeed, that there has been no transfer of wheat between pools, physically?

Mr Besley—There are transfers of wheat between pools and there is a process that is clearly laid down in their rules, whether it is priced wheat or unpriced wheat; depending on which it is, there is a certain way that it is done. As Peter has explained before, there is no hedging carrying over from one pool to the other.

Mr Woods—There is wheat transferred between pools and it is priced before it is transferred from one pool to another.

Senator O'BRIEN—If it is done officially, that way you will know about it?

Mr Besley—Yes.

Mr Woods—Yes.

Senator O'BRIEN—If you cannot be certain of the size of the pool then you cannot be certain that it is not happening in some other way?

Mr Besley—No. The stories we are hearing—apparently it is what you are hearing too—is that there is some wheat that may have gone missing. We want to watch that and see what emerges from the discussions between the bulk handlers and AWB(I).

Senator O'BRIEN—There is no physical audit procedure in place to ensure the physical integrity and independence of the pools?

Mr Besley—Not by us.

Mr Woods—No.

Senator O'BRIEN—Are there processes in place to guarantee that the 2007-08 pool is not already in the red in that wheat from that pool might find its way into 2006-07?

Mr Woods—No. There has not been any wheat transferred from the 2005-06 into the 2006-07 pool.

CHAIR—On paper or in the shed?

Senator O'BRIEN—On paper?

Mr Woods—Both.

CHAIR—On paper.

Senator O'BRIEN—Officially or unofficially.

Mr Woods—Both.

Senator O'BRIEN—How do you know?

CHAIR—I guess the real test of the shed comes when you empty the shed.

Mr Woods—Correct.

CHAIR—We are getting to the stage, certainly with durum, where the shed is nearly empty, so we are about to find out whether the paper trail matches the—

Mr Woods—That is correct.

CHAIR—It is like finding that the dam is half full of mud.

Senator O'BRIEN—I have been advised that AWB has been placed on credit watch by several of the large international trading houses. Is that something of which the authority is aware?

Mr Besley—I think I have noticed that in the press, but—

Mr Woods—We are aware of it.

Senator O'BRIEN—You are aware of those allegations?

Mr Woods—Yes, we are.

Senator O'BRIEN—Has the authority taken any action in relation to those reports?

Mr Besley—No, it is not for us to do that; that is the money markets. We need to know about it but it is not something in which we have a role.

Senator O'BRIEN—Do you need to know why?

Mr Besley—It is not hard to know why. They tell you why. When you read the reports about the fact that they have been placed on credit watch, they say why.

Senator O'BRIEN—None of those matters raise concerns with the authority?

Mr Besley—Of interest.

Senator O'BRIEN—But not concern?

Mr Besley—No, not really, because it is not going to, as we see it, affect the way AWB(I) handles the sale of wheat on behalf of the growers. It means if they are going to borrow money, it is going to cost them more to borrow it. I suppose in a sense that is—

Senator O'BRIEN—It will affect the pool.

Mr Besley—That is a cost on the pool, yes.

Senator O'BRIEN—But it is not a matter that you investigate?

Mr Besley—It is not something we have any control over. We can't say to them, 'Look, hey, you've gone from AA+ down, you'd better do something about it.' They are good business people, one would hope, and it is up to them to take what steps they need to take to make sure their credit rating is as high as they can get it, because it is costly not to do so.

Senator O'BRIEN—You say you would hope they are good business people; it is not your business, is that what you are saying?

Mr Besley—Yes. I mean, what do we do about it? We can say we are concerned to see that, but they can tell us to go and rack off. It is a publicly listed company. We can't go and tell a publicly listed company what it should and should not do; that is nothing to do with us.

Senator O'BRIEN—Is it something that you will include in the growers report?

Mr Besley—Probably not. We do not report on 'L'; we report on 'I'. We report on what 'L' does for 'I', but we do not report on 'L' as such.

Senator O'BRIEN—But the effect on their rate of interest, you agree, could have an impact on the pool?

Mr Besley—No, I would like to rethink that. It does not necessarily have to have an impact on the pool. They provide services to the pool.

Senator O'BRIEN—And they pass on the costs of those services.

Mr Besley—They do. The issue for rating goes to what it costs them to borrow money as much as anything else. That is not going to have a very clearly direct impact on the services that they provide to the pool.

Senator O'BRIEN—Would it have an impact on the charges levied against the charges of AWB Ltd in the performance of duties for the pool?

Mr Besley—I cannot see a direct connection. We must not forget it is a publicly listed company.

CHAIR—Whose business is less than 50 per cent wheat oriented.

Mr Besley—Now.

Mr Mortimer—Those charges for service are done through a services contract, and my understanding is that there is a fixed fee that is set for the provision of those services, so that—

Senator O'BRIEN—It would not have any impact—is that what you are saying?

Mr Mortimer—No, I am not saying it would not have an impact, but I am just making the observation that there is an arrangement to provide a range of services at a fixed fee. Whether there might be some other reflection of that credit rating in the company and how it impacts on the pools is an issue that really remains to be seen.

Senator O'BRIEN—That completes my questions for the authority.

[4.36 pm]

Grains Research and Development Corporation

CHAIR—I have a couple of questions for the corporation. One of the great challenges for the future for Australia is going to be dealing with production and climate change in a much more challenging environment in southern Australia. As I said earlier today, the worst prediction, according to CSIRO's documents, is a decline of something like 15 per cent or 20 per cent in rainfall—a decline because of the interconnection of forestry, climate change, fires, access to groundwater and a range of other issues, including farm dams. Out of 23,000-odd gegalitres running out of the Murray-Darling Basin, the worst-case scenario is an outcome of 11,000 less gegalitres of run-off and the best-case scenario is something like 4,500 less

gigalitres of run-off. Given that the bulk of the production in the Murray-Darling Basin is dryland production, and a lot of wheat is grown in that area, is the Grains Research and Development Corporation of Australia looking at how we will maintain a reasonable level of production with a lot less rainfall? This is besides the fact that we have now gone to zero tillage and everyone will have a disk implement in a few years instead of a tined implement and all that sort of thing. Are we turning our minds to managing our crops with a lot less water? I can remember when Wren wheat came in, the first dwarf wheat. Are we going to go to another level of plant technology?

Mr Enright—The focus of a lot of programs is very much with the possible drier environment in which we will be growing crops. To that end the focus is certainly on drought tolerance in our crops. There are a number of angles to look at drought tolerance, but the first step is to identify material that is more drought tolerant. We have a number of programs operating in that area, both in Australia and overseas. We have relationships with the International Center for Agricultural Research in the Dry Areas—in Syria, with which we have just recently signed another agreement to access drought tolerant material out of there; it is of course a very dry environment. We also have an association with CIMMYT. The first plank is to identify material which is better from a water use point of view, but it is also combined with a lot of work on farm practices which have allowed us to grow crops with a lot better production.

CHAIR—Would there be any sort of material available that you would have that would inform this committee of the work that has been going on there?

Mr Enright—There are a number of research projects for which we could certainly provide detail.

CHAIR—I think we as the Senate's Rural and Regional Affairs and Transport Committee would be interested to be informed by anything that you could make available.

Mr Reading—We would be happy to do that. I will just add a few comments backing up our chairman's comments. In terms of breeding new varieties, genetic material et cetera, we are spending about \$4 million a year there in a number of areas. For example, our investment in ACPFG along with ARC is all about looking at things like drought tolerance, frost tolerance and understanding the genetic make-ups. As the chairman mentioned, we also have the program with CIMMYT and ICARDA to bring in material which has those characteristics. For example, where wheat evolved was in Afghanistan and those types of areas, and we actually fund a person to go and collect wild varieties and to bring those in. We have programs, for example, again at the genetic level, where we are doing crosses with Arctic crops and grasses to look at the genes. Unfortunately, the genetic issues around drought are complicated; it is not a simple gene relationship. We are spending about \$4 million there. The programs are cooperative, they are at the genetic level, molecular level and germ plasm levels. We will give you specific details on that.

I think we highlighted at the last Senate estimates that growers have been addressing climate variability for a long time. I think the figures I quoted last time from Western Australia, which Senator Siewert was interested in, were that in 1969 the average in-season rainfall was about 152 millilitres and the average yield was 400 kilograms a hectare. Two

years ago when the average has declined over time to 110 millilitres, the yield is 900 kilograms per hectare—that is all about minimum tillage. We are investing about \$3 million, for example, in soils because if you can control things like diseases, the plants are making more efficient use of the water that is there. In the 1980s, plants in Australian crops utilised about 20 per cent of the available moisture that was available. Now with those techniques, crop rotations, canola et cetera, they are utilising 60 per cent of the available moisture. If we keep advancing those farming practices and the genetics, there is no reason we could not get up to 90 per cent use of that moisture.

We are happy to provide that information. We are also doing work on climate variability where we are looking at better forecasting tools in terms of being able to predict in-rainfall and in terms of the decisions farmers can make regarding whether they should plant the crop in the first place and what levels of nitrogen application they should make. All of those factors are going into it. But we are happy to provide details of all of those programs, and if you want some more specific information or more detail, we can provide that as back-up.

CHAIR—Congratulations and thank you.

Senator SIEWERT—Is the \$4 million just on drought related varieties?

Mr Reading—Most of that, yes—around the direct relationships of the genetics of drought and genes et cetera. That is in addition to the money that we are spending, for example, on soils. I think there is about \$3 million there, and as well there is the money that we are spending on climate variability.

Senator SIEWERT—Yes, that is what I understood—that is specifically on plant breeding.

Mr Reading—Correct.

Senator SIEWERT—How much of that is what you would call a GMO approach and how much is your more traditional—

Mr Reading—Conventional?

Senator SIEWERT—Conventional.

Mr Reading—I could not tell you in exact dollars, but a portion of the work we are looking at at the germ plasm level is genetic. For example, we have some quite interesting GM in terms of salt tolerance. In fact, we actually have proof of concept at that stage. Certainly because of the uncertainty of the GM path to market in Australia, we are looking at both the GM and conventional methods. But obviously into the future, particularly when you are starting to look at breakthrough technologies, the GM has got to be there, particularly in terms of isolating and understanding the genes which control things such as water use efficiencies et cetera.

Senator SIEWERT—When you said that there is a crop that is at the proof of concept stage—

Mr Reading—Correct.

Senator SIEWERT—does that mean that you are starting to find that out in trials?

Mr Reading—In fact there were limited field trials done in 2005 on it. There are some trials in another area in terms of crossing with what we call the land races, the wild varieties, and they are planned for Victoria this year.

Senator SIEWERT—Sorry, what were they called?

Mr Reading—I am not a technical expert, but where they have got crosses with wild land races. These are varieties that are not wheat; they are related grasses, so you are bringing genes into it which can confer things such as drought tolerance and hopefully frost tolerance.

CHAIR—They put up a powder head when they are so high instead of—

Mr Reading—Yes, that is correct. Part of it, as I said, is that, with our research partners such as CSIRO and the CRCs et cetera, we are looking at both the conventional means and the GM.

Senator SIEWERT—Is it possible out of the \$4 million to tell us how much is conventional and how much is GMO?

Mr Enright—We should make the distinction here when we are talking about GMO. We do not have a program in relation to wheat to breed GMO wheat. For the GM work to which we referred in relation to drought tolerance, the biggest investment is with the Australian Centre for Plant Functional Genomics in Adelaide, which is a joint project with the GRDC and the Australian Research Council, but that is focusing on genomics, which is studying the genome and obviously understanding these. With respect to the next stage, if you wanted to use that and actually create GM crops, we are currently not doing that. It is necessary to make that distinction. The only GM crop in wheat at all is the salt tolerant wheat that was developed in Western Australia, which is the one to which Peter referred that is now at the point of proof of concept.

Senator SIEWERT—Can I just understand because you seem to have given me slightly different answers, and it may be just the way I am interpreting it. I thought that you said there was some work going on with GMO as it relates to drought tolerance. Is that not the case?

Mr Enright—No, not GMO; there is no GRDC-funded GMO program looking at drought tolerance. There is a lot of work in the molecular area looking at drought tolerant genes, identifying those and looking at better ways to identify those. This is so that you can screen material very early in the breeding cycle so that you can identify those lines that do have drought tolerance. There is another program going on, which is not GM, but it is a crossing program which is referred to as synthetic wheats. It involves taking the existing wheat plant and crossing it with a wild relative to get a synthetic wheat which is quite a different looking wheat but it has a lot of attributes. Drought tolerance is one that they are screening for. Then, if you identify material there that is beneficial, you have to cross it into modern wheats and get all the other attributes that make it agronomically suitable to grow. That is a conventional breeding program.

Senator SIEWERT—Thank you for that clarification. I will separate GMO out from genetics because I understand the difference that you are trying to make. Are there examples around the world of which you are aware where GMO work is being done for drought-resist tolerance?

Mr Reading—I think there is work going on in the US in corn with drought tolerance.

Senator SIEWERT—That is the only grain of which you are aware?

Mr Enright—I am not aware of any work that is going on in relation to wheat.

Senator SIEWERT—Regarding your investment, you are investing in the centre that you are talking about in Adelaide, aren't you?

Mr Enright—Yes, we are.

Senator SIEWERT—How much are you investing there?

Mr Enright—Our commitment is \$2 million per annum.

Senator SIEWERT—Over what period?

Mr Reading—Five years.

Senator SIEWERT—Two million over five years.

Mr Enright—No, \$2 million per year.

Senator SIEWERT—Per year for five years, so \$10 million?

Mr Enright—Correct. That is jointly with the Australian Research Council, who are the other party.

Mr Reading—And also the University of Adelaide.

Mr Enright—The University of Adelaide, the South Australian government, the University of Melbourne and the University of Queensland are also a part.

Senator SIEWERT—I know that we have talked before about your level of investment in GMO in other areas beyond wheat.

Mr Reading—We have a plant breeding CRC, value added wheat CRC, but they are conventional. We have a joint venture where we are looking at bringing high amylose wheat potentially to the market which has very good health benefits but at this stage we are developing the non-GM path to market.

Senator SIEWERT—Are you doing any other drought tolerance work with any other crops besides wheat?

Mr Enright—Yes. It is a focus of all crops. It is not just wheat, but the other principal crops are barley, canola and the pulse crops, the principal ones. All of those are being selected for their drought tolerant ability because, notwithstanding the climate change we are discussing now, the variability of climate, drought is always an issue in Australia.

Senator SIEWERT—I appreciate that. I may be misinterpreting your answer: is that \$4 million just on the wheat program or is that overall for drought tolerance?

Mr Reading—That includes investment in some of the other crops: canola, sorghum, peanuts.

Senator SIEWERT—I understand you are providing some more information but can you just say how much on each one?

Mr Reading—Sure.

Mr Enright—Yes, we can give that breakdown on all the programs.

Senator SIEWERT—That would be appreciated.

Senator O'BRIEN—Just on the levy appropriations, I see with the wheat levies it is estimated the matching Commonwealth funds will be \$52.7 million for the current financial year and \$62.2 million for the coming financial year, but for other grains it is \$38.8 million and \$38.3 million respectively. Can you explain those numbers?

Dr Samson—Could you give us the page number?

Senator O'BRIEN—Page 22.

Dr Samson—You might have to repeat the question, if you would.

Senator O'BRIEN—If you look at the columns for wheat, for the current financial year it is \$52.7 million, and for the coming financial year \$62.2 million. For other grains it is \$38.8 million and \$38.3 million respectively. Presumably they are matching levy funds; is that right?

Mr Mortimer—I think this is the money that is being paid out on the basis of the expected expenditure by the corporation. I would be grateful for any confirmation from the GRDC on that. The levies would be shown as revenue, as income, so this would seem to be the appropriation and I presume some forecasts have been made against the budget of the corporation.

Mr Reading—The \$62 million, that is what we expect the growers to contribute next year. The \$38 million is what we expect the Australian government matching dollars will be. The way we project for the growers is that basically we do the analysis in terms of expected volumes of production, expected prices and then the timing effects based on when the levies are received versus when the pool payments are made. The \$62 million is what we would expect the industry contributions would be, and the \$38 million would be the government.

Senator O'BRIEN—Why does it say other grains for the \$38 million and wheat for the \$62 million?

Mr Reading—I do not know.

Mr Reading—I know in the PBS statement, for the total levies it just says it basically recognises government funding, whereas we break it down in terms of what is growers and what is industry, so I am not sure what the explanation is there. I could not answer that.

Dr O'Connell—We might get our chief finance officer and give you a clear response there because I think we might have confused things.

Senator O'BRIEN—Yes.

Mr Pahl—Table 2.5 was the table to which you were referring. The two columns represent the estimated expenses for 2006-07 and 2007-08. With respect to the actual small difference in the other grains, I do not know why that is buried by—

Senator O'BRIEN—Are they moneys off budget or are they grower levies?

Mr Pahl—No, they are estimated expenses, which I think Mr Mortimer mentioned a moment ago would be probably the matching component from the Commonwealth.

Senator O'BRIEN—That is what I thought.

Mr Pahl—But the two columns represent the same measure just in two different financial years.

Senator O'BRIEN—Yes, I understood that. It was significant growth in the coming year for wheat but a decline for other grains.

Mr Mortimer—A very small decline for other grains.

Senator O'BRIEN—I would have expected that wheat was going to grow because it is seasonal. The fact is that other grains would as well.

Mr Mortimer—We might have to come back to you to give a definitive answer on how that is brought together but perhaps it represents some optimism about the 2007-08 year being more normal.

Senator O'BRIEN—I assumed that but for other grains, for example, people are putting in canola now and all sorts of things and I would have thought that the expectation would be they would grow in the same way as a wheat plant would grow.

Mr Reading—In our internal forecast—and I think the PBS for next year is \$102.9 million—we are assuming a wheat crop of 25 million tonnes, barley 8.9 million, canola 1.3 million and sorghum 1.9 million. That compares with the drought year figures for wheat of 9.8 million, barley of 3.7 million, canola of 0.5 million and sorghum of one million.

Senator O'BRIEN—Based on that, what would be the increase in grower levies in the coming season? Have you done that work? Have you budgeted for that work?

Mr Reading—Yes. We expect that the industry contributions next year will be \$55.9 million.

Senator O'BRIEN—Is that for wheat?

Mr Reading—No, that makes up all the crops.

Senator O'BRIEN—Okay.

Mr Reading—We are anticipating a Commonwealth government contribution of \$38.5 million.

Senator O'BRIEN—You do not know what the \$62.2 million figure is?

Mr Reading—The \$62 million; which one is that?

Mr Enright—That is the one on the first page.

Senator O'BRIEN—It is what the budget says you are going to get paid by the Commonwealth, but you are saying you are expecting \$55 million?

Mr Reading—No.

Senator O'BRIEN—From the Commonwealth.

Mr Reading—It is \$38.5 million that we anticipate from the Commonwealth.

Senator O'BRIEN—For when?

Mr Reading—For 2007-08.

Senator O'BRIEN—Okay.

Mr Reading—We are anticipating the industry contributions of \$55.9 million based on those crop productions and the lag impacts you have from previous years.

Senator O'BRIEN—You are not expecting the \$62.2 million that the PBS says they are going to pay you for wheat? You will take it, I gather, if they are offering it, but you are not expecting it.

Mr Reading—We certainly would.

Dr Samson—Senator, I think we are dangerously close to confusing you and ourselves.

Senator O'BRIEN—And indeed Mr Enright.

Dr Samson—I think so. I think he is already spending the extra money! If we could perhaps take it on notice and just clarify the make-up and the basis for those figures.

Senator O'BRIEN—I can see the beads of sweat on your forehead now about the expectation that the money will be spent, the fact that it is in the budget and an argument about who is going to keep it.

Mr Enright—I am sure we will put it to very good use.

Senator O'BRIEN—You will split the difference, I am sure, if you can.

Mr Enright—Okay, we will clarify. Our forecasting figures on those crops are reasonably accurate. If we achieve those tonnages we know roughly what it will result in and it is not \$62 million.

Senator O'BRIEN—Indeed, \$100.5 million or \$100.6 million to be precise; that is what the PBS says the Grains Research and Development Corporation is going to be paid in the coming financial year.

Mr Enright—That could only be referring to both the contribution from industry and the government contribution added together, I would suspect.

Senator O'BRIEN—Do we know if that is the case?

Mr Mortimer—I think we are actually getting some enlightenment on this. If you look at page 20 you will see the levy receipts and the wheat levy given as \$39.8 million in the relevant year. I think what is unfolding is that the budget estimate on page 22 represents the amount to be paid to GRDC representing both the levy income, in the order of \$39 million, plus the Commonwealth matching.

Senator O'BRIEN—For wheat?

Mr Mortimer—Yes, which gets you in the ballpark of \$62 million.

Senator O'BRIEN—But there is another \$38 million?

Mr Mortimer—Yes, you are quite right. I am just looking to see what—

Senator O'BRIEN—You were trying to avoid that?

Mr Enright—No, that adds up to the \$102 million, which is the figure in our PBS statement.

Mr Mortimer—Senator, pages 19 and 20 reference some of the other levies, for example the coarse grains levy. It would appear to be relevant in terms of contributing to the \$38 million. I am not quite sure what they all are but there are a few of them that would add up—oil seeds, I am told, and so on. So, yes, we can put the story together for you.

Dr O'Connell—If you want that breakdown we can do that but I think that is obviously where it is; essentially those table 2.3 numbers include the levy and the government contribution.

Senator O'BRIEN—Just so there is not something else that will jump out at us, could you give us the breakdown of all those numbers in table 2.5, how they are made up; whether it is grower and government contribution, what the amounts are?

Mr Mortimer—I will take that on notice but I think we have given the guts of the methodology. Essentially that is money—

Senator O'BRIEN—It has been a learning experience, apparently?

Mr Mortimer—It has to be trawled up from the bowels of memory.

Dr O'Connell—Some of us do not have the memory.

Senator O'BRIEN—That is all I have.

CHAIR—Thank you, that is pretty painless. You are finished?

Senator O'BRIEN—Almost.

Mr Enright—Thanks, Senator. It seems they do not owe us any more money, which is unfortunate.

Senator O'BRIEN—I would check it if I were you.

Mr Enright—We will. The drought has impacted on it.

CHAIR—Thank you.

Mr Enright—We will follow up on that information.

[5.05 pm]

CHAIR—We will now deal with food and agriculture.

Senator O'BRIEN—I will return in a moment.

CHAIR—Do any of you learned gentlemen in Food and Agriculture know about or have a view about GM cropping?

Dr Samson—Could you perhaps be a bit more specific?

CHAIR—One of the obvious challenges we have to face up to in the future and at the present time in Western Australia, for instance, is that GM cotton has the same status as marijuana; it is an illegal crop. Obviously I would be interested to know whether the department had a view on how to progress through the changes of mother nature, et cetera, in continuing production, especially if we are going to do it in the north without adopting a policy on GM; that it is not a devil with three heads.

Mr Pahl—I am not sure ultimately whether we can satisfy you on that but, if we can, it will be in the Rural Policy and Innovation Division of the department.

Senator McEWEN—I have some questions about the wine industry. As we know, the drought has also affected the wine industry significantly. I wondered whether the department had any information on how much of an effect the drought is having on the wine industry.

Mr Robinson—In the last two years before the current vintage I think the crop was 1.9 million tonnes approximately, for both years. The current estimate for the vintage that has just been completed varies between about 1.25 and 1.3 million tonnes and ABARE has, in the last month I think, put out a report on the forward years, which you might like to ask them about in the ABARE session.

Senator McEWEN—Do you have information about which states are affected most?

Mr Robinson—I think the ABARE report has estimates in it by region, yes, by the main geographic regions of wine.

Senator McEWEN—Does the department have a view on what the impact is likely to be on the exports of wine?

Mr Robinson—I do not have figures with me; I know there are estimates from the Australian Wine and Brandy Corporation or from ABARE, and we could take that on notice and get the estimates for you.

Senator McEWEN—That would be good. Does the department have any information on how many hectares of grapevines face die-off in the Murray-Darling Basin if there is no water allowance outside personal and urban use?

Mr Robinson—Not at the moment. We are monitoring the situation and keeping it under review. In a general sense, we would say that wine grapevines are less susceptible to lack of water than some of the other crops, in particular citrus and the like.

CHAIR—They are going to be saved, I guarantee you. The forecast has been right on the money.

Mr Mortimer—It is a difficult question to estimate, because no-one quite knows two things: what might happen with rainfall and irrigation releases and how individual producers will respond in terms of managing their particular wine grapes. Some wine grape producers might choose to keep their grapes going, some might prune them harder to reduce the production and the amount of water necessary and some might simply put them off or just reduce production. As the season progresses, those decisions will be taken and the amount of hectares to grape production will change. But, as you will appreciate there are a number of factors and there is a lot of uncertainty there.

Senator McEWEN—You have already said that the tonnage is reduced by a significant amount this season, this harvest, as opposed to the last two harvests. Is a portion of that occurring in the Murray-Darling Basin? Have growers there already made changes?

Mr Mortimer—I expect they have.

Senator McEWEN—Do you have any information about that?

Mr Mortimer—No, it is not possible to get a complete picture. The ABARE report that Mr Robinson referenced is probably the best resource to draw on and we can certainly get that to you. My memory is that it estimates that there will be a 33 per cent reduction for 2007; that has more or less happened. The next season will depend on what happens from spring onwards, as the growing season for grapes, the fruiting season, comes into play.

Senator McEWEN—On the 33 per cent reduction, do you know whether any of that has come from vine pull or die-off?

Mr Mortimer—I cannot comment; I cannot give you an answer.

Dr O'Connell—I think that when we come to ABARE we can go through all this in much more detail.

CHAIR—Some of it has come, by the way, from the fires in the coal country too. They have lost a good few vines up there. We will have a yarn about that later.

Senator McEWEN—Has the department done any analysis of the long-term effects of climate change on the wine industry in Australia?

Mr Robinson—Not that I am aware of. I know that the Grape and Wine Research and Development Corporation have done some work in that area but not the department.

Senator McEWEN—I note that the Winemakers Federation of Australia has a proposal to establish a wine innovation collective, culture, or something. Has the department been involved in any discussions with the Winemakers Federation about that?

Mr Robinson—We are aware of the proposal but that is about it. It is a joint proposal with Adelaide University, the GWRDC and others. We are aware of it.

Senator McEWEN—I understand they have made a formal request to the government for support for that initiative. Do you know where that situation is?

CHAIR—Is there a CRC on that?

Mr Robinson—I think it has been a request, but there has been no decision about it yet.

Senator McEWEN—From the point of view of the Winemakers Federation it is a fairly urgent issue because it deals particularly with the issues of climate change and the effect on the wine industry. Do you know when the department might be likely to make a response?

Mr Robinson—There is no decision yet; I am not sure what the timing might be.

Mr Mortimer—Essentially we have to brief the minister. This is a funding decision. He will need to take a decision on it, and that will depend on the merits of the case and the funding availability. I think that is probably as much as we can say.

Senator McEWEN—It was not dealt with in this budget round at all?

Mr Mortimer—There are no new measures in this budget that provide funding for that, as far as I understand.

Senator McEWEN—Would such a request from the Winemakers Federation or the university to establish that initiative be dealt with only in the next budget? Is there any capacity for it to be dealt with as an interim measure given the urgency?

Mr Mortimer—Lots of things can be dealt with between budgets and are. So, yes, consideration is still possible.

Senator McEWEN—But the department has not briefed the minister.

Mr Robinson—No, I am not saying that. What I am saying is that the minister has not made a decision.

Senator McEWEN—I thought you said you had not—

Mr Mortimer—It is not a budget measure but that does not mean that the minister is not able to make a decision if he so wishes. The budget is the main point at which measures are announced and funding is provided, but initiatives are taken in between budgets.

Senator McEWEN—What exactly has the department done, then, to bring this to the minister's attention?

Mr Robinson—The government has received a proposal. We have provided advice on it. There has been no decision to date.

Senator McEWEN—When did you provide the advice to the minister?

Mr Robinson—I would need to check; I believe it was this year, earlier in the year. But, as Mr Mortimer said, because there was no decision before the budget, there is nothing in the budget.

Senator McEWEN—Are there any initiatives proposed by the industry or by the department to deal with the issue of climate change and the future of the wine industry in Australia that you are aware of?

Mr Robinson—Within the last month the wine industry have released their wine directions study, which is a joint initiative between the Wine and Brandy Corporation, the Winemakers Federation and consultation with grape growers. That really is their main strategy or forward-looking document and it is quite a major document for the industry. On the grape growers' side, the department, through the Industry Partnerships Program, has provided funding for a taking stock and setting directions project, and some reports have been completed on that. The Grape and Wine Research and Development Corporation has a normal program of research and development projects.

Senator McEWEN—Those initiatives are generated from the industry itself. Has the department done anything?

Mr Robinson—We have been involved particularly in the first two of those, quite heavily involved. The taking stock and setting directions work is an Industry Partnerships Program project. We have been quite heavily involved in both.

Mr Mortimer—It might be worthwhile also picking up the issue with the Natural Resource Management Division, which is developing a climate change program across agriculture.

Senator McEWEN—Sorry, I missed that.

Mr Mortimer—There is work within the department under the natural resource management output on a climate change plan in managing adjustment in agriculture across the whole portfolio.

Senator McEWEN—In the NRM output?

Mr Mortimer—Yes, it can be picked up there.

Senator McEWEN—Is there any other work that the department has done that you can point me to with regard to which regions will be most affected by climate change in the wine industry?

Mr Mortimer—I think that is largely done in the NRM Division and also in BRS. I do not want to be unhelpful but it is not the body of work that is the focus of the activities in the Food and Agriculture Division; we tend not to be the key players or drivers in that sort of activity.

Senator McEWEN—You wouldn't be able to help me with a question about how many wine growers are likely to go out of business because of the effects of climate change in the wine industry?

Mr Mortimer—That is a very difficult issue. It is actually a major forecast, which someone in ABARE or BRS might be able to comment on. As I mentioned earlier, in terms of response to lack of water, it really depends on how farmers can adjust in terms of varieties that need less water, farming practices and so on. Mr Enright and Mr Reading set out quite a bit of information on how that is being dealt with in the wheat industry. Other people who are either in the R&D corporation for wine and grapes or the Australian Wine and Brandy Corporation could probably give a better picture on that and how it is being managed. Any research could be registered and the activities done in the research bureaus of this department.

Senator McEWEN—I appreciate your referral to other agencies within the department but is there any sense of urgency within the department at this level for the wine industry?

Mr Mortimer—The department understands the issue in front of all of agriculture on this matter and it helps in whatever practical way it can. As I said, it is a complex issue on which there is no simple, easy response and most of the strategies tend to require action on a number of levels and a number of ways to be able to be effective.

Dr O'Connell—Senator, it might help to point out that there has been a revised set of priorities for rural research and development which really are guidance to the RDCs, which is the major area you would expect to see the R&D work brokered, if you like. 'Climate variability and climate change: build resilience to climate variability and adapt to and mitigate the effects of climate change' is now one of the revised set of priorities. We would expect that to work its way into the relevant R&D corps or RDCs. That is, of course, the primary way by which the industries will start responding in terms of research and development.

Senator McEWEN—When did that change of priorities occur?

Mr Mortimer—That was released I think on 8 May, earlier this year.

Senator McEWEN—Very recently then?

Dr O'Connell—Quite recently, yes. I think that had been through the Primary Industries Ministerial Council. We can give you some further information; again, that is another division. I think that is where we would see the main focus of research and development occurring.

Senator McEWEN—How long will it take for there to be practical implementation of that change in policy direction, particularly in the wine industry?

Dr O'Connell—In terms of the RDCs, the expectation is they take those priorities on right away as helping them deliver their programs.

Senator McEWEN—Is there additional funding accompanying that change in direction?

Mr Mortimer—No, there is not.

Dr Samson—That is not to say that work has not been going on in those areas previously. What the government did was review the agricultural research priorities and, as the secretary said, reissue those priorities just to give that extra focus. In terms of what is being done in each sector and the progress within each sector, those are questions that would have to be put to the relevant research and development corporation. In the same way as we heard from Mr Enright and Mr Reading regarding progress in grains, a similar explanation from the wine industry would be required, I think.

Senator McEWEN—When the department received this instruction that this is to be the change of priorities for the RDCs, are you comfortable that you have got enough funding to enable the department and all its agencies to implement this change in policy direction?

Dr Samson—The research priorities were developed in a collaborative way, including industry, research providers and the R&D corporations themselves. It is not something that has been imposed; in a sense, these things have been developed collaboratively.

Senator McEWEN—But the industry is saying it needs more money, that more money needs to be devoted to this issue. Are you confident there is enough money?

Dr Samson—Most industries say that. There is a challenge for the R&D corporations with the industry levy funding and the matching money that the government provides. It is very much incumbent on the independent boards of those corporations to prioritise their strategic investments to match the priorities. Our expectation is that, within the money that is available, people will reprioritise and adjust their investment strategy accordingly.

Senator McEWEN—Thank you

Senator STERLE—I have a couple of questions on the Tobacco Growers Adjustment Assistance Package 2006. In this year's budget there is a transfer between years of \$6.6 million for this program. This represents the total amount that is funded for the 2007-08 year. Why has the finalising of the adjustment package taken longer than expected?

Mr Robinson—Senator, if you are asking why that transfer of money has occurred between the current financial year and next financial year, it is because it relates to growers who will opt to receive the payment and withdraw entirely from agriculture, which is an option to them under which they would get different taxation treatment.

Senator STERLE—How different?

Mr Robinson—Like other packages such as the sugar package, if they agree to leave agriculture entirely the grant is not taxable.

Mr Mortimer—If I can make a further comment, part of the reason for the delay on this is that the government was working on assistance arrangements for tobacco growers in Queensland who lost contracts—well, the companies that bought the tobacco closed down the contracts—and as a result they lost their licences which are necessary with the ATO to be able to produce. The department was working on that and indeed you might remember there was provision made for that previously in the budget. However, as we were close to finalisation of that, the additional circumstance arose of the same situation in Victoria with the tobacco companies that buy the product again closing off contracts and saying they were not going to buy any more tobacco from those growers. So the department and the government then had to re-assess the arrangements with a view to providing consistent assistance arrangements for growers in both regions, taking account of the way the grower ownership in the industry is represented through shares in cooperatives. There are some complex issues there in working out a set of arrangements that would provide consistent treatment, and that is the key reason why the package took longer to finalise than everyone had anticipated.

Senator STERLE—Will this remaining \$6.6 million be used in the next financial year?

Mr Robinson—Yes.

Senator STERLE—Is there any evidence to suggest not all the money will be used or that additional funding will be required to finalise the adjustment package?

Mr Robinson—No, the current estimates are what we expect will be paid out.

Senator STERLE—How much of this program's funding is expected to be spent in the first six months of the 2007-08 financial year?

Mr Robinson—We do not have an estimate of that; it will really depend on how many growers opt to leave agriculture and when they do that.

Senator STERLE—No early indications?

Mr Robinson—No.

Mr Mortimer—Is there a close-off date for applications?

Mr Robinson—Yes, applications close on 31 May this year. We believe all will be assessed by the end of this financial year. For those growers who are staying in agriculture but just leaving tobacco, they should receive payments this financial year. It is the remaining element that will receive payments next year.

Mr Mortimer—I think it is fair to say that once the cut-off date has come in we should be able to move the expenditure quickly, and certainly the growers will be keen to get the funds as soon as possible. So there is every incentive to make the payments.

Senator STERLE—Cut-off is 31 May?

Mr Robinson—For applications, yes.

Senator STERLE—You hope to have it all finalised by the end of this financial year?

Mr Robinson—Yes.

Senator STERLE—Would you have any idea of how much of the funding for the program has been committed and how much remains uncommitted?

Mr Robinson—In terms of applications granted, as of 17 May, 116 grants have been paid.

Senator STERLE—Have been paid?

Mr Robinson—Yes, for \$9.9 million.

Senator STERLE—Can you tell us how many Australians directly use this program?

Mr Robinson—We expect 632 applications.

Senator STERLE—A figure off the top of your head. How many staff in the department are allocated to administer this program?

Mr Robinson—Two.

Senator STERLE—Could you tell us what percentage of the department's running costs are used to administer this program?

Mr Robinson—It would be very small.

Mr Mortimer—A very small amount.

Senator STERLE—How small?

Mr Robinson—We can take that on notice.

Mr Mortimer—It is two staff out of a departmental number of thousands, so if that gives you a sense of the dimension.

Senator STERLE—You will let us know anyway.

Mr Mortimer—Yes, indeed.

Senator STERLE—Do other agencies administer this program?

Mr Robinson—Centrelink largely administer it.

Senator STERLE—Anyone else?

Mr Robinson—No.

Senator STERLE—How much does each agency that administers this program expend to administer this program?

Mr Robinson—As part of funding for the package we will be paying Centrelink approximately \$447,000 in this financial year.

Senator STERLE—That is just this financial year?

Mr Robinson—Yes, and we expect that that will cover the remaining work in next financial year. We are not actually paying Centrelink next year; it is a once-off payment for any work they are required to do.

Senator STERLE—Centrelink will get \$447,000 to expend and it will all be finished by the end of this financial year; that is what you are saying?

Mr Robinson—The payment will be made this financial year, yes.

Senator STERLE—Nothing else in the next financial year?

Mr Robinson—No.

Mr Mortimer—Nothing is provided for, Senator. I would just add the caveat that if the job is not finished for whatever reason we might have to revisit that, but we are hoping that it might be able to be wrapped up, from the Centrelink point of view, relatively quickly.

Senator STERLE—Does the department obtain information from the other administering agency to determine if this program is being managed appropriately?

Mr Robinson—Yes, we have an agreement with Centrelink for their administration of the program. They provide us with reports on how it is going, how many payments have been made, the types of payments, the types of grants—that sort of report.

Senator STERLE—Your benchmarks are what, sorry?

Mr Robinson—How many applications are being received, the type of applications they are and how many have been paid.

Senator STERLE—Anything else?

Mr Robinson—That is all that comes to mind.

Senator STERLE—How much has been the total expenditure since its inception for this program up until the end of the 2006-07 financial year?

Mr Mortimer—I do not think it is possible to say how much has been expended up to the end of the financial year; we are not there yet. All we can say is how much has been expended to date.

Senator STERLE—Of that \$447,000, you do not expect that all to be spent?

Mr Robinson—We expect—

Mr Mortimer—Are you talking about the Centrelink money?

Senator STERLE—I am, sorry. You have told me how much is Centrelink and how much of the \$6.6 million—but since its inception: you couldn't tell us?

Mr Robinson—We expect this year to pay out, as tobacco grants, \$39.3 million.

Senator STERLE—That is just for this financial year?

Mr Robinson—Yes. And next year is \$6.6 million.

Senator STERLE—Yes.

Mr Robinson—And that is the total program.

Senator STERLE—When was its inception?

Mr Robinson—The minister announced the program towards the end of the last year. I will just check.

Mr Mortimer—I think it was December last year.

Senator STERLE—By the time the 2006-07 financial year ends and if we use the whole \$6.6 million, it would be \$45.9 million.

Mr Robinson—That is right. It was announced on 26 October last year.

Mr Mortimer—Sorry, it was earlier than I thought.

Senator STERLE—Could you tell us how much is estimated to be expended on this program in the four-year forward estimates after the end of the 2006-07 financial year?

Mr Robinson—That would be \$6.6 million.

Senator STERLE—On the basis of current projections will there be an underspend on this program against the 2006-07 budget?

Mr Robinson—No.

Senator STERLE—I think that is it from me.

Dr O'Connell—Senator, to save us taking a question on notice, the percentage of staff used, as against the department, is approximately 0.04 per cent.

Senator STERLE—What took you so long!

Dr O'Connell—We had two people working on it.

Senator STERLE—Thank you.

Senator O'BRIEN—Following up on some wheat questions for the department, has the department undertaken any investigation to determine the veracity of claims in Caroline Overington's article of 10 May in the *Australian* that a new alliance of state based grain groups in Victoria, New South Wales and Western Australia is a front for the AWB?

Mr Phillips—No, Senator.

Senator O'BRIEN—You have done no investigation?

Mr Phillips—No.

Senator O'BRIEN—Is it proposed to investigate those claims?

Mr Phillips—No.

Senator O'BRIEN—Have you heard of the group known as AWB Consult?

Mr Phillips—I have heard of the name.

Mr Mortimer—It has been reported in the press.

Senator O'BRIEN—Yes. Are you aware of claims that members of that group received substantially higher prices for their wheat on the domestic market?

Mr Phillips—I am not aware of that, no.

Senator O'BRIEN—I take it, then, that the department cannot assure us that AWB has not been paying select growers a special premium for their wheat in response to their participation in the consultation process that the government organised?

Mr Phillips—The domestic market is deregulated; we do not have involvement in that.

Senator O'BRIEN—But the government has spent some money on a consultation process. If someone were providing incentives for the response to that to be directed in the interests of a particular commercial party, wouldn't that be a matter the department would need to be aware?

Mr Phillips—The consultation process the government undertook was to find out the views about the single desk. It was not about whether or not particular parties were being favoured in a deregulated domestic market.

Senator O'Brien—No, clearly it was not; it was about the single desk. But if someone was being offered an incentive to say certain things to that inquiry and therefore impact upon what was reported to government, are you saying the department would not be at all concerned?

Mr Phillips—The consultation committee was aware of the agendas being run by numerous groups involved in the consultation process. It was aware of the deregulation lobby helping organisations like the PGA, and AWB helping the groups lead by people like Jock Munro. So it would not come as any surprise that particular interest groups were helping particular sections of the industry.

Senator O'Brien—Would it come as a surprise that they were offering financial incentives?

Dr O'Connell—I think you are looking at hypotheticals or what-ifs. I am not comfortable with people trying to respond on what-if questions. We do not have any evidence of that, so I would rather that—

CHAIR—So the answer is that the department has no evidence of any incentives for—

Dr O'Connell—The question that was put, I think, was put as a hypothetical.

CHAIR—In any event, there is no evidence?

Senator O'Brien—There is no work being done, and Mr Phillips just said the department would not be concerned if financial incentives had been offered.

Mr Mortimer—I think that is an unreasonable comment to make, Senator.

Senator O'Brien—That is just what he said. If you want to clarify it, that is why I put it back on the record.

Dr O'Connell—That is why I intervened, Senator, because I think what was happening was a hypothetical response to a hypothetical question and I do not think that we can respond to hypotheticals in a case like this.

Senator O'Brien—I did ask: were you aware of claims that members were receiving substantially higher prices for their wheat on the domestic market? I do not know that it was the sort of hypothetical that you are proposing.

Mr Mortimer—I think that was answered.

Dr O'Connell—It was answered, and we went on.

Senator O'Brien—And following from that was the question—

Dr O'Connell—I think you did—

Senator Abetz—They can be aware of claims, but whether those claims have any veracity is a different issue.

Senator O'Brien—Particularly if you do not investigate them.

Dr O'Connell—I do not think it is our role to investigate those claims.

Senator O'BRIEN—The point that I was making, Dr O'Connell, was that if the government has spent a certain amount of money to go through a consultation process and someone was being paid to put a particular view, wouldn't that in some way compromise the consultation process?

Dr O'Connell—Our role in the consultation process was to support the committee that was doing the consultation, and we undertook that role; it was not beyond that point.

CHAIR—Just by way of historic snapshot of the principle of what you are talking about, I have never heard of this before but I am aware and certainly Senator O'Brien and the late Jennie Ferris and others were well aware of the fact that there was a process of, shall I say, invitation to the footy and other things offered to give people the opportunity to socialise and share a common view. If this is true it just takes it to another level, and I suppose you call that the market at work, but—

Senator O'BRIEN—It depends what you want to buy.

CHAIR—Yes.

Senator O'BRIEN—Dr O'Connell, are you saying that the department will not investigate that matter?

Dr O'Connell—I was saying that the role of the department was to support the committee in undertaking its consultation process to allow it to report. We undertook that and the committee reported. That was the length and breadth of the responsibilities I think we had. I stand to be corrected in history but that was my understanding.

CHAIR—I think the long and the short of the consultation was all very predictable. I did not get a surprise that it was, as it were, stacked out.

Senator O'BRIEN—When will the report be published?

Mr Mortimer—That is a matter for the government to determine.

Senator O'BRIEN—They have had the report now for weeks.

Mr Mortimer—Yes. We are happy to take that on notice, if you wish.

Senator O'BRIEN—Yes, if you would. Recently the Prime Minister held a meeting in Melbourne with wheat industry leaders to discuss future marketing arrangements, and I noticed that certain state based organisations and the NFF were invited to that meeting. Can someone explain why the Pastoral and Graziers Association of Western Australia were not invited to that meeting?

Mr Mortimer—I do not think that is something we pass comment on.

Senator O'BRIEN—I am not asking for comment; I am asking for an explanation if you know one.

Mr Phillips—We did not organise the meeting.

Senator Abetz—So we do not know whether that assertion is correct, let alone if there then is a reason for it.

Senator O'BRIEN—I am happy for you to confirm that or otherwise, Minister. I wanted to know did the PM exclude that organisation because they were a voice of dissent? I am happy for you to take it on notice.

Mr Phillips—We were not involved with the organisation and our minister was not involved in the invitations; it was out of the Prime Minister's office.

Dr O'Connell—I think, Senator, it would be more appropriate to put that question to the Prime Minister's department, given that it was the Prime Minister—

CHAIR—It is a question for another place.

Senator Abetz—I think you may have missed that opportunity because Finance and Administration has already been done earlier this week. We might be very kind and take it on notice and see whether we can flick pass it, or you can put it on notice to that committee—however you want to take it.

CHAIR—While you're at it, you had better check if my invitation was lost in the mail, the same as my ticket to the Grand Prix—it got lost in the mail, too!

Senator Abetz—I would have thought that is one they would have wanted to have sent you.

Senator O'BRIEN—Okay, I will put it on notice in the appropriate forum. I will just note that the Grain Growers Association also did not get a guernsey. Again arising from the Caroline Overington article published in the *Australian* on 26 April: the article refers to leaked minutes of AWB risk management meetings which record that AWB tried to send more than \$1 million to an Iranian transport company last year in breach of US sanctions. This was just weeks before the Cole commission report was handed down. Does the department know why AWB would be sending a million dollars to a shipping company in Iran?

Mr Phillips—My understanding of that is that it was an issue relating to US sanctions against Iran. AWB was intending to send or had sent a shipment of wheat to Iran, and it was for services associated with that. Perhaps you need to ask the WEA about that; it is not our area to look at those sort of contracts. The Department of Foreign Affairs and Trade looks at the issue of US sanctions and impacts.

Senator O'BRIEN—I would have, except the WEA have constantly told us it is not their business to inquire into whether sanctions are being breached. I thought the department might know something about it.

Mr Phillips—The US Office of Foreign Assets Control—

Dr O'Connell—I think we are probably going to end up speculating here, Minister, given that we have no role in this particular exercise. I am just concerned that we do not speculate and provide that to you as evidence to the committee.

Senator O'BRIEN—Did the department take any interest in that matter? I do not want you to speculate.

Mr Phillips—I am sorry, what was the question?

Senator O'BRIEN—Did the department take any interest in the reporting of that matter?

Mr Phillips—We certainly took note of the report in the newspaper, yes.

Senator O'BRIEN—What did the department do about that report in the newspaper?

Mr Phillips—We sought information from AWB and also discussed it with the Department of Foreign Affairs and Trade.

Senator O'BRIEN—Do you know why AWB chose to do such a small transaction?

Mr Phillips—That is a question you will have to ask AWB; I do not.

Senator O'BRIEN—They did not tell you?

Mr Phillips—No.

Dr O'Connell—That is where I prefer we did not speculate on motives of others.

Senator O'BRIEN—I do not want you to speculate. The purpose of my questions is to find out what the department has done and whether there is any information relevant to the matter the department can assist us with. Did AWB explain why the transaction was in US dollars?

Mr Phillips—Yes, it did.

Senator O'BRIEN—What was that reason?

Mr Phillips—Most trade in wheat around the world is conducted in US dollars.

Senator O'BRIEN—Has any further action been taken in relation to this matter by the department?

Mr Phillips—No.

Senator O'BRIEN—The minister, Mr McGauran, defended AWB and said he would be taking advice on the issue. Did the department provide advice to the minister or did he seek it from AWB again?

Mr Phillips—Did the minister seek advice from us on this issue?

Senator O'BRIEN—Yes.

Mr Phillips—No.

Senator O'BRIEN—He must have got it from AWB again. Thank you. There is a matter to do with bee die-off, the colony collapse disorder. Is that an issue for plant and animal health?

Mr Mortimer—This is the disease for bees you are talking about.

Senator O'BRIEN—Yes.

Mr Mortimer—In Queensland?

Senator O'BRIEN—North America.

CHAIR—The US and Europe.

Dr Samson—That comes under the product integrity area.

Dr O'Connell—Tomorrow after 4 o'clock, I think.

CHAIR—This committee will end up having a nervous breakdown over all this stuff. We are battling all the diseases known to man, defending Australia's shores.

Senator Abetz—Chair, I am very concerned about the wellbeing of the committee, so if it wants to adjourn early—

CHAIR—You won't have any argument from us.

Senator O'BRIEN—It is just we will have to come back on another day to finish it. I understand the horticulture code of conduct came into effect last Monday; am I in the right area here?

Mr Mortimer—Yes.

Senator O'BRIEN—What coordination activities are the department undertaking with the ACCC to ensure that growers are not being exploited during the early stages of the code?

Mr Robinson—I think the only and best way to answer that is to say that we just keep in regular contact with the ACCC. We get information from growers, as does the ACCC, and we make sure that they are fully aware of it.

CHAIR—When did it start?

Senator O'BRIEN—A couple of weeks ago.

Mr Robinson—On 14 May.

CHAIR—There were no reports of bodies in boots of cars or anything, so it must have been all right.

Senator O'BRIEN—There actually were—not quite that, but there have been some comments that have come to my office that growers are being threatened into signing backdated contracts or other unfair arrangements in the lead-up to the introduction of the code. Has the department been made aware of those concerns?

Mr Robinson—We are aware of those concerns, yes. Graeme Samuel of the ACCC put out a statement about backdated contracts in the month leading up to the code coming into effect. There are other contracts out there that the ACCC is having a look at.

CHAIR—With great respect, was there a threat associated with those contracts?

Senator O'BRIEN—Yes: we don't sell your product at all.

Senator Abetz—We have to be careful about—

CHAIR—What I am alluding to, Minister, is this might properly be a matter for the police.

Senator Abetz—That is what I am suggesting.

Senator O'BRIEN—Or the ACCC.

Senator Abetz—If that is the case, it would be singularly unhelpful for us to be trying to speculate—

Senator O'BRIEN—I have not named any person or a particular action and I was inquiring as to whether the department was receiving the same intelligence that I was.

Senator Abetz—Yes, in general terms.

Senator O'BRIEN—I wanted to know what actions the department had taken to either prevent unfair or illegal contracts being signed or to ensure that farmers are informed of their rights against such unfair or illegal actions.

Senator Abetz—Another advertising campaign.

Mr Robinson—We have become aware of these claims and we talked to the ACCC straightaway because they are the enforcement body.

CHAIR—If there is a threat associated with that, would it be a matter for the Australian Federal Police or the state police?

Mr Robinson—I do not know; that is probably a legal question.

Senator O'BRIEN—Is it a criminal offence or a trade practices offence, is the question.

CHAIR—I have to say you may interpret some of those things as a criminal inducement.

Mr Mortimer—If there is a body in the trunk of a car it is a criminal issue and you go to the nearest police officer and that is probably state, but if it is a matter of offending against the Trade Practices Act I think you might then be in the territory of the Federal Court.

Senator O'BRIEN—Yes. And if it is about whether your crops will not be sold it is about trade practices. That is the claim, isn't it—that some people are saying they just will not be able to sell their products through particular people without this contract which would avoid the code?

Mr Robinson—I think that is right, yes.

CHAIR—Is it possible for someone to have signed up five years in advance to avoid the code?

Senator O'BRIEN—Prior to the code coming into effect a contract backdated to have an impact would avoid the code for the period of the contract, I think.

Mr Robinson—That is right—before the regulations were gazetted in December. If an agreement predates that December date then it is not affected by the code.

CHAIR—Wouldn't there want to be a safety provision to break the contract?

Mr Robinson—If the contract is amended from either side, if a grower, for example, says, 'I want to negotiate a new contract,' or 'I don't want to continue with that contract,' then the replacement contract would be covered by the code.

CHAIR—I can still remember one of the first loads of lettuces going from Hay to the Melbourne markets in the sixties. It was a new enterprise and the lettuces were allowed to stay out in the yard and rot because the mafia at that stage ran the show.

Mr Mortimer—That is the sort of issue that this code is designed to deal with, Senator.

Senator O'BRIEN—Has the department actually received complaints and, if so, how many since before the implementation last Monday?

Mr Robinson—We have received complaints. I could not tell you how many but, yes, we have received complaints, both of pressure to backdate arrangements and pressure to sign arrangements that growers think are not consistent with the code.

Senator O'BRIEN—Have they continued since the code came into effect?

Mr Robinson—Yes.

Senator O'BRIEN—Is there any way of ascertaining the number?

Mr Robinson—We could check our files et cetera and try to provide an estimate.

Senator O'BRIEN—You do not have the actual number recorded anywhere?

Mr Robinson—No.

CHAIR—Would it be a reasonable thing to do to put an ad in the paper to say, 'If you have been threatened or encouraged or coaxed' et cetera?

Senator O'BRIEN—We would have to be careful about putting an ad in the paper.

Senator Abetz—Yes, Kevin Rudd would not approve of that.

Senator O'BRIEN—Being serious, reasonable expenditure in that area would not hurt.

CHAIR—These people need protection.

Mr Mortimer—Senator Heffernan, I think Mr Robinson mentioned earlier that the commissioner, the head of the ACCC, made a statement in response to a story circulating about growers being pressured.

CHAIR—Would that statement appear on a noticeboard at the markets?

Mr Mortimer—I cannot guarantee that. It may well have, if certain grower groups were keen to make it clear to the other parties that the code was now in place and that Graeme Samuel, on behalf of the ACCC, was keeping a close watch on it. Mr Robinson might be able to point out that there has been awareness raising and an information campaign to the industry on the code in the run-up to its implementation.

Mr Robinson—The ACCC has taken the primary lead on talking to growers. They have conducted 114 meetings around the bush. There are guides of how the code should work, both in English and non-English languages, and they are going to continue the public meetings. We are going to continue to try and put information out there. I know the ACCC are aware of the concerns and complaints and I know they are talking to some people in the industry.

Dr O'Connell—The ACCC have a relatively well-oiled machine for these kinds of exercises. They were certainly at the launch of the code of conduct and were at pains to point out that they knew how to go about this business of targeting the people who needed to know, and that they were going to be doing that and taking a very tough line on breaches. I think this has fallen directly into the ACCC's—

CHAIR—Is it fair to say this could be an actual operational matter then?

Dr O'Connell—Yes.

Mr Mortimer—Absolutely.

Senator O'BRIEN—In terms of the ACCC's operations.

Dr O'Connell—Yes.

Senator O'BRIEN—Have any grower bodies contacted the department to complain about the code of conduct, its operation or events which have taken place around its implementation?

Mr Robinson—I think grower organisations are generally happy with the implementation. There are some aspects of it on both the grower side and the wholesaler side that people have raised concerns about, but it has been a long debate I suppose and some of it is continuing.

Senator O'BRIEN—Has the department had any feedback from the ACCC about information it has passed on?

Mr Robinson—About complaints?

Senator O'BRIEN—Yes.

Mr Robinson—We continually talk to them. They broadly tell us what action they are taking—not about individual cases, I might say, but broadly about how they are handling complaints.

Senator O'BRIEN—Has the department done any research on the development or expansion of the code of conduct to include the major supermarkets?

Mr Robinson—Not research as such; there was a regulatory impact statement done for the code which raised that issue, and the government decided that the code would not apply to the grower-retailer transaction.

Senator O'BRIEN—Was there any consultation with the supermarkets about their possible inclusion in the code?

Mr Robinson—I am sure there was at the time. This was perhaps before my time, but there would have been at the time, yes.

Senator O'BRIEN—Has the department got specific funding for its role in the implementation of the horticulture code of conduct?

Mr Mortimer—Yes; I will take you through that. Some of it is referenced in the budget documentation.

Mr Robinson—Back at supplementary additional estimates, there was funding provided for the administration of the horticulture code, and there was administered money for the provision of funding to reduce the cost of mediation for the code.

Senator O'BRIEN—What page is that on? Is it page five?

Mr Robinson—Yes.

Senator O'BRIEN—So \$176,000 in 2006-07; is that all spent?

Mr Robinson—No, that \$176,000 is funding for assisting in the cost of mediations, and mediations have only come into effect since the code started last week. So effectively none of it has been spent yet.

Senator O'BRIEN—What about the \$528,000 in 2007-08?

Mr Mortimer—That is the estimate for the next year.

Senator O'BRIEN—For the same thing?

Mr Mortimer—Yes, and you will see the numbers below on that page, departmental variations resulting to staff being in DAFF, which is also relevant.

Senator O'BRIEN—Is the \$200,000 for 2006-07 accounted for in the expenditure?

Mr Mortimer—I believe so. It has been a very staff intensive job to get the code developed and set up.

Senator O'BRIEN—What about once the code is set up, shouldn't those costs go down?

Mr Robinson—The administered costs, if you look at the forward years, actually do go down. It is a bit hard for us to assess it fully at the moment, but we are assuming there will be less dispute after the first year of the code.

Senator O'BRIEN—The departmental costs do not as well; they go up?

Mr Robinson—No.

Mr Mortimer—The job remains with us to supervise this program and make sure it works effectively. I will say it has been very intensive on staffing, because it has been a much discussed and contested issue and there has been a lot of work involved in discussing it with parties. We will need to maintain a watch on it and deal with ACCC and the industry groups, to be comfortable that it is continuing to work effectively.

Senator O'BRIEN—Who is going to do the mediation?

Mr Robinson—The department has a contract with a group called the Accord Group. A gentlemen by the name of David Newton is the mediation advisor under the code. His job will be mostly to coordinate others; he has a group of mediators around the country, so if there is a dispute in Perth it is more than likely a Perth mediator will be appointed.

Senator O'BRIEN—Have the complaints come from more than one location so far?

Mr Robinson—About the code?

Senator O'BRIEN—Yes.

Mr Robinson—Yes.

Senator O'BRIEN—Which locations?

Mr Robinson—Generally, the code is—

Senator O'BRIEN—National, yes?

Mr Robinson—Yes, and widely supported by grower groups and not so much by the wholesaler groups.

Senator O'BRIEN—I mean in terms of its implementation: the allegations that some growers are under pressure to sign backdated agreements or other things. I have heard of them from a particular area; I am wondering which areas you have heard from.

Senator Abetz—What do you mean area, do you mean a geographic area?

Senator O'BRIEN—A geographic area, yes.

Senator Abetz—I think we better be careful as to how closely we start identifying people.

Senator O'BRIEN—We are not identifying people when we talk about an area.

Senator Abetz—Yes, but it stands to reason.

Senator O'BRIEN—There are a broad number of traders in a variety of locations. I do not think you would identify a particular trader by naming a location; that is right, isn't it, Mr Robinson?

Senator Abetz—You may well do; that is the difficulty.

Mr Robinson—I think it would be fair to say that the complaints we are hearing are mostly about traders, about wholesalers. For example, Sydney has relatively fewer complaints I would say than some other groups.

Senator O'BRIEN—What about Brisbane?

Mr Robinson—In Brisbane I would say there is quite a degree of complaint.

Senator O'BRIEN—That is why I asked you, because I have heard of Brisbane. But I was wondering if there were other areas where concern was coming through in a significant way.

Mr Robinson—In a very general sense I would say that I think the department has probably had more complaints from Brisbane and Melbourne.

Dr O'Connell—I would be happy to take that on notice rather than give a vague response. In doing that, we could make an assessment on whether or not there is anything in the information which would allow the identification of specific cases.

Senator O'BRIEN—So it is fair to say that it is not known whether the mediator funds will be used or not?

Mr Robinson—Those financial estimates are our estimates. Because it is a new program there is uncertainty about it. It is administered money; if it is not spent it returns to the budget.

Senator O'BRIEN—This program is administered by this department, but the ACCC also plays a role?

Mr Robinson—They have the enforcement role. The code is a regulation under the Trade Practices Act.

Senator O'BRIEN—Is there a reporting role between the ACCC and the department so the department can understand how their code is working or not?

Mr Robinson—At the moment it is relatively informal. The ACCC quite rightly do not talk about individual actions or investigations they might be taking. As the introduction period goes through, we will be doing our best to monitor it. The minister has announced the establishment of a code committee which will be looking at how it is operating. He has not announced names of who will be on it yet, but there will be a code committee and we will be providing service to that committee to monitor how it is being implemented.

Senator O'BRIEN—Animal welfare and Animal Health Australia are in Product Integrity?

Mr Mortimer—Yes.

Senator STERLE—I would like to talk about national livestock identification system, if I may.

Mr Mortimer—The National Livestock Identification System is also with Product Integrity.

Senator STERLE—Great.

Senator O'BRIEN—You will have to come back.

Senator STERLE—Sorry about that.

Senator McEWEN—Can the department give me an update please on the current status of the National Food Industry Strategy, which I understand was intended to be completed this year?

Mr Souness—Yes, the National Food Industry Strategy comes to an end under the current funding in June this year.

Mr Mortimer—There has been additional funding provided through further initiatives, which Mr Souness might be able to take you through.

Mr Souness—Under the budget, the government announced new funding for an extension of the National Food Industry Strategy that would include a Food Innovation Grants program, additional funds for a Technical Market Access Program, an extension of the international food standards work in the department and a National Food Industry Council.

Senator McEWEN—Can you point me to where that is in the PBS?

Mr Mortimer—Page 18, which is new 2007-08 budget measures table 2.2; the second page of the table on page 18.

Senator McEWEN—That is the—

Mr Mortimer—National Food Industry Strategy. It is up the top: the first four items.

Senator McEWEN—Which are the new ones?

Mr Mortimer—They are all new. The previous measures were lapsing programs; they ran for five years. There was a review done and the government took a decision to continue with these elements.

Senator McEWEN—They are all administered by the Food Industry Council, is that right?

Mr Mortimer—No, the Food Industry Council does not have a direct administrative role. The food industry council is an advisory council and gives advice to the government.

Senator McEWEN—The Food Industry Council is pre-existing, so that is not a new allocation?

Mr Mortimer—It is new in a technical sense that the previous program lapsed. Additional funding was provided, so it is regarded as new in a budget sense.

Senator McEWEN—To enable the council to continue?

Dr O'Connell—When you have a lapse in a program, the administration of all these technically new programs still has to be settled by the minister formally, so that is a matter still with the minister.

Senator McEWEN—The people on the Food Industry Council—the board or whatever it is—are the same?

Mr Mortimer—No; the council has appointments that finish on 30 June of this year and the government has announced its intention to reconstitute the council with operation from 1 July next year. Just for clarity, I should mention that previously the food innovation grants, up to 30 June, have been run by an industry owned company called NFIS Ltd. The minister is yet to make a decision on the administration arrangements for that over the next four years. The other two initiatives are the National Food Industry Strategy Technical Market Access Program and International Food Standards Initiative, which are administered by the Department of Agriculture, Fisheries and Forestry.

Senator McEWEN—The decision the minister has to make on the administration arrangements: sorry, what was the name of that company?

Mr Mortimer—NFIS Ltd.

Senator McEWEN—When is that decision expected?

Mr Mortimer—As soon as practicable.

Senator McEWEN—It is sometime before the end of the financial year?

Mr Mortimer—Yes, absolutely. There is a contract that currently expires on 30 June, so before the end of the financial year.

Senator McEWEN—What was the value of the current contract with that company?

Mr Mortimer—The contract has a value in terms of the value of the programs it was administering. For example, in the five years to 30 June 2006-07 the company administered programs for food innovation grants worth \$50 million, the centres of excellence was \$12 million, a market development program worth \$5.4 million, a food chain development program worth \$7.9 million and a management program set up of \$0.4 million. It also provided secretariat services to the council. The contract provided for administration funds to be drawn from those amounts with a limit of 10 per cent for the administered programs.

Senator McEWEN—That is a private company?

Mr Mortimer—That is right, yes.

Senator McEWEN—That company may or may not be the benefactor of the next contract, is that right?

Mr Mortimer—Yes, exactly. Of those activities previously run by NFIS Ltd, the only program that is continuing is the Food Innovation Grants program.

Senator McEWEN—Right, so these new programs and initiatives: is that all that is going to happen? Is there another review of the strategy? Is there an evaluation?

Mr Mortimer—There will be an evaluation at the end of the four-year period for which these programs are funded.

Senator McEWEN—No, I understand that. These programs that are in this PBS: are they the full extent of the evaluation and outcomes of the current strategy?

Mr Mortimer—I think I understand what you are saying, Senator. The new programs decided by the government reflect an evaluation of the range of programs to date, and the government considered that evaluation in coming to a decision on which elements it wanted to continue with.

Senator McEWEN—What process was gone through to evaluate the strategy that led to these programs continuing?

Mr Mortimer—An external company, KPMG, was engaged to do the evaluation. It was assisted by a steering committee which comprised I think three industry members, whose names I cannot remember, and a representative from NFIS Ltd. DAFF chaired the group, and there was a representative from the Department of Finance and Administration on the evaluation and a representative from the Department of Industry, Tourism and Resources.

Senator McEWEN—Did KPMG engage with industry representatives as well?

Mr Mortimer—Yes, they did surveys and consultations with industry groups and businesses. Quite an extensive set of consultations and research was done by KPMG.

Senator McEWEN—Is the KPMG report available?

Mr Mortimer—It is a budget document at this stage. I think we would have to take that on notice.

Senator McEWEN—Is there any reason it would not be available?

Mr Mortimer—I am not completely au fait with the budget rules. I know that these reviews that are done of lapsing programs are treated as budget documentation because they accompany all the budget papers. Whether that status can change after the event I will need to get advice on.

Senator McEWEN—The original strategy or the strategy that is still in place had key themes of innovation, market development, business environment and environmental sustainability. Is there a report or other documentation that demonstrates tangible outcomes against each of those criteria?

Mr Mortimer—I think the review report is the best source of that, I have to say.

Senator McEWEN—The KPMG report.

Mr Mortimer—Yes.

Senator McEWEN—If we cannot get hold of that, where are we going to find out whether those were met?

Mr Mortimer—I think we have to take it on notice and see what reporting we could potentially provide to you. It depends what level you want, whether you want the reporting on the outcomes of the funded projects or something more.

Senator McEWEN—We would certainly want the outcomes of the funded projects. Obviously a substantial amount of money has been committed; it would be nice to know what was the justification for committing this additional funding.

Mr Mortimer—The justification was essentially built around some of the issues in the report which emphasised the sorts of pressures the industry is facing. There was clearly found

to be an ongoing need for funding for innovation activities in the industry and also for market access issues because they have been funded for another four years.

Mr Souness—There are a number of resource documents over the life of the NFIS initiative that were produced by the company. As far as I know, and I checked the other day, they are available on their website.

Senator McEWEN—KPMG or the other?

Mr Souness—No, other resource documents have been produced as a result of a number of the initiatives under the strategy over the years; they are available to the public on their website.

Senator McEWEN—The amounts that you have told me about in the PBS, is that the extent of the Australian government financial support that has been provided as a result of the strategy and the review of the strategy?

Mr Mortimer—That is the extent of the support that has been provided over the next four years.

Senator McEWEN—Have any pre-existing government programs been restructured to improve effectiveness as a result of the strategy?

Mr Mortimer—Within DAFF?

Senator McEWEN—Yes, within DAFF.

Mr Mortimer—Not that I can think of. The council has provided advice on different issues—for example, on market access and the like, but in terms of specific programs, I think the answer is no.

Senator McEWEN—The strategy was proposed from the beginning to be industry-led and inclusive of the whole government. Has it been possible to maintain a significant degree of high-level participation and involvement throughout the work on the strategy?

Mr Mortimer—I think it is fair to say so. The council has met typically three times a year. There is an advisory committee that gives advice to NFIS Ltd on the innovation grants, which provides engagement and a set of priorities and steering on which are the most productive activities. The market development activities engage businesses in terms of missions to potential new markets, such as Dubai and so on. I think it is fair to say there has been a very high level of industry engagement.

Senator McEWEN—Is that issue dealt with in the KPMG report as well?

Mr Mortimer—Yes, it is.

Senator McEWEN—Can you just tell me again what government agencies remain involved in the implementation of the strategy, apart from DAFF, obviously?

Mr Mortimer—There are no other government agencies directly involved, albeit the market development program engaged Austrade in particular, and DFAT in terms of some of the missions. A senior officer of the Department of Industry, Tourism and Resources was a member of the advisory committee on the innovation grants program.

Senator McEWEN—Those departments still have an ongoing role?

Mr Mortimer—The market development program is not to continue, so that will fall away. As I said earlier, the administrative arrangements for the food innovation grants in the period ahead have not been finalised, but I would expect that there would be an advisory committee in some shape or form to continue to give advice on that.

Senator McEWEN—The four initiatives that you indicated in the PBS at page 18: what are the reporting mechanisms or evaluation processes for each of those going to be?

Mr Mortimer—There will be an evaluation required in the fourth year because they are four-year programs. In terms of reporting, those programs will need to report in the normal way, both in terms of the department's annual report and in terms of other mechanisms. That will be managed, I suppose, in the normal businesslike way.

Senator McEWEN—What does that mean? Is a private company going to be engaged in the evaluation?

Dr O'Connell—I think it depends on the specifics of the arrangements put in place, but you would normally have evaluation as part of the operational arrangements of a program, you would build them into the program delivery program. What reporting, what information would need to be drawn out, whether there are baselines required—those sorts of things would be part of the detail of the program design that people would go into as soon as the arrangements have been settled.

Senator McEWEN—Would those evaluations be done internally or with the assistance of consultants?

Mr Mortimer—I expect there will be an external evaluation, in the same way as there was an external evaluation done of the program to date. It is a major program with significant funding and typically they are subject to external review.

Senator McEWEN—Are the external evaluation costs included in those costs in the PBS?

Mr Mortimer—The external evaluation costs are in the fourth year of the item relating to the National Food Industry Council.

Senator McEWEN—How much is that?

Mr Mortimer—I think it is a couple of hundred thousand, from memory.

Senator McEWEN—A couple of hundred thousand to evaluate all those programs in the fourth year?

Mr Mortimer—\$200,000 to \$300,000 is the general price for a major external evaluation these days.

Senator McEWEN—That is \$200,000 to \$300,000 for each of those programs, or collectively?

Mr Mortimer—No, that would be for the group of programs.

Senator O'BRIEN—I want to correct the record. I referred previously to the Pastoralists and Graziers Association, because my note says 'PGA'; it was the Grain Growers Association or GGA. I just want to correct the record.

Senator McEWEN—Is this an appropriate place to inquire about the Australian Wine and Brandy Corporation Geographical Indications Committee?

Mr Mortimer—Mr Robinson should be able to help you.

Senator McEWEN—For some reason I am getting all the wine questions!

Senator O'BRIEN—They are a South Australian based organisation.

Senator McEWEN—I understand the body responsible for the declaration of geographical indications for wine in Australia, the Geographical Indications Committee, GIC, is in general made up of individuals drawn from within the grape growing and wine making industries; is that right?

Mr Robinson—Yes, I believe that is correct.

Senator McEWEN—It operates under the Australian Wine and Brandy Corporation Act 1980?

Mr Robinson—Yes.

Senator McEWEN—On the basis that it is an independent arm of the corporation?

Mr Robinson—I would need to confirm that.

Senator McEWEN—Can you explain the relationship?

Mr Robinson—I am not absolutely across it myself, Senator, and it is probably a question better put to the AWBC, but they do have the role of regulating the various geographic indicators in Australia; they have a committee to do it. I am not sure it is correct to say it is independent of the AWBC; it is an AWBC role.

Mr Mortimer—I would point out that AWBC is a statutory corporation with power to act in its own right, so it is arm's-length from the government. We are not quite sure what sense of independence that you are looking at there, but it is independent of government.

Senator McEWEN—The decisions that the committee makes can have a significant impact on the different wine regions in Australia. How do you ensure that there is some distance between the committee and the Wine and Brandy Corporation?

Mr Mortimer—That is a fair comment. In terms of broad governance, the corporation, if it is to make any decision, obviously needs statutory authority to enforce anything. The question to be tested, and what we probably have to come back to, is the exact composition of that council and what process is put in place by AWBC to establish it and to ensure that it is truly independent and at arm's-length in coming to decisions which potentially could commercially impact on wine growers, which I think is the issue you are raising.

Senator McEWEN—Can you provide further and better particulars?

Mr Mortimer—Yes, I will come back to you on that.

Senator McEWEN—You may or may not be able to answer this question: is the brief for the Geographical Indicators Committee to consult with all interested parties when it is establishing a geographical indication?

Mr Robinson—I am sure it is, Senator. I know they do quite considerable consultation before coming to decisions. I am aware that there are some that are controversial, but they certainly do consult.

Senator McEWEN—Both within Australia and externally?

Mr Robinson—No, I would say mostly within Australia.

Senator McEWEN—Is there some brief or charter for the committee?

Mr Robinson—There would be. Again, it is a question probably best directed to AWBC. We could take it on notice and ask them.

Dr O'Connell—We will provide the information to you on notice, if we can. We could certainly do that.

Senator McEWEN—The sorts of things I am interested in are what requirements there are on the Geographical Indications Committee to consider the views of all interested parties, and what kind of material they take into account when they make their decisions. As you said, some decisions are controversial. Can you update the committee on the process for the establishment of geographical indications for wine in the Penola and the Coonawarra areas?

Mr Mortimer—I would have to take that on notice.

Senator McEWEN—Why do you not know?

Mr Mortimer—I am sorry?

Senator McEWEN—Do you think we need a fact finding mission?

Senator Abetz—Yes, you do.

Senator McEWEN—You will have to take that one on notice?

Mr Mortimer—Yes, I think.

Senator McEWEN—Are you aware of the issues?

Mr Mortimer—Yes, we are aware of those; we are very aware of Coonawarra wines. As I mentioned earlier, it is an issue that has been put at arm's-length from government through the statutory corporation and that corporation has put mechanisms in place. Government looks for those arrangements to deal with the issues and resolve them as best they can.

Senator McEWEN—What else is the government doing to resolve those issues?

Mr Mortimer—If the issue cannot be resolved it may well come to government, but I am not aware of any coming to the minister or government in recent times.

Mr Robinson—I was aware that that example is controversial, but we would have to take on notice exactly what AWBC are doing in regard to the issue.

Mr Mortimer—For example, AWBC may well have unfettered power to make a decision and that is that. We will need to get you an answer on that.

Senator McEWEN—You do not know whether the corporation's decisions are appealable to the AAT?

Mr Mortimer—No, I would have to check on that.

Mr Robinson—I believe they have provisions to review decisions and they are covered—

Senator McEWEN—The corporation has provisions?

Mr Robinson—The corporation does, and they are covered by the Ombudsman. Complainants, if they believe they have not been dealt with in due process, could take the issue to the Ombudsman.

Senator McEWEN—You will advise the committee on that issue?

Mr Robinson—Yes.

Proceedings suspended from 6.32 pm to 7.30 pm

CHAIR—Questions, Senator O'Brien?

Senator O'BRIEN—Mr Pahl, you want to update some matters now?

Mr Pahl—Yes. I want to clear up that issue about special appropriations that you asked about before the break. If you go to table 2.5 at page 22, you will see an amount in the budget estimates for 2007-08 of \$62,280,000 for wheat.

Senator O'BRIEN—Yes.

Mr Pahl—If you go back to the table at 2.3 on page 20, you will see under the wheat levy \$39.8 million is the budget estimate. That is the estimated amount of levy collections for the next financial year under the wheat levy. The difference between the two, which is \$22.5 million, is the government matching amount. If you add that to the \$39.8 million levy amount, you will come up with the \$62.28 million that appears in table 2.5 Special Appropriations on page 22. The \$22.5 million there is the capped amount, which is 0.5 per cent of the gross value of production estimated for the next financial year.

For other grains there were three levy items—coarse grains, grain legumes and oilseeds. The levy estimates for those are \$14.1 million for the coarse grains, \$4.9 million for the grain legumes and \$3.7 million for oilseeds. They all roll in together and make up that amount in for other grains. The government contribution there is \$15.6 million in total, which again is 0.5 per cent of the estimated gross value of production for next year.

Senator O'BRIEN—With that table on page 22, would I arrive at the actual Commonwealth expenditure by deducting relevant amounts from the total at 2.3?

Mr Pahl—That is correct. The calculation of the Commonwealth contribution is not identical for every levy, but for the ones that we have talked about here it is the same.

Senator O'BRIEN—But that will give me the number?

Mr Pahl—Yes. If you take the estimated levy collection amount in table 2.3 for 2007-08 from the amount that appears under the special appropriation in table 2.5, that will give you the Commonwealth contribution.

Senator O'BRIEN—So the actual Commonwealth total for the coming financial year would be \$1,088,972,000 less \$590,039,000.

Mr Pahl—For 2007-08, it would be \$1,088 million less the \$590 million. That is correct. So the overall Commonwealth contribution for next year would be about \$498 million.

Senator O'BRIEN—Thank you. Concerning payments to the MLA, this financial year the budget is \$682,000 and zero for next financial year, which does not sound right.

Mr Murnane—Those payments are in respect of what is commonly known as the Cormo levy, which was the levy placed on live exports to recoup the costs incurred when Saudi Arabia rejected a shipment of live animals some years ago—the *MV Cormo Express*. We anticipate the full costs of that exercise being recouped by the end of June. Hence, there is no provision for payment next year.

Senator O'BRIEN—Thank you for that explanation. Mr Souness, you may have answered this but I want to be sure. There is \$2.3 million this financial year and zero for next financial year for the National Food Industry Strategy centres of excellence

Mr Souness—Yes, that is correct. Centres of excellence is one of those programs under the original National Food Industry Strategy that terminate. The intention was that those centres should be self-sufficient by this stage.

Senator O'BRIEN—And zero for next year?

Mr Souness—That is right.

Senator O'BRIEN—Are you able to supply a list of grants provided under the Food Innovation Grants Program?

Mr Souness—I can. They are also listed on the website of National Food Industry Strategy Ltd. There is a full list and an explanation of each of those grants. I believe that is www.nfis.com.au.

Senator O'BRIEN—Is there money in the coming year's budget for those grants?

Mr Souness—Yes. Under the budget announcements, there is an extension of the Food Innovation Grants Program for a further four years.

Senator O'BRIEN—Where is that in the PBS?

Mr Souness—You will see that in table 2.2 on page 18. It is the first entry, 'Global Integration—Food Innovation Grants—extension'.

Senator O'BRIEN—Yes. Are any funds being carried over?

Mr Souness—No.

Senator O'BRIEN—What was the department output figure for 2006-07 expected to be?

Mr Souness—When you say 'department output', do you mean the figure for food innovation grants?

Senator O'BRIEN—Yes.

Mr Souness—The funds for the Food Innovation Grants Program pass to the company NFIS Ltd for payments to grant recipients in the final year of the program. We have a small administration function under our contract management role, but the company is responsible for passing those moneys over to grant recipients.

Senator O'BRIEN—The department outputs in the coming financial year are just over \$1 million and the same in the out year.

Mr Souness—Under the new Food Innovation Grants Program, there is an allowance—and I think it is \$4.2 million for administration over the four years—and the remainder, which is approximately \$50 million, is available for grants across the four years.

Senator O'BRIEN—So the \$4.2 million is money for the department to spend, is it?

Mr Souness—It is for administration.

Mr Mortimer—I think I mentioned earlier, in answer to a question from Senator McEwen, that the minister is yet to make a decision on the administration of the food innovation grants, so it is unclear whether they will continue to be administered by NFIS Ltd or whether they will be administered by the department. Those costings there were established with the finance department in development of the budget according to the normal DOFA costings template.

Senator O'BRIEN—So at this stage they are notional?

Mr Mortimer—No, the money is real.

Senator O'BRIEN—I mean the amount. You do not really know how it is going to be done yet or what the costs are.

Mr Mortimer—We do know that that is the money that has been provided to administration and administration will have to live within those means.

Senator O'BRIEN—One dollar in 13 to administer the program, roughly.

Mr Mortimer—That is about seven per cent, yes. That is normal practice. It is within line of the DOFA guidelines. As I said, the amounts were established in negotiations with the finance department in the budget process. They were strictly accounted.

Senator O'BRIEN—Strictly accounted?

Mr Mortimer—They are not the easiest people to get money out of always, Senator.

Senator O'BRIEN—I do not think they have been too hard this year, have they?

Mr Mortimer—I will not make a comment.

Senator O'BRIEN—How many staff members in the department will be required to administer this program?

Mr Souness—There are seven full-time staff allowed for under the departmental funding there.

Senator O'BRIEN—Do other agencies administer this program?

Mr Souness—That is yet to be determined, Senator.

Senator O'BRIEN—The National Food Industry Strategy food safety and quality initiative is budgeted \$250,000 this financial year and none for the next financial year. Can you explain that?

Mr Souness—Again, that is one of the initiatives under the current NFIS that terminates in June this year.

Mr Mortimer—Essentially, that program finished its purpose and there was no need for it to continue.

Senator O'BRIEN—Has it been evaluated?

Mr Mortimer—Yes, it was evaluated as part of the KPMG review. That initiative was set up for a specific purpose: to develop competency arrangements for auditors for food safety. Those arrangements have now been settled and put in place.

Senator O'BRIEN—The Food Processing in Regional Australia program has a reduction in funding from \$4.2 million to \$2.6 million in the coming financial year. Could you explain that, please?

Mr Souness—That is correct. That program is coming to a conclusion next financial year. It was designed to deliver four rounds of grants totalling about \$10.5 million. It has just completed the last round of that grant program, so it then shifts into a monitoring and wind-up stage this coming financial year.

Senator O'BRIEN—Is the \$2.6 million partially for payments under grants?

Mr Souness—Yes, it is. Projects will be running right up until the end of that program, so there will be payments to grant recipients.

Senator O'BRIEN—How much in that \$2.6 million?

Mr Souness—It should be the \$2.6 million. There are some additional funds of about \$358,000 for staffing for that program, so the \$2.6 million will be in grant payments.

Senator O'BRIEN—Why has \$310,000 been transferred between years, as stated on page 21 of this year's portfolio budget statement?

Mr Souness—This program has experienced some delays in a number of the grant recipients completing their projects for a number of reasons: the drought has had an impact in the availability of raw materials, the lack of skilled labour in some areas. There have been a number of reasons, so some milestones for grant recipients have slipped and so have necessitated a rephrasing of that money.

Senator O'BRIEN—Has the department assessed whether the government's decision to wind up agricultural managed investment schemes will have an impact on food processing in regional Australia?

Mr Mortimer—I think that is a question for the policy division, Senator. Food and Agriculture does not have responsibility for that.

Senator O'BRIEN—I will put that on notice. The PBS on page 21 indicates there is a \$740,000 movement in funds between years for assistance to the vegetable industry program. Could that be explained, please?

Mr Robinson—The vegetable industry group that is recommending how the money should be spent released their strategic plan in September last year. That was later than expected, so the projects are going to be later than expected.

Senator O'BRIEN—What will the funds be used for?

Mr Robinson—The plan has seven foundation projects: firstly, to develop a plan which, as I said, they did. They are making some investments in leadership and reviews of industry structures. The others are enhancement of industry information; industry benchmarking;

business skills development; and global comparative analyses and market development. The vegetable industry group are doing a group of projects over the three-year period, responding to those seven themes.

Senator O'BRIEN—The increase in funding between 2006-07 and 2007-08 is mainly down to the delay in the process getting started, is it, and the transfer of funds?

Mr Robinson—It is the delay in the strategic plan being finalised and therefore the projects being undertaken, yes.

Mr Mortimer—The group was keen that they develop and get their strategic plan agreed and in place first, before they started signing off on projects. Those projects are designed to fulfil the key outcomes set out in the strategic plan.

Senator O'BRIEN—In terms of the Australian HomeGrown campaign, on page 21 of the PBS there is an \$890,000 movement of funds between years carried forward. How can that be explained?

Mr Souness—The figures we have explained in previous estimates hearings. Some funds from the Australian HomeGrown campaign were reallocated to the Australian Grown project that the department embarked on. The \$890,000 is being rephased to next financial year for a part-payment to the Australian Made Campaign Ltd to implement and extend the Australian Grown logo.

Senator O'BRIEN—That is why no money has been spent other than staff time?

Mr Souness—The work was undertaken with available staffing resources within the department.

Senator O'BRIEN—Yes. That has just been payment to the department.

Mr Souness—Yes.

Mr Mortimer—No. The payment was not made to the department. The money was paid out to Australian Made Campaign Ltd. None of that money is going to the department.

Senator O'BRIEN—The 2005-06 PBS talked about, in table 2.5, a \$2 million budget estimate for that year. In 2006-07, table 2.5, talked about \$540,000 in estimated expenses, and the 2007-08 talks about a \$1.82 million estimated expense. How much has been spent to date?

Mr Mortimer—In terms of the Australian HomeGrown?

Senator O'BRIEN—Yes.

Mr Mortimer—Originally there was an allocation of \$3 million, which I think you have identified in the PBS for Australian HomeGrown. That money was not required for that purpose. As we mentioned earlier, Australian HomeGrown was provided with \$0.765 million before it came to an end—it was terminated, wound up. The other money has been reallocated by the minister for other purposes.

Senator O'BRIEN—Do you know what the other purposes are?

Mr Mortimer—Yes. A total of \$1.69 million, which is evident in the figures for 2006-07 and 2007-08, has been provided to Australian Made Campaign Ltd to fund the new Australian Grown initiative. Other expenditures have been a transfer from Australian HomeGrown to the

New Industries Development Program, which I think was done in additional estimates last year, and I think there was a \$1 million allocated by the minister to a summer fruits promotion campaign to be conducted by Horticulture Australia Ltd. There was also a \$20,000 expenditure on some consumer survey attitude information which underpinned the Australian Grown initiative, which was the subject of a press release by the minister over the last week.

Senator O'BRIEN—Thanks for that. Who from the department has had primary carriage of the Australian HomeGrown initiative?

Mr Mortimer—This division, Senator.

Senator O'BRIEN—Is the government aware that the interim board of Australian HomeGrown consisted of three people, including former chairman Mr John Cook and company director Mr Marcus Elgin?

Mr Mortimer—I am aware that there was an interim board with that composition, yes.

Senator O'BRIEN—And that Mr Marcus Elgin is the founder and managing director of a company called Australian Agribusiness Group Pty Ltd.

Mr Mortimer—I am aware of that, yes.

Senator O'BRIEN—And that the unconstituted interim board of Australian HomeGrown, which included Mr Elgin, signed a significant services contract with Mr Elgin's private company, Australian Agribusiness Group Pty Ltd?

Mr Mortimer—I have heard reference to it.

Senator O'BRIEN—Did Australian Agribusiness Group receive payments for services to Australian HomeGrown?

Mr Mortimer—I would have to take that on notice. I really cannot remember the details of it. We have had this discussion earlier and the way I remember it was that there was a contract between the department and Australian HomeGrown to do a number of things to develop the Australian HomeGrown branding concept, which include surveys and communications. I would have to refresh my memory as to whether it was done by the group that you referenced.

Senator O'BRIEN—I am told that it is a significant sum of money. Perhaps on notice you can tell us what payments were made, when, and what services were provided for those payments. Do you know if the business participated in a tender process?

Mr Mortimer—I would have to take that on notice. I do not know off the top of my head. To put it another way, the contract with Australian HomeGrown specified certain outcomes to be met, which included sign-on from companies to use the schema, the logo sign-on from supermarkets to be participants and, because those milestones were not met, the department did not continue the funding for the initiative. But the nuts and bolts of it were essentially something that Australian HomeGrown did. It was operating under a contract from the department. It had to meet key outcomes and milestones. Who it employed to actually deliver those outcomes was the company's choice and decision.

Senator O'BRIEN—A number of independent directors were appointed to the board of Australian HomeGrown after the interim board had already signed the services contract, I am

told, with Australian Agribusiness Group Ltd. Did any of those independent directors make the government aware of concerns that they had regarding the management of the program?

Mr Mortimer—Yes. Some of those members did indeed communicate to the government that they were concerned about the way in which the initiative was operating and it was on that basis that, when the board was populated with those new industry directors, they took the decision to wind it up and not continue with it.

Senator O'BRIEN—I am told that three of the independent directors resigned simultaneously—that is, on the same day—soon after their appointment, citing corporate governance and conflict of interest as the major concerns. Is that right?

Mr Mortimer—Yes, I have heard that said. As I said earlier, the company did constitute a new board and that board did take the necessary steps to deal with the issues, and was operating consistent with Corporations Law in doing so.

Senator O'BRIEN—Was the government surprised when Australian HomeGrown went into receivership?

Mr Mortimer—I really could not comment on that. All I would say is that the government was aware that the company was having some difficulties and, given that the whole point of the initiative was for a commercial and potentially viable and self-funding initiative to be set up, it was the responsibility of the industry members to resolve those issues.

Senator O'BRIEN—Was the Australian government the first creditor?

Mr Mortimer—Let me take that on notice. I am not sure what you mean by 'creditor' there, in the sense that the Commonwealth had a series of contracts which put the money out to the company in tranches and the Commonwealth only paid the money and extended the contracts when there was evidence that progress was being made. When it was clear that progress was not being made, the Commonwealth ceased making the payments. Whether the Commonwealth is a creditor or not, I would like to check on that and come back to you.

Senator O'BRIEN—I am told that Australian HomeGrown recently sold its intellectual property. Do you know how much it received for that?

Mr Mortimer—I think I am aware, but I really cannot remember, I am sorry. I will take it on notice, if you like.

Senator O'BRIEN—Thanks. Has any money been repaid to the Commonwealth by Australian HomeGrown?

Mr Mortimer—No, Senator. No money has been repaid.

Senator O'BRIEN—How much was paid to Australian HomeGrown prior to their going into receivership?

Mr Mortimer—As I said earlier, \$765,000. That is the information.

Senator O'BRIEN—That is about the size of Mr Elgin's company's contract, isn't it?

Mr Mortimer—I cannot comment on that.

Senator O'BRIEN—Do you know who has purchased the intellectual property of Australian HomeGrown?

Mr Mortimer—No, I do not know.

Senator O'BRIEN—Are any of the former directors of Australian HomeGrown part of the Australian Made Campaign Ltd?

Mr Mortimer—I do not think so. I will take it on notice, if you like. The Australian Made Campaign is, again, a separate industry operated initiative. It is best if we check on that to make sure there is no cross-over that I am not aware of.

Dr O'Connell—The Australian Made Campaign Ltd, the people you were talking about last, are the not-for-profit organisation that administers the Australian Made triangle logo so I suspect they are completely different. But we will confirm that.

Mr Mortimer—It is an entirely separate entity. The issue of membership: I do not know exactly who the members or directors might be.

Senator O'BRIEN—Did they win that role by tender or by allocation?

Mr Souness—No, they did not. They were selected because they are the only organisation in Australia that already funds a branding campaign that could be built on for the Australian Grown campaign. The Australian Made symbol, the triangle with a stylised kangaroo, has been in existence for quite some time. We are advised that research shows there is a high level of recognition by Australians. Something like 98 per cent of Australians recognise that. There is no other similar logo that we could build on for Australian Grown and hence, because of the unique positioning, the Australian Made Campaign has elected to undertake this work.

Senator O'BRIEN—Is the government going to make changes to the Trade Practices Act to clarify the control of the term 'Australian grown'?

Mr Souness—No, Senator. What has happened is that the Australian Made current triangle is called a certified trademark under Intellectual Property Australia and there is a code of practice and a set of rules that are approved by ACCC. The Australian Made Campaign Ltd has made an application to the ACCC to amend those rules to accommodate the new Australian Grown, to incorporate new rules in that. That went through an extensive period of assessment by ACCC and Intellectual Property Australia. The draft rules were gazetted in April for a four-week period of public comment. That is completed and ACCC have signed off on those rules and a code of practice for the certified trademark to extend the current Australian Made to include now Australian Grown.

Senator O'BRIEN—At previous estimates, Mr Souness, you advised that companies or growers will have to pay a licence fee to use the term 'Australian grown'.

Mr Souness—That is correct.

Senator O'BRIEN—Why?

Mr Souness—This is the way the company runs its operation. As the secretary said, it is a not-for-profit company but it maintains a cash flow to administer the licences and the use of the logo. They run an audit scheme to ensure compliance with the rules governing the use of the logo as well and so they charge a small licensing fee based on the revenue derived from products that use the logo.

Senator O'BRIEN—Will growers be able to describe their products as Australian grown without displaying the logo or paying a fee?

Mr Souness—Yes. They could still use that. A number of companies already use the words 'Australian grown'. What is unique about this one is the visual image of the triangle with the stylised kangaroo in conjunction with the words 'Australian grown'.

Senator O'BRIEN—You can use Australian Made with a product that contains imported goods, can't you?

Mr Souness—That is right.

Senator O'BRIEN—That is a bit confusing, isn't it?

Mr Souness—Under the current rules under the Trade Practices Act, yes.

Senator O'BRIEN—You will have Australian Grown product with that logo and then Australian Made with the same logo. Is that how it will work?

Mr Souness—The rules are designed to ensure that, where there is a claim of Australian grown, the product—for example, peas, must be 100 per cent grown in Australia. The rules have been agreed and they are on the Australian Made campaign website now.

Senator O'BRIEN—The point I am making is that you could have a can of peas with Australian Made and the peas could be Belgian.

Mr Souness—If they meet the rules that are in the Trade Practices Act where there has got to be at least 50 per cent value and addition in Australia et cetera. We have discussed this issue in previous hearings.

Senator O'BRIEN—It is the same logo. That is the point I am making.

Mr Souness—No, the logo is the same but the words underneath are different. You could either have the logo with 'Product of Australia' if you meet the Trade Practices Act requirements for 'product of'. You could have the logo with 'Made in Australia', if it meets the requirements, and now this extension is that you will have the same logo but with 'Australian grown' underneath if it meets the rules. The company will promote the differences between these as well. Part of the exercise is for them to raise awareness in the public of this new logo.

Senator O'BRIEN—The former Australian HomeGrown did some consumer surveys back in 2005 which found that consumers lacked confidence in the Australian Made label. There was a lot of confusion about terms such as 'Made in Australia', 'Produce of Australia', et cetera. That seems to fly in the face of your comment or your report to us that there is, in effect, a positive recognition of the Australian Made logo.

Mr Mortimer—What is happening with this one—Mr Souness might explain it better than I am—is that this campaign now, this new logo, is associated with a well-known and well-identified logo, so that provides a building block for the recognition of the logo. Now there is effectively a variance being developed and put in the market, which helps distinguish Australian product. When people see that triangle against the green with the stylised kangaroo there, there is a strong image and association with Australia.

Senator O'BRIEN—At least that is the hope. We will watch with interest. Thank you.

[8.10 pm]

Australian Bureau of Agriculture and Resource Economics

CHAIR—I welcome the ladies and gentlemen of ABARE. If you care to make an opening statement, you can. If you care not to, we will go straight to questions.

Senator O'BRIEN—I thought the committee would like an update on the outlook for major commodities—wool, sheep, beef, dairy, wheat, coarse grains, wine, horticulture, chicken and pork.

Mr Glyde—I might kick off, if that is okay. We have a handout that might help you as well when I ask Dr Sheales to go through the individual commodities. On the assumption that we will have a return to normal seasonal conditions, we are predicting that the farm sector is going to rebound fairly significantly and strongly, as it has done in the past following droughts. We are forecasting that exports in 2007-08 will be up three per cent to about \$27 billion and that the gross value of farm production will be up 19 per cent to \$40 billion, crops in particular going up about 36 per cent and livestock production going up five per cent, but recognising that it has been a particularly tough year for the farm sector in 2006-07, with farm incomes probably at their lowest level in 30 years. There has been a very significant decline in farm cash incomes.

If it would help, I have a chart that shows what is going up and what is going down in terms of value, price and volume. If you are happy with that, I will table that. I will ask Dr Sheales to take you through each of the products.

Senator O'BRIEN—That would be useful.

CHAIR—How did you get on last year with your predictions versus the outcomes?

Mr Glyde—It depends on what time of the year you are talking about. I think it really does underline the fundamental assumption we have to make on the basis of advice from the Bureau of Meteorology as to whether it is going to rain.

CHAIR—We are only pulling your leg!

Dr Sheales—On the crops, to start on the front foot, before harvest we forecast a wheat crop of about 10 million tonnes—9.8 million or something like that—and it came in at about that. Admittedly, that was in October when we knew what was in front of us, or not in front of us if we are trying to harvest it. As always with these things, you have a bit of a mixed outcome on different forecasts for different commodities. I can run through some of them if you like.

I did not quite catch all of them, but of the crops wheat is obviously pretty important, being the major one. We are forecasting the wheat crop to return to about 24 million to 25 million tonnes for this coming year. Obviously, that depends on the season. In south-eastern Australia—New South Wales and Victoria in particular—we had good rains, as you know, last week. That has certainly set the scene to get started, but there is a long way to go to harvest time. Western Australia is doing it tough at the moment. There is still time to turn that around, of course, and hopefully that will improve.

We are expecting bigger crops around the world, which is pretty important to us in terms of influencing our prices. We are expecting wheat prices to come off internationally at about eight per cent in 2007-08. Coarse grains are much the same, although they are influenced by what is happening in North America, particularly, in relation to biofuels and a big movement into planting additional corn to satisfy demand for ethanol. Coarse grain prices are going to be pretty good in the coming year—a bit lower than in the past year because of the better season but still pretty good and principally driven by that.

We are forecasting higher prices for beef—about a 10 per cent rise on last year—which is mainly because, as we move back into average seasonal conditions, we will get additional stock held on farms and less going through the marketplace. With a restricted supply but a still strong demand, we will see an increase in prices.

For the whole of this season wool is going to average roughly 830c a kilo. Admittedly, at the moment it is up to about 950c or 960c, or something like that. That is the market indicator. Over the year as a whole, we will see prices staying up pretty well. That will be determined by how the season turns out, what the supplies are like and how strong that demand remains, particularly out of China. One of the problems with wool, of course, is that it is in a very competitive market with other fibres. If prices get too high relative to the competing fibres, we will see some movement into those. We have seen it in the past and there is a risk there at the moment. I think most people in the industry would agree that there is a risk on that front.

Lamb prices should be better, again because of a somewhat reduced supply of other meats, particularly beef, in the marketplace and continued strong export demand. We are going for a bit of an increase in pig prices—about four per cent in 2007-08—and a small change in production. The outcome on pigs will be affected very much by competition with other meats, and that would include imported pig meat. The strong Australian dollar at the moment, if it is maintained through the year, will make it a bit tougher for both our exporters and those that compete against imports. In relation to poultry, we are looking for a bit of an expansion in production and some improvement in prices, again because of what is happening in the meat market as a whole.

The last one I will touch on is dairy, and then you can tell me what I have forgotten. There are stronger product prices in world markets, partly because of lower production in Australia stemming out of the drought. It will take us a while to recover from that. We are looking at farm gate prices for milk up about six per cent. I am not sure if you mentioned any others that you would like me to comment on.

Senator O'BRIEN—You are predicting an increase in Australian wine production. Is that on the basis of water being available for irrigation?

Dr Sheales—We are projecting a decline in wine production, not an increase.

Senator O'BRIEN—I am reading your chart. It has an 'up' arrow on it. That is the reason I asked.

Dr Sheales—I made an error on that one. For the year ahead, there will certainly be an increase in production. For this current year that we are just finishing, production is down about a third on what it has been in the previous couple of years, at around 1.2 million to 1.3

million tonnes of grapes produced. We are looking for a rise to 1.5 million tonnes or thereabouts.

That, of course, as we are all very aware, will depend on the season; but it is also because a pretty substantial proportion of our wine grapes are grown with irrigated water, and a fair bit of that is in the Murray-Darling Basin. There is certainly a big question mark over whether or not we can even get back to where we were last year. If we had a rerun of what I will call in-crop rainfall similar to last year in the wine-growing areas, we will be looking at a vintage of 980,000 tonnes or thereabouts. If there is zero water and we do not get much rain during the course of the season, it is going to be lower than that, but we have not tried to estimate that.

CHAIR—It is going to rain, though.

Dr Sheales—There are two aspects of that, of course, as you know. One is what it might mean for broadacre agriculture, and when we get the rain and how much, which is pretty obvious. The other is whether or not we get rain to put water in those storages—whether we get enough to get good run-offs—and that is a very different proposition.

Senator O'BRIEN—But you say there would be water for cotton?

Dr Sheales—Some cotton can always be grown dryland, and already is. The question, as I said, is how much in-crop rain they get and how much they are prepared to take a punt on it if in fact water storage is not too good, and it is certainly not very good at all. But it is another three or four months before we will be planting any cotton so we have got a way to go, and hopefully it will turn out for the good.

CHAIR—Anyhow, do you think I will still be able to buy my \$6 bottle of red wine?

Senator STERLE—Yes, you will be able to buy it, but you will have to pay about \$9.

CHAIR—It is cheaper than water.

Dr Sheales—Senator, I am sure you are well enough paid to be able to buy it even if it goes up a dollar.

CHAIR—I always buy a \$6 bottle. I cannot tell the difference.

Senator O'BRIEN—Similarly, in the dairy product area you are talking about a reduction in production in milk powder, cheese and butter. I would understand that, and more, in the context of no water being available for irrigation for pasture, but I am not sure if that is the basis of your projection.

Dr Sheales—Certainly the price of dairy products sold in the international market is going to be stronger. I do not think there is any debate about that really. But the important question, as you have pointed out, is: what does the water situation mean? A substantial proportion of our dairy products are grown with the assistance of irrigation. That will be expected to have some effect.

Senator O'BRIEN—It is the biggest irrigating sector in Victoria.

Dr Sheales—That is correct. How much of an effect is hard to tell at the moment. Certainly it will have some effect. It is affecting them right now. As we move forward there is the potential, obviously, for a very substantial effect. In terms of dairy product supply within the country, we have to remember that there is also a substantial proportion of the dairy

industry not in the Murray-Darling Basin—certainly not in the southern part of the basin—and there is potential to divert product from the export market into the domestic market, so the impact at, say, retail level on prices may not be all that substantial. That does not mean to say it is not very significant. The potential impact at grower level could be very high.

Senator O'BRIEN—I think more than 70 per cent of milk is produced in Victoria. I know it is a pretty high number.

Dr Sheales—It is high. I was hoping I had that number, but I just cannot see it at the moment, I am sorry. I might have to get back to you on that.

Senator O'BRIEN—At present the Victorian irrigators, in the main, are looking at zero allocation in the coming year unless there is substantial rain, and if that is the proportion of dairy—somewhere around zero allocation—we are likely to be seeing a much bigger reduction in dairy production.

Dr Sheales—That is correct.

Senator O'BRIEN—That is without considering other areas. Queensland is going to be struggling for irrigation water. Northern New South Wales might be all right, unless they divert the Clarence River.

Dr Sheales—I do not think that can happen overnight, or quickly, though.

CHAIR—July-August-September is going to be wet, is it?

Dr Sheales—Looking at dairy cattle numbers gives an indication of how much dairy. Roughly 30 per cent of the dairy herd is located in the Murray-Darling Basin and, if you take northern Victoria and the border regions of New South Wales, it is about 2½ thousand dairy farms.

Senator O'BRIEN—What proportion of that is wetland areas?

Dr Sheales—Through there, most of them would rely on irrigated pastures. But also they would need quite a bit of water for the cows to drink and to wash their facilities down.

Senator O'BRIEN—There is a price at which ethanol is not a goer with rain and we will come to that in a minute—the contest between energy and food—and the prediction if it rains, but have you blokes established a price for water at which the dairy farmers give it away?

Dr Sheales—We have not. As you would know, there are dairy farms and dairy farms, or farms and farms, and some are higher cost operators than others. If you start working with averages and say, 'Well, on average they're going to give it up' that is not going to be the case, so that is one of the reasons we try not to get into that sort of stuff—not to any great extent, at least.

Senator O'BRIEN—Historical water rights held by existing farmers will keep those farmers farming while the enterprise is a productive one.

Dr Sheales—I am not the water guru around here. I do not know if one of my colleagues wants to comment on that. I am a dryland farmer. I do not know much about irrigation, apart from what I have said.

Mr Glyde—No, I do not think we have anything more. We have not done any more work in that area.

Dr Sheales—Quite clearly we are not going to have much of a rice crop this year, the way we are going—a little bit grown with the groundwater, but not much. That is a very obvious effect.

Senator O'BRIEN—What does Senator Heffernan say? Are we going to have rice or not?

CHAIR—I said three or four years ago that any 50-year prediction for the Murray-Darling Basin would exclude paddy rice and furrow cotton. I will stick by that.

Senator O'BRIEN—During additional estimates in February, ABARE discussed some work it is doing on biofuels. Can we get an update on that work?

Mr Glyde—What we were saying at that time was that we were about to put something out. In our March 2007 issue of *Australian Commodities* we put in an article that looked at some of the issues in the Australian biofuels industry and tried to provide an outlook for market conditions in the short to medium term. Despite the rise in feedstock prices, the movements in world oil prices and the forecasts for local feedstock prices meant we expected 2006-07 to be a fairly favourable year for biofuel producers. We are expecting our output of biofuels to increase over the next few years, and in the longer term, as the chair has already alluded to, if biofuels production were to increase significantly then domestic feedstock prices would also rise because of the additional demand for feedstocks from biofuel producers. As has been said in other forums, some of the problems caused by that competition might be resolved through technological change in the sense that if we get to cellulose we might be able to find alternative sources rather than feed grain, but that is one of those prospects that always seem to be five to 10 years away on the horizon no matter where you are.

There has been a fair bit of investment in new biodiesel capacity in 2006, with four biodiesel plants starting up, and another one was completed in February 2007; so we have eight biodiesel plants operating in Australia, three ethanol plants in operation and another seven planned to begin operations between 2007 and 2010.

If these all come on stream then we are going to have a significant rise in production over those three years. At the moment the production of ethanol from molasses or grain and biodiesel from cooking oil or tallow appears economically viable but there is a fair bit of uncertainty over the longer run in relation to biofuels production. But if all of those ethanol projects were to get up and proceed as their proponents plan then you would have fuel ethanol production at over 1,000 megalitres by 2009-10.

Senator O'BRIEN—What would the impact be on the use of grain being diverted? How much grain would be diverted?

Mr Glyde—I do not think we have looked at that in a quantitative sense, other than to make that point: that if there are insufficient quantities then it might be switched away from export markets and you would expect that grain prices would be bid up during that process. But unless I can be advised to the contrary I do not think we have done that work that you are talking about.

Senator O'BRIEN—I am familiar with some of that. If wheat is \$200-odd a tonne, that all becomes pretty marginal depending on the downstream use of the by-product, whether it is into a 6,000-cow dairy or a feedlot. The viability will be added by the downstream production or whatever they do with it. Obviously if they can use the material without having to dry the material or cart it somewhere it makes it all the more viable. So the one that is proposed for Coleambally is going to have a 6,000-or 7,000-cow dairy downstream. They say they are going to dry the one at Marina. I have grave reservations about how that will all work.

Mr Glyde—Yes, it is a significant issue. We are looking at it in the international dimension as well with the significant subsidies that are going into the US market, the huge increases in corn production for ethanol. It is scaling up at a huge rate.

CHAIR—It is scary. CSR gave evidence to this committee. They said that with the sugar prices at that time certainly molasses was not a goer. Sugar was better for sugar. Obviously we will all be looking to lignocellulose as a long-term solution and I am sure that in the contest between food and energy—given that, as I keep repeating, 400 million to 600 million people in northern China, for instance, are going to run out of tucker because they are going to run out of water—food is going to win, unless there are going to be a lot of skinny people around.

Mr Glyde—It is certainly an area for future work for us to get a handle on all of that.

Senator O'BRIEN—Can we get an update on the work you have undertaken on the effects of drought?

Mr Glyde—In terms of the impact on commodity forecasts and the like?

Senator O'BRIEN—I think you talked about family farm incomes being the lowest in 30 years.

Mr Glyde—I can give you more detail on that, if that would help. We surveyed farmers in January 2007 and followed up over the last month or two to try and get a better handle on what was happening. Looking at broadacre farming as a whole, cash incomes are expected to fall by almost 70 per cent to average \$26,600 in 2006-07 and the proportion of broadacre farms with negative farm cash income is estimated to increase to 44 per cent in 2006-07, which is a significant increase from the 23 per cent recorded in 2005-06. If you look below that, at the grains industry, that is expected to fall by 70 per cent to average \$33,000 in 2006-07, which is one of the lowest real incomes we have recorded since we started surveying in 1978-79.

Producers in the beef cattle industry are also experiencing significant falls. In 2006-07 we are expecting beef cattle farm incomes to fall by 56 per cent to \$34,910 but there is a difference between the north and the south there, with both of them experiencing markedly different conditions. Farm cash incomes in the slaughter lamb industry are going to halve in 2006-07 to average around \$45,000. Dairy producer incomes are also expected to go down by 77 per cent to \$19,900. All in all it is not telling anyone anything new, just putting a few numbers around what farmers are experiencing at the moment.

Senator O'BRIEN—What does that mean for recovery? How resilient will the sector be after this drought?

Mr Glyde—That is really what we have in our forecast. We are saying that the industry is resilient and is going to rebound. I would be happy to provide charts showing how the industry has rebounded from previous droughts. It is spectacular. As Dr Sheales has already said, it depends on rain continuing to fall in the right places. That is what underlies our forecast—that there will be a significant rebound and that the farm sector remains resilient.

Senator O'BRIEN—For example, it is predicated on—

Mr Glyde—On wheat. We are going from a harvest of nine million tonnes to something like 25 million.

Dr Sheales—That is based on average yields. We will have to adjust that as we go along, depending on what Mother Nature gives us.

CHAIR—There will be more going on to save the country this year because of the stock losses.

Senator O'BRIEN—But dairy is dependent, in a lot of senses, on enough rain for irrigation. They are coming from a pretty low base by the numbers you just gave us.

Dr Sheales—They certainly are and we have seen that across the board, as you heard from the figures. They are all coming from a fairly low base in terms of the hit on their incomes last year. The other thing is—and we do not have any figures with us—that the farm management deposit balances are still pretty healthy in general. It varies from producer to producer and what they can draw on. I do not have the data on that. There is a fair bit of money there. Some do not have any; others do. That sort of thing would help the rebound—a bit of financial muscle.

Mr Glyde—Sorry, I do not have the numbers either; but the general picture I took out of the work that we had was that debt levels and equity levels are still relatively high compared to previous droughts. They have fallen but they are still higher than they were in previous droughts. Part of that is because of the increase in land values as well. Taking that out, farmers, generally speaking, as Dr Sheales is saying, on average are in a better place than they have been in previous droughts. It depends on seasonal conditions.

CHAIR—Light cattle got back to 50c a kilo. They are now 110c or 120c a kilo. There was about to be a big pain in the guts, but it rained.

Dr Sheales—My word, things were critical and we certainly have a long way to go. But at least in the southern areas we have a start. We will have to see how it plays out.

CHAIR—Plenty of people had fed more to their stock than they were worth.

Dr Sheales—That is true. I know of people who put stock on agistment for the last 18 months. With hindsight, they should have got rid of them straightaway.

Senator O'BRIEN—Thank you.

Senator SIEWERT—I will start by asking a series of modelling questions. How much does ABARE project that the Australian economy is going to have grown by the year 2050?

Mr Glyde—That is a good question. I do not have the answer at my fingertips. You are really talking about the reference case that we use: the business as usual case in our modelling work.

Senator SIEWERT—Yes. Dr Gunasekera might be able to help you.

Dr Gunasekera—In the work that we did last year, we looked at the income growth over time when we were doing our modelling work. I can provide the information later on if you want. Our assumptions were, for example, between 2001 and 2010 the annual growth was around—can I give the total number?

Mr Glyde—He could probably more easily give you the total GDP figure in 2030 or 2050.

Dr Gunasekera—The total numbers were basically that we assumed that between 2001 and 2010 the Australian economy will grow at 3.2 per cent and that between 2010 and 2030 it will grow at around 2.4 per cent. These assumptions are based on three factors: population growth, labour force participation and productivity growth.

Senator SIEWERT—The latest projection you go to is 2030. Is that right?

Dr Gunasekera—No, we go beyond that. We are doing 2030 and 2050, 2.2; and the whole period 2001 and 2050, 2.5. These assumptions were made last year.

Senator SIEWERT—Yes. Those assumptions were made in 2005?

Dr Gunasekera—2006.

Mr Glyde—We can give you a reference or we can send you the link to the document that we have got them in.

Senator SIEWERT—I now want to focus on your climate change modelling. According to your climate change modelling, how big will the Australian economy be by 2050, according to your worst-case scenario?

Mr Glyde—It might be worthwhile running through what we do and have done over the last few years in modelling various scenarios. Most of the scenarios we model are there to illustrate particular points. There is nothing terribly precise about general equilibrium modelling. It is meant to be illustrative. What we have done with our scenarios is try to illustrate things like the impact of different assumptions about technology and the impact of different assumptions about the number of countries participating in the coalition to try and reduce climate change. We have made assumptions about technology growth and a variety of other things, such as levels of abatement we might be trying to achieve.

In all of that, the most extreme scenario we have ever modelled is one where Australia takes on a huge part of the burden on its own for reducing greenhouse gas emissions. It was one that we were asked to model by the CSIRO as part of the Energy Futures Forum process. Dr Gunasekera can give the exact numbers, but that has the assumption that the Australian government has a large share of the abatement task. We end up with GDP being about 10.7 per cent lower in 2050 than it would otherwise have been.

Senator SIEWERT—While I have got the figures in my head, 2050 overall GDP growth would have been 2.5 per cent in business as usual?

Mr Glyde—Yes.

Senator SIEWERT—Under your worst-case scenario of your climate modelling, GDP would have dropped 10.7 per cent of that?

Dr Gunasekera—Yes.

Senator SIEWERT—Could you tell me what that figure means the GDP will actually be under your worst-case scenario in 2050?

Dr Gunasekera—It will shave off around 0.2 per cent. I need to go back and check the numbers. Roughly speaking, if your GDP growth is 2.2 per cent and there is a five per cent reduction upon that growth rate, you would expect around 0.1 or 0.2 per cent.

Senator SIEWERT—So 0.1 or 0.2 per cent?

Dr Gunasekera—But I need to go back and check that.

Senator SIEWERT—Can you just remind me what the drop in GDP was as a result of the drought over the last 12 months?

Mr Glyde—We estimate 0.75 percentage points.

Senator SIEWERT—0.75 per cent?

Mr Glyde—Drop in this year.

Senator SIEWERT—Your worst-case scenario drop for climate change is 0.1 to 0.2 per cent?

Mr Glyde—That is correct.

Senator SIEWERT—Why don't you present those figures like that instead of saying a drop of 10.7 per cent which sends everyone crazy? Why don't you actually put it like that when you are telling people what the worst-case scenario is in 2050?

Mr Glyde—Senator, we do.

Senator SIEWERT—That is not the figure that is published.

Mr Glyde—I think it is. When you have a look at the documents, we go to great lengths to be very clear about what—

Senator SIEWERT—It is not the figure that is used in the media.

Mr Glyde—It might be worthwhile at some other stage running through the variety of different assumptions that are made and the variety of different modelling results. All we can do is publish, on the record, what our model results say and be as careful as we can be about what they mean. When we talk about those percentage falls we are talking about falls in GDP, not of GDP growth. The other thing to factor into all this is that, whilst these might be small changes in GDP, one of the really significant things you have to look at is what impact it has, by region and sector, in the country. What are the industry sectors that are affected? Very small movements in growth overall is fine, but what will really impact on the Australian economy is what happens to some of our trade exposed sectors in this, and that is what we try to put forward as well.

CHAIR—By the way, I must warn you that if you get this wrong I will be 105 but she will be only 90 or something so you will be in trouble! Is this on the basis that Australia will not reconfigure itself in the meantime?

Dr Gunasekera—Before I answer that question, can I just get clarification: the impact of drought is a one-off thing, whereas when you talk about the impact of climate change over time, that is a 0.1 or 0.2 per cent reduction in growth rate for a long period of time. You would expect some cumulative effect on the whole economy over time, so you need to recognise that factor also, Senator.

Senator SIEWERT—When you do this modelling, do you take into account the likely scenario that climate change—climate variability—will be reducing GDP as well?

Dr Gunasekera—That is the impact of climate change. We have not taken into account the impact of climate change in our analysis.

Senator SIEWERT—That is interesting. Why not, may I ask? If you are reflecting the cost of it in the worst-case scenario, why aren't you then also doing the scenarios where climate change is impacting?

Mr Glyde—Part of it is actually having accurate figures and a robust basis by which you have a feedback from the climate change onto the economy. As we discussed at the last hearings, that is a very hard thing to model in. So what we have is a base case that assumes, in essence—this is for illustrative purposes—that we have got current policies in place and there is no feedback loop into the economic growth question.

CHAIR—Can I give you a little bit of heart in yourself, Senator Siewert.

Senator SIEWERT—You can try.

CHAIR—If Australia can reconfigure itself in the way that the Northern Task Force sees the science of the north, this might be a neutral effect in terms of GDP, because the changing opportunities in the north are going to be brought about by the changing opportunities in the south. It might be a neutral equation.

Mr Glyde—In some sense, that is correct, in that what we are not also factoring into these things is what we would call adaptation: how will economies, how will individuals, how will individual sectors respond to these changes? Some of those things can be modelled and estimated but others cannot. The issue with climate change is how quickly those changes occur and how quick are our response mechanisms. How vulnerable are we? Can we move some of the industries as quickly as climate change might occur? They are certainly very hard things for the scientists to give us accurate information on. In order to do the economic modelling, you need some pretty hard scientific information that you can then go and try to put a dollar value on or try and factor into the model. That is really where the state of modelling around the world is at this particular stage.

CHAIR—We are in a fortunate position in Australia, I think, in that we are going to have some opportunities out of climate change, as well as some disadvantages—on the one continent, that is.

Mr Glyde—That is right. We have a broad geographical coverage in the country; there are also prospects for carbon sinks and forestry and the like. Climate change does not necessarily have to be all bad and evil. As with any change in any system, there are opportunities and threats. Part of the work that we try to do on the modelling is to illustrate what some of those might be. There is lots of other work going on that tries to draw this out as well.

CHAIR—Have you done any work to show what happens if Australia punches above its weight in carbon offsetting and places like India and China don't?

Mr Glyde—That is what we have really tried to illustrate with some of the scenarios that we have run over the last few years: what happens if Australia acts unilaterally or alone or only a select number of countries participate? The general rule, which is not really rocket science, is that the greater the global coalition the lower the cost to the overall world economy. We can try and quantify that by the model we use, which has 80-odd countries in it, so you can try and get a bit of an idea about which are the important ones to have in and out. But, generally speaking, yes, the more you have playing the game, the easier it is; the more opportunities there are for mitigation, the more ideas there are for adaptation, the greater the transfer opportunities for technology and the like.

We think that the modelling we do is consistent with the modelling that is done elsewhere in the world. If you look at the Stern report, which provided a very useful function in getting together and looking at a whole bunch of different models of the type that ABARE runs that come up with scenarios of costs out to 2050 of various levels of abatement, they all have different assumptions in them about who is playing the game and who is not, but the range is from a cost of 5.5 per cent to GDP out at 2050, through to a benefit of two per cent. There are some quite extreme scenarios and assumptions in there.

When you look at our work that we do on modelling what the global costs are, the scenarios that we have been doing run between 1.7 and 3.4 per cent. We have slightly lower targets that are easier targets when we model, so we are at the higher end of the distribution of similar types of models. That is because of the nature of our modelling and the assumptions that we make.

Senator SIEWERT—In the models do you factor in industries such as renewable energy industries and other industries actually increasing? Is that factored into the 0.1, 0.2?

Mr Glyde—In terms of that specific scenario, I would have to—

Senator Abetz—Is nuclear modelled into this?

Senator SIEWERT—Let's not go there!

Senator Abetz—Sorry.

CHAIR—Tim Flannery has changed his mind.

Mr Glyde—If I could generalise, you can make any sorts of assumptions you like in relation to the growth of renewable technologies. You can put nuclear into the model, I think, as well. That is the whole idea of having these models: to be able to illustrate what the consequences are. What we try to do, though, is to use assumptions that we can anchor into some sort of factual basis. When we are doing our projections for energy, for example, over the next 30 years—which we do on a regular basis; we update those every year—we do not factor in nuclear energy in Australia at the moment because the policy settings are such, and the price of energy at the moment is such, that nuclear is not commercially viable in the country. That might change over time. So you can do the analysis; you can factor nuclear into that; you can factor renewable energy into that. Dr Gunasekera will tell me if I have been wrong.

Dr Gunasekera—Senator, in our reference case or the baseline, in 2001 we have non-hydro renewables at about 0.8 per cent and that goes up to about two per cent in 2010 and 2.8 per cent in 2020; then 4.3 per cent in 2030, 6.8 per cent in 2040, and 9.5 per cent in 2050. So we factor in a steady growth in terms of non-hydro renewables.

Senator SIEWERT—That was the worst-case scenario?

Dr Gunasekera—No, this is the business as usual case.

Senator SIEWERT—What have you used in the worst-case scenario? I asked before about the impact in the worst-case scenario and you said that GDP would drop by 0.1 to 0.2 per cent.

Dr Gunasekera—Yes.

Senator SIEWERT—What renewable scenarios did you use there?

Dr Gunasekera—Senator, I have some charts here. I need to take that on notice and come back to you. We have published all of that information in one of our documents and we can table that document later on.

Senator SIEWERT—Thanks. When you made the comment—I do not know if it was you or Mr Glyde—about ‘impacts vary regionally’, do you go into the level of detail about the impacts regionally or is that something that we just need to bear in mind?

Mr Glyde—Do you mean regions within Australia or world regions?

Senator SIEWERT—I presumed you were talking about different impacts regionally in different sections of the economy.

Mr Glyde—Yes, that is correct. I am talking about within Australia.

Senator SIEWERT—Do you go into that level of detail or is that something that you need to do in the future?

Mr Glyde—The modelling that we are talking about now is a global model, so we model the impacts nationally. It is as low as it goes. But we have other models—AUSREGION is one where you can try and model what the impacts might be. In fact, in our recent *Australian Commodities* publication we had a stab at making some assumptions about different climate change scenarios and what that might mean for different regions in the country, but it was very illustrative and very early days.

Senator SIEWERT—Yes, last time we spoke you said you were just starting to do some more detailed work, if I remember.

Mr Glyde—Yes, and I think it really comes down to the question of trying to get a more detailed regional handle on what is actually going to happen in terms of climate change. I might be doing the Bureau of Meteorology, the CSIRO and others a disservice but my take-out is that it is going to be drier and warmer in the south-east of the country and wetter in the north-west of the country. Really, that is probably not sufficient specificity or detail to be able to get to the level of what it is going to mean for particular farm sectors in particular parts of Australia.

CHAIR—We will report that in July 2009.

Mr Glyde—Yes, it will all be under control—that is good.

Dr Gunasekera—Senator, to go back to your earlier question about the uptake of non-hydro renewables in our worst-case scenario: in 2010 we assume seven terawatt hours is in electricity generation; in 2020, 23; in 2030, 47; in 2040, 93; and in 2050, 158.

Senator SIEWERT—Do you do it as a percentage?

Dr Gunasekera—What we have published is the actual, in absolute terms.

Senator SIEWERT—Okay, thanks.

CHAIR—Excuse me, Senator, I have just been called to order.

Senator SIEWERT—Why?

CHAIR—Apparently it is time for the evening break. We were so engrossed in it that we ran over the clock!

Senator Abetz—With this speculation, it will be interesting to be here even in 10 years time and talk about all these brave predictions.

CHAIR—I noticed you rolled your eyes there a couple of times, Minister. Cynical lawyer!

Senator Abetz—I was just thinking that some of our poor grandkids undoubtedly will have to do some thesis on what these politicians were on about at Senate estimates trying to predict things.

Proceedings suspended from 9.03 pm to 9.19 pm

CHAIR—Thank you, Senator Siewert.

Senator SIEWERT—In relation to presenting your data, have you looked at the work that CSIRO has done on the way the message is presented to people? It looks at people presenting information that instead of talking about, ‘These are the negative impacts on the economy,’ is presented as, ‘We just won’t be as rich quicker,’ or, ‘We’ll be a bit less rich but we’re not necessarily going to be worse off.’ Have you looked at that information and how it is received by the public and looked at people’s willingness to pay?

Mr Glyde—As far as I am aware, we have not looked at the willingness to pay for responses to increases in greenhouse gas emissions and we have not done any studies like that specifically in relation to climate change. In terms of your question about working with CSIRO on the presentation of our documents, we have certainly worked with them on the analytical work. We are in discussion with them at the moment in relation to the recently announced flagship on adaptation. We have worked a lot with CSIRO in the past and we hope to continue to work with them and others, such as the Bureau of Meteorology, because, as I mentioned earlier, we need the science, the biophysical information, in order to be able to put dollars on it and value it in a monetary sense.

In terms of the specifics of your question about working with CSIRO on how we present the information and how we publish it, we have not done that. We see ourselves as publishing the results of the work, putting all the assumptions down, writing it up and putting out a media release if it is sufficiently newsworthy, and this applies to all of our publications. Whether they are about climate change, commodity forecasts or detailed assessments of what

is happening in the wine grape industry, we tend to want to leave the publications to speak for themselves. We publish the assumptions, and we try to be as clear about that as possible.

From time to time commentators draw inferences, and it is very hard to control all of that. We get some criticism, for example, in relation to our forecasts for wool prices and the like. Often our commodity forecasts are seen to be wrong because it has not rained or it has rained too much or there is something that has occurred that we have not factored in. We prefer to publish the analytical work and let the analysis speak for itself.

Senator SIEWERT—Are the results from your models, particularly when you are looking at the worst-case scenarios, consistent with other work done overseas for Australia's economy?

Mr Glyde—As I said before, our global modelling work is within the range of what the Stern report surveyed when they looked at models all over the world to see what work had been done. Dr Gunasekera can talk about the international modelling forums that we participate in to exchange information between models, because there are not many of these models around the world. When it comes to specific Australian studies, though, as far as I am aware—and again Dr Gunasekera can correct me if I am wrong—in recent times there have only been two other studies that have tried to estimate what the impacts of various approaches to climate change might be.

Senator SIEWERT—That is for Australia?

Mr Glyde—Yes. I might have to rely on Dr Gunasekera to give me the quote for those studies, but they are the only two that have come out. There are other model results around, but we are broadly consistent with those when you take account of the different assumptions that are made and the scenarios in the model. When you look at different starting times, the levels of ambition for the overall target you might have, the number of gases you incorporate, the number of players you incorporate, the assumptions you make on the technology—when you try and strip all those away, you tend to have a fairly similar story.

The differences are in the model assumptions and in the scenarios that you run. We feel pretty comfortable with where we are at. As I said before, we are at the higher end of the range as far as the Stern report is concerned, and that is driven by the nature of the assumptions we have in our model. Dr Gunasekera, do you want to give the quotes for those?

Dr Gunasekera—There have been two studies undertaken in Australia. One was by the Allen Consulting Group in 2006 and the other was by Hatfield-Dodds and Adams in 2007. In both cases they were looking at deep cuts and also comparing the results in the year 2050. Their numbers range from minus six per cent to minus 5.1 per cent.

Senator SIEWERT—That is quite a bit different from yours, though.

Dr Gunasekera—Again, there are different assumptions being made, and I am quoting from their publications. Sometimes they do not go into much detail in terms of explaining the assumptions, so I cannot comment on the details.

Senator SIEWERT—You have not looked at their assumptions?

Dr Gunasekera—No. Sometimes they do not go into much detail because they are conference papers, so they just explain the scenario, the simulation and talk about the results.

Senator SIEWERT—In those models do they factor in the potential impacts of climate change?

Dr Gunasekera—I doubt that very much because this is a fundamental issue, working out the impact of climate change. I do not think there are any studies where they have looked, particularly quantitatively, at the impact of climate change on the Australian economy. There have been qualitative studies explaining change in precipitation, change in temperature and, therefore, the impacts on agriculture and coastal regions—they are all qualitative—but not in terms of quantitative monetary values.

Senator SIEWERT—They are two Australian studies of Australia, though, aren't they?

Dr Gunasekera—Yes.

Senator SIEWERT—Internationally, have there been any done overseas? Besides Stern, have there been any others done outside of Australia?

Dr Gunasekera—I have not seen any studies done overseas specifically looking at Australia.

Mr Glyde—There may well be global studies that have Australia in them, but that would be about it. The Stern report has within it a description of quite a lot of modelling work that has been done at a global level, and the references are there for that.

Dr Gunasekera—In relation to the Allen Consulting Group study, I mentioned a six per cent decline in GDP in 2050. They also looked at one scenario that is delayed action. The impact of delayed action is a minus 13 per cent reduction in GDP in 2050.

Senator SIEWERT—Are you assuming, therefore, that they are saying that that is the impact on the economy if we do not take action?

Dr Gunasekera—Absolutely.

Senator SIEWERT—Have you done a model like that, where we do not take action?

Mr Glyde—No, sorry, they are modelling a scenario with a very deep cut and with delayed action from global competitors, and that is why you get a 13 per cent reduction.

Senator SIEWERT—I beg your pardon, yes. I was assuming delayed action was if we do not take any action to address climate change.

Mr Glyde—As Dr Gunasekera said, we are not aware of any models around the world where you have that feedback loop so that your reference case is influenced by predictions you might make about climate change impacts.

Senator SIEWERT—Thank you for clarifying that. Do you do any due diligence in updating your process for methodologies and assumptions? How do you double-check and update those?

Mr Glyde—We do a lot of that. I might get Dr Gunasekera to explain where a lot of these models come from. The international modelling community meets on a regular basis to do this—the basis of where the data comes from. We try to update both the model and the database as often as we can because we are really trying to make it as accurate a tool as we can. One of the things we talked about earlier was biofuels, for example. That has a very

significant impact in terms of farm production and the whole question of feed versus fuel, but it also is an important issue in relation to climate change. We would like to change that so we can better reflect biofuels and the like coming on stream. Is it possible to run through the international coalitions that we are involved in?

Dr Gunasekera—Very briefly, the global production and trade information comes from an OECD global trade analysis project database, GTAP database. We also use World Bank, IMF and OECD sources to get GDP growth rates for different countries. The International Energy Agency and the US Department of Energy sources are used to update our energy information. We tend to look at domestic as well as international data sources to continuously update our information.

We are also part of an international modelling forum, called Energy Modelling Forum, attached to the Stanford University, so from time to time we collaborate with them and exchange information so that our work is, in a sense, peer reviewed within a global expert group environment.

Senator SIEWERT—I have some administrative questions, so I will do my oil question now and then go on to admin. I have asked at every estimates for the last little while about your projection for the oil price. Where are your assumptions at now?

Mr Glyde—I thought you might ask that question.

Senator SIEWERT—You would be disappointed if I didn't!

Mr Glyde—We are expecting the price of oil to average lower in 2007. In March, which is our most recent quarterly update, we forecast that we would average \$US57 a barrel in 2007 compared to \$US66 a barrel in 2006, really because of an increase in non-OPEC oil production from the new investment spending and increased spare capacity within APEC. We are forecasting that world oil prices are going to decline steadily over the medium term, basically because of higher global production and a substantial increase in stocks, particularly towards the end of our outlook period, which is 2012. We forecast once a year five years out, so we are forecasting that West Texas intermediate crude would be around \$US50 a barrel in 2012. Why do we do that? It is because we are expecting world production of oil to increase over that five-year period to about 95.1 million barrels a day.

On the demand side, we are seeing that we are going to have demand about the same; about 95.1 million barrels a day. Europe and Japan: oil being used there will be increasingly substituted by gas for electricity generation, reflecting the greenhouse gas emission targets they have got to get under their caps. In addition, we are expecting technological progress to be made on a whole range of fronts that will gradually reduce dependency on oil, such as what we are seeing in terms of energy conservation and substitution and new fuel-efficient technologies such as hybrid cars and the like, as they begin to be taken up more broadly in Europe and Japan in particular.

We are expecting the higher recent prices for crude oil and refined petroleum products to lead to higher investment and production of non-conventional liquid fuels as well. We talked last time about oil shale, oil sands, gas to liquids and the like. That is the rationale as to why we see oil prices around \$US50 a barrel in 2012.

Senator SIEWERT—I missed writing down the figure that you said it was in 2006.

Mr Glyde—It was \$US66.

Senator SIEWERT—What is it at the moment?

Mr Glyde—Right now, today?

Senator SIEWERT—I do not need exactly today.

Mr Glyde—It is about \$64 a barrel today. We do have a nice chart. I do not know if we gave it to you in the oil inquiry that you did, but it shows crude oil prices since 1970 and what has tended to make it spike up. They are things that are very hard for forecasters to forecast; world wars, invasions and hurricanes and the like tend to make things a little bit difficult. We have got it updated to April 2007, so if you are interested we can provide that to you.

Senator SIEWERT—That would be appreciated.

Mr Glyde—We thought we would not put the predictions in. It might be held against us.

Senator SIEWERT—Last estimates we had a discussion about coal to liquids and I asked a question about whether you had double-counted the greenhouse gas emissions from that—not double-counted; I mean counted the two lots.

Mr Glyde—Yes.

Senator SIEWERT—Have you updated your work to include the additional carbon emissions from coal to liquid?

Mr Glyde—This is the notion that—

Senator SIEWERT—It is not a notion, sorry. It is a fact.

Mr Glyde—Yes, the fact that if you are going from coal to liquids you are going to have a higher greenhouse gas emission signature than if you were to use conventional oil.

Senator SIEWERT—Yes.

Mr Glyde—Dr Gunasekera, correct me if I am wrong. I do not think we have factored in coal to liquids and things like that in our GTEM forecast, but I stand to be corrected on that.

Dr Gunasekera—I cannot comment on that. Basically, in our modelling work we have an emission database which represents the amount of emissions being produced by each sector, so we do not go into detail because we do not have specific detailed information on each subset. We have the energy sector. We have coal, gas, petroleum, non-renewables. But I do not know whether I have understood your question correctly.

Senator SIEWERT—Last time we talking about this, and it has come up a number of times now, one of the assumptions that has been made, as I understand it, is that once the oil price reaches a certain point, things like coal to liquids become economic. The point that both Senator Milne and I have made is that the price of carbon was not factored into that and when you do factor in the price of carbon it changes, particularly when you factor in that there is more carbon emitted from producing oil from coal to liquids than there is if it is conventional oil. We talked about it last time and I am wondering whether you have actually adjusted your models to account for that.

Dr Gunasekera—In our modelling framework, the way we look at some of those issues is through carbon capture and storage.

Senator SIEWERT—Yes, I appreciate that, but the point is that it costs to do that.

Dr Gunasekera—Yes.

Senator SIEWERT—So the cost of that oil will be more expensive, so the threshold at which it kicks in is more expensive?

Dr Gunasekera—Yes.

Senator SIEWERT—That is the point that we have been trying to make.

Mr Glyde—You are really saying, with that turnover price, have we factored in the cost of sequestering the carbon?

Senator SIEWERT—Because it is extra. It does not equate then to, as I said, conventional oil.

Mr Glyde—Dr Penm might be able to help us.

Mr Penm—The answer to your question is more relating to improvement in technologies. One issue with coal to liquid is that, when you construct your conversion process, you can build carbon storage and capture into that. At the hearing about Australia's future oil supplies, I did supply some international journals on this issue. As I said last time, I am an economist, not a petrochemist. Based on those studies, they factor in that if, in construction of the conversion process, carbon storage and capture is available then they estimate the break-even oil price is probably around \$US40 a barrel. That is an assumption that we used for longer term projections. Naturally we do not really factor in business cycle or significant movements in terms of volatilities because this is an assumption we build into the model.

Senator SIEWERT—So are you saying that the price of \$40 a barrel that you have been quoting for some time now does include that cost?

Mr Penm—According to the literature I supplied, published by Princeton University, they do include carbon capture and storage.

Senator SIEWERT—Thank you. I have not finished, but I have finished with that lot.

CHAIR—What do you mean, you have not finished?

Senator SIEWERT—I have just finished with climate change.

Senator Abetz—Are there other ABARE questions?

Senator SIEWERT—Yes, I have more ABARE questions. Last year, you released a report to do with climate change, but it is admin to do with climate change: *Economic impact of climate change policy: the role of technology and economic instruments*. What model was used to estimate the economic impact?

Mr Glyde—That is our global trade and environment model, GTEM, the general equilibrium model we were talking about earlier.

Senator SIEWERT—You developed that model, didn't you?

Mr Glyde—Yes.

Senator SIEWERT—How much did it cost to develop?

Mr Glyde—I do not have that at my fingertips, and I think it would be hard to derive. It was originally constructed as a general equilibrium model to look at agricultural farm trade around the world. Over time we have found it useful for analysing climate change issues. I do not know when we started. We have had a series of models prior to GTEM, but the total cost of getting the model to where it is now I think would be hard to estimate.

Dr Gunasekera—It has been a lengthy process. If I remember correctly, some of the early modelling work was done in the mid- or late nineties but then built over time and improved and expanded, so it is not a one-off thing; it is a gradual improvement over time. This model is being used not only for climate change work but also international trade work.

Mr Glyde—It would be in the order of \$7 million or \$8 million over a period of time; 10 years or so. There have been successor models as well, but it is a significant investment.

Senator SIEWERT—Do you own the IP? Who owns the IP?

Mr Glyde—The Commonwealth government would own the intellectual property.

Senator SIEWERT—Is it an in-house owned model? I understand it has now been released publicly. Is that correct?

Mr Glyde—We are planning to put the model—the code for the model, the equations of the model and a detailed description of the latest version of it—onto our website. There is already a version on the website, dating from about 2002. We are just going through the process of finalising the documentation for the enhancements we have made over the last few years. We have been fairly busy running it in recent times, but we want to put that out so people can see more clearly what the assumptions are behind the model.

Senator SIEWERT—You are putting it out so you can see the assumptions?

Mr Glyde—Yes.

Senator SIEWERT—Is that usually what you do? Is that what people do with models?

Mr Glyde—Yes. I am a lay person in this, Senator, but as I understand it there are two fundamental parts to running the model. One is the model equations and how you structure that. The other is the dataset that you then run through the model. We will not be publicly releasing out dataset.

CHAIR—You do not want to give the game away completely.

Mr Glyde—Exactly right. The intellectual property part is in there, in the database. What we are doing is trying to improve the transparency and understanding of what the model can and cannot do and what are the key assumptions, as we have done over many years. We think that it is an important thing for people to believe and understand what the results are that are coming out of the model; they should understand how the thing works within.

Senator SIEWERT—You hold the IP for the code as well—for both or one or the other? For both?

Dr Gunasekera—Yes. The original model is what we call a GTAP model. That has been used all over the world. We have made substantial improvements to the model, particularly in

relation to climate change work, and also international trade work. So the Commonwealth holds the intellectual property.

Senator SIEWERT—Essentially on the improvements but not the original?

Dr Gunasekera—It is very hard to now dismantle the original from the improvements.

Senator SIEWERT—You have already put it on the website?

Mr Glyde—We have a version on our website from 2002, I think it is, so it does not reflect what we have been using for the last couple of years, which is why we need to update, document and put this version on the website.

Senator SIEWERT—The next one will be going on very shortly?

Mr Glyde—Yes. We are hoping to finish that in the next couple of months.

Senator SIEWERT—I am a lay person too. I understand a little bit about it because I have been talking to CSIRO in one of the other rooms about IP. If you still own the IP and you put the code on the website, are you saying that it is useless without the database?

Mr Glyde—You need data to run the model, and part of the rationale behind putting it on the website is that others can take it—in the way that we have taken the original base model and improved it—and improve it. The whole idea is that we as a country need to have as good a modelling as we can get. This hopefully will mean that people might be able to pick it up and use it and enhance it in a way they may want to. We are quite hopeful that this might lead to further development, but, as I said earlier, it is a significant investment to have got to this stage. It would then be a significant investment to build up the database to be able to run a sophisticated series of simulations.

Senator SIEWERT—I am struggling to think who is going to go along to a website to pick up your computer code. If they want to test the assumptions and develop it, wouldn't they actually come to you direct?

Dr Gunasekera—The theory for these types of computable general equilibrium models has been documented for a long time, so if you are a CG modeller or a computable general equilibrium modeller you would understand the basic structure of the model. The idea of putting this on the web is so that outsiders could understand the equations, the assumptions, the structural components of the model; but these are not unique to our model. These types of models are being used extensively all over the world. People usually understand the structure of the model, but by putting it on the website, people get a better understanding.

Mr Glyde—It will not be our biggest number of web hits on this part of the site.

Senator SIEWERT—That is what I was wondering.

Mr Glyde—As well as publishing the complexity of the model, there is documentation for those few people who will actually want to look at it—as Dr Gunasekera said, the experts. Along with this we are also going to be putting on the web layperson's language to try and demystify it a bit and explain what it does in simple terms. If you are really interested and you happen to be one of these people with a PhD in general equilibrium modelling then you can go and have a look at it and play with it.

Senator SIEWERT—Did you say you have done this with other models?

Mr Glyde—We did this with an earlier version of GTEM.

Senator SIEWERT—I understand that, but have you done it with other types of your models?

Mr Glyde—I am not sure if we have put all of our models on the website.

Dr Gunasekera—There are a number of partial equilibrium models. We tend to basically document them and publish them, and we put out various reports.

CHAIR—Sounds like you're showing off to me! Very good. Thank you very much.

Senator STERLE—I want to go back to questions on the wine industry. It is a given that the drought and the effects of climatic changes in Australia have greatly affected this year's production. I think you said we have dropped by about a third; is that right?

Mr Glyde—I think that is what Dr Sheales said, yes—about a third.

Senator STERLE—Does the department believe that the drought will affect Australian exports of wine, Dr Sheales?

Dr Sheales—I would suggest not immediately, because the nature of the industry—

Senator STERLE—I am sorry, your colleague is shaking his head 'yes', so I do not know which one to watch.

CHAIR—They have a fair bit in store, mate.

Dr Sheales—That is the issue. That is what I was about to say. There is a fair bit in store—a couple of years of stock or whatever it is—so that will be worked down somewhat. So we will not see any dramatic effect on exports in my opinion.

Senator STERLE—Does the department have any information on how many hectares of grapevine space will die off in the Murray-Darling Basin if there is no water allowance outside personal and urban use?

Dr Sheales—No, we do not have that. You may recall I said earlier that part of what will happen depends on how much rain we get during the course of the year. They are not 100 per cent dependent on irrigation to stay alive. Grapevines are pretty hardy plants and they can survive a fair bit. Production-wise they might go off, though, that is for sure.

Senator STERLE—Has the department done any analysis of the long-term effects of climate change on the wine industry in Australia?

Dr Sheales—No, we have not. One of the issues, as we have heard a fair bit tonight, is the general uncertainty as to what climate change means in terms of rainfall patterns, temperature movements and all that sort of stuff. One of the challenges, of course, for the sector is to be able to adapt to change, whatever it might be.

Senator STERLE—Has the department investigated how many wine growers are likely to cease production in the future due to these climatic changes?

Dr Sheales—ABARE certainly has not. I cannot speak for the rest of the department, but I suspect they have not. As with most industries, there are always people entering and leaving the industry. It depends on their particular financial circumstances and how they are faring as to whether they stay in the industry in the long term.

Senator STERLE—Likewise, production can go up but the number of growers can come down.

Dr Sheales—Yes, most certainly. That is for sure.

Senator STERLE—Are there any regions that may in the future open up for wine production due to the changes in climatic conditions?

Dr Sheales—That is a technical type of question that we are not equipped to answer. You really have to talk to some scientists that know more about climate variations.

Mr Glyde—That is what we were talking about earlier. Firstly, we just do not have sufficiently detailed biophysical information to be able to get the economists going on estimating the sorts of things you are talking about. Secondly, I would also make a distinction between climate change and climate variability. Dr Sheales has already said that as a result—if we were to, for example, have a repeat of the seasonal conditions of 2006 in 2007 then we can forecast what we think will happen on an annual basis—instead of having 1.5 million tonnes next year we would have a little under one million tonnes. We can talk a bit about that, if that is what you mean by climate variability, but that is just ‘within year’. The tenor of your question seemed to be in relation to climate change more broadly, and that is what we do not have the detailed information on.

Senator STERLE—One can surmise, then, that Senator Heffernan’s bottle of rough red will be cheaper than \$6 if we have the season that you might be predicting for next year.

CHAIR—It is not rough. It’s a beautiful drop!

[9.56 pm]

Bureau of Rural Sciences

CHAIR—Welcome to the Bureau of Rural Sciences. Do you want to make an opening statement?

Dr Grant—I do not think so, necessarily.

Senator O’BRIEN—Could someone provide information on any work currently being undertaken in relation to drought?

Dr Grant—We are doing a little bit of work, but it is essentially associated with looking at the risks that are potentially faced by sectors of industry. We are not going into it in any great detail at this point in time. We do a lot of work in terms of the exceptional circumstances assessments. We provide a report on every single application for exceptional circumstances. We have built a database called NAMS that you have been exposed to, and we have recently increased the capability of that database to deal with irrigated agriculture. Other than provision of that sort of information and some analysis of social preparedness or the preparedness of farmers to deal with drought, the answer is no.

Senator O’BRIEN—What about climate change?

Dr Grant—I will take the information that Mr Glyde put forward as a base and say that the issue here is that, if you are trying to look around Australia at what the implications of climate change are, it is very difficult to do that on a regional basis. The models do not allow you to get a regional projection to any great level of sophistication that would allow you to do that.

Senator O'BRIEN—Do you do any work or have you undertaken any research on the impacts of climate change on the Australian fisheries' production?

Dr Grant—Other than on the implications or the impacts of run-off reduction in estuaries, which has an implication for juvenile stock. I think the answer to your question is no, in detail, other than knowing that there is that sort of connectivity. No, we do not do that. I might ask Dr Bygrave to comment on that. He says we are beginning to do some work.

Dr Bygrave—We are commencing some work in partnership with a range of organisations in this area. It has started very recently. It is in association with CSIRO, the Fisheries Research and Development Corporation and a number of fishery agencies around Australia, and it is in its very early stages, so it is difficult to comment in—

Senator O'BRIEN—What is the scope of the work?

Dr Bygrave—The scope is still being defined. There was a workshop held in Melbourne about a month ago, and that was to outline issues that would be required to be looked at and examined in this work, so it is very early in developing the scope of that work.

Senator O'BRIEN—Do you think it is likely that work will be undertaken on social or economic modelling on the impacts arising?

Dr Bygrave—Yes.

Senator O'BRIEN—Can someone let us know details of any new contracts BRS has entered into since the additional estimates in February?

Dr Grant—We have a number of contracts. I would have to take it on notice as to the quantum of them.

Senator Abetz—What sorts of contracts? Rental properties?

Senator O'BRIEN—I mean contracts for the performance of research work and the like.

Dr Grant—We have a number of partnerships with a number of organisations. Sometimes we subcontract some of our work through them to be done on our behalf. I can answer that question in detail by taking it on notice, but we would have quite a number. We have about 120 projects running concurrently. A good number of those would have partner involvement in which there is exchange of finances and information.

Senator O'BRIEN—I would appreciate it if you took it on notice. The ability of Australia to lock carbon away in various forms will be vital to Australia's future strategy in dealing with global warming. Many forms of farming have resulted in carbon release from soils. There is also evidence that soil can be used as a carbon sink. What research is being undertaken on the capacity of Australian soils to act as carbon sinks?

Dr Grant—None by the Bureau of Rural Sciences.

Senator O'BRIEN—Is there a reason for that?

Dr Grant—To the best of my knowledge, it is being done by others. CSIRO is doing some work, as are some of the state organisations. Previously the CRC for carbon accounting was doing some work, but we are not.

Senator O'BRIEN—Are you looking at the research undertaken in the US about the capacity of US soils to act as carbon sinks?

Dr Grant—The answer is no, we are not. The CSIRO and probably the AGO—the Australian Greenhouse Office—may well be, but we are not.

Senator O'BRIEN—There have been various descriptions of the current drought, which has been linked to the El Nino effect over the Pacific. Does the bureau have a view as to the scale of the drought as compared to previous droughts recorded in Australia?

Dr Grant—It is clearly a very significant drought in both its duration and its geographic coverage. As to comparing it in terms of area extent to previous droughts such as the Federation drought, the 1946 drought et cetera, it is of the same sort of scale in some cases, and larger or smaller in others. As to its economic impacts, that is more something that ABARE can answer and has in fact got good information on.

Senator O'BRIEN—Given that people are rating it as 'the worst in 100 years', 'the worst in 1,000 years' and 'not as bad as previous droughts', are you saying that it cannot be ascribed that sort of value?

Dr Grant—It is certainly a significant drought in the last 130 or 140 years, where reasonable records have been kept. As to going back further than that, I think it is speculative.

CHAIR—It would be fair to say, though, the impact is greatly variable. In the forties there were no stock transports, so that sheep perished and there were rabbits. The whole landscape was different. There were no perennial pastures. Even though the dry pattern of a drought was similar, how it was managed was completely different. There was no silage.

Senator Abetz—And there were no pivot irrigators going.

Dr Grant—That is right. The issue is that there are both greater impacts and lesser impacts, in many respects. There were a lesser number of people in Australia, a lesser number of people on the land and lesser numbers of some stock. But there was also, as Senator Heffernan points out, lesser access to transport to be able to move stock around to deal with regionality of impact. I do not know that you can compare one drought with another very easily when there is that sort of time scale difference.

Senator O'BRIEN—Is any research being done into whether there are any long-term changes in the frequency or intensity of El Nino effect?

Dr Grant—Again this is not an area of work that the bureau has direct involvement in, but we do get a lot of the information on this from the Bureau of Meteorology. The indications are that El Ninos are potentially becoming more frequent.

Senator O'BRIEN—'Potentially'?

Dr Grant—In any given year, you can get quite a large number. This year we have had a long El Nino, but we had one in 2003, so that is five years apart. The average seems to be about seven years apart over history, but it can go as long as 11 years and it can be as short as every second year, on occasion.

CHAIR—And you can have an El Nino without a drought.

Dr Grant—You can have an El Nino without a drought and you have a drought without an El Nino.

Senator Abetz—So it's all pretty clear, isn't it?

Senator O'BRIEN—Is the bureau doing any work on temperature and evaporation factors?

Dr Grant—Again we are not directly doing that. The bureau does work on that and the ANU, through Professor Farquhar, has done a great deal of work on that.

Dr Ritman—We have a project called the Australian Water Availability Project, which is a joint project with CSIRO and the Bureau of Meteorology. It is due for prototype delivery at the end of this financial year. It has dynamic weekly five-kilometre grid surfaces of the whole nation that include soil moisture, evaporation, transpiration and rainfall.

Senator ADAMS—What was the project called?

Dr Ritman—The Australian Water Availability Project, AWAP.

Dr Grant—The data that is collated there is Bureau of Meteorology data.

Dr Ritman—It is a combination of Bureau of Meteorology satellite imagery, model fusion—

CHAIR—I can assure you the lower Lachlan is not doing well.

Senator O'BRIEN—What about research on which agricultural crops will be most affected by global warming?

Dr Grant—We have been looking at this in the context of having discussions with various sectors to try and understand what their issues are in trying to get a better understanding of how they deal with risk. Again it comes to the issue of being able to downscale the regional projections of impact. You cannot do this to the extent that you can pick the wine-growing district of Victoria, for example, and say that over a period into the future it is going to have the following impact. That is just not possible with the models at this stage.

Senator O'BRIEN—Did the current drought start in 2001-02?

Dr Grant—I think it was 2002-03. I think the actual drought started in the year 2000. Where it had its exact impact in terms of the fiscal year is a bit hard to say. We could look that up if you want.

CHAIR—Certainly the last winter season in the western division was in 2000. The last flood in the Lachlan was in 1993.

Senator O'BRIEN—Is the bureau doing work on the level of preparation and contingency planning for dealing with drought?

Dr Grant—It is a very broad question. We consult regularly with the Bureau of Meteorology and others. We have the NAMS database that can be used and is used regularly. We have produced website tools on pasture growth that farmers can access and use as a projection tool out into the future about 13 weeks. So we have produced a number of risk management tools, if you like, but as to whether we have done work on projection of droughts and all the rest of it, the answer would be no. I might just add that it is for the very same

reason Mr Glyde pointed out, and that is that it is extremely hard to project annual variability that causes drought, because of all the factors of El Nino and the like. In terms of longer term general projections of climate change, again, as Mr Glyde said, south-eastern Australia is projected to get drier and hotter generally, and north-western Australia hotter and wetter. You can start to see that pattern developing now.

Dr Bygrave—As Dr Grant mentioned earlier, we are also in the very early stages of doing some work on social preparedness for drought and social adaptation to drought and climate change. We are beginning some case studies in four EC-declared regions and looking at community responses and best practice approaches to drought and climate change.

Senator O'BRIEN—When is that work likely to be completed?

Dr Bygrave—We are in the process of doing the focus groups as we speak. We started the focus groups this week. We would expect to complete that work over the next two or three months.

CHAIR—Is that rural and urban?

Dr Bygrave—It is just rural areas. We are looking at four EC-declared regions, both in irrigated and dry land areas.

Senator O'BRIEN—Is the bureau still looking at river system issues, such as the Murray-Darling issue? I want to know what work is being done on the impact of climate change on the Murray-Darling River system. Is it in terminal decline? Is that the sort of research you are doing?

Dr Ritman—We have explained in the past about our Water 2010 project, which does a lot of balances across river basins. We have the ability to run scenarios in that in terms of land use change. We have the AWAP project ready for delivery at the end of this financial year, which is real-time data on soil moisture, evaporation and transpiration, which can help plug into models like Water 2010 to make it go from the static to the dynamic. We have the irrigated NAMS extension now in testing phase on the public website, which documents stream flows, groundwater levels, dam levels, water availability, water use and irrigation production statistics. That data is all coming together to be able to look at analysis into the future.

CHAIR—Is that the sort of real-time data that you are going to project into the future?

Dr Ritman—No.

CHAIR—I think it was the CSIRO that made the highly variable projections of climate change effect on the south, the one that says the run-off best-case scenario is something like 4,000 gigs less than the worst-case scenario, which, I have to say, would be a hell of a drama—11,000 gigs less run-off in the Murray-Darling Basin. Do you use any of that stuff or do you think that is too fanciful?

Dr Ritman—The difficulty with those global circulation models is that they are so coarse, both in the spatial resolution and the—

CHAIR—We have all slashed our wrists that we bought it.

Dr Ritman—We are concentrating on the near term with farmers as a risk management approach to adaptation to climate change. We figure, having tools like NAMS, that a farmer can be informed and make decisions about their production cycles based on real data. The MLA pasture-to-growth outlook tool is an attempt to extend that further. It has been very successful where we have found a signal in rainfall early in the season that, within confidence limits, allows farmers to make decisions about stock levels, production and grass growth towards the end of the season. But the actual prediction over a 10-year period of how much rainfall, where it is going to fall and how that quantifies across the landscape is not what we have at the moment.

Dr Grant—Perhaps I could just explain what the bureau does. The questions keep going to: ‘Are we doing any research?’ The answer is that we are not really a research entity as is, say, CSIRO or the CRCs. What we are is an entity that takes existing data from many sources and resynthesises it and, in many respects, reinterprets it—puts a different slant on the interpretation. So, for example, as Dr Ritman says, we have looked at all the rainfall records for the last 140 years by all of the Bureau of Meteorology sites that exist, some 3,500 of them across Australia. We have gone into it and looked back to see whether we can see a pattern of variation taking place in the reliability of that rainfall. That has not been done before.

So we are not actually going out and researching new data. What we are doing is reinterpreting data. And the answer to the question, ‘Is there a variability taking place?’ is: in some places, yes; in some places, no. Some places that are getting drier have less variability in their rain but they are getting drier. Some places that are getting wetter have a greater variability in their rain, but they are still getting wetter. When we look at that from the point of view of what a farmer is interested in within a season, they want to know: ‘Am I going to get within this season—every month of this season—a given quantum of rain?’ And if the reliability of receiving that is changing to the negative then it is not so good. If it is changing to the positive—that is, it is becoming more reliable—then that is beneficial. We are looking for those sorts of signals within the existing data, but we do not go out and do field research per se.

CHAIR—Is the extension of that work the work that is being done by a bloke called Halton over in Adelaide, who seems to be pretty accurate? You have to sign up to get it but, by gee, he has been on the money for a couple of years now. Would he be using some of that reliability stuff?

Dr Grant—He will not be using ours yet because this is very early work. We have been doing this for about eight months or so and we have now built the database that can interrogate that data.

CHAIR—He certainly got the last two years right on the money.

Dr Grant—He has probably got some information sources. We tend to look for the information that farmers tell us they need and will be useful for them to make decisions within season, usually within the next 12 months. We try to provide that sort of analysis. We are not the long-term projectors of climate change. That is more the CSIRO’s and Bureau of Met’s responsibility, in terms of their running joint models. CRCs are looking at various

aspects of rainfall run-off and so forth and we take the data that they produce and try and build it into amalgamated databases.

CHAIR—Your information is handy for the farmer to know whether he wants to put 50 or 100 kilograms of DAP on. In other words, what is the prediction of the reliability of the rainfall to get the maximum yield or to scale your crop back for a lower yield?

Dr Grant—Essentially, yes. Of the two tools we have that will help them now, one is not yet available but we are testing it and the other one has not been available for some time. The one that has been available for some time is the MLA rainfall to pasture tool. We can give you the web details of that and you can go into it and look at it. The other one is this rainfall reliability wizard, as we call it. That will soon become available but we have got a little bit more development work to do.

Senator SIEWERT—In answer to a question I was asking you last time—the question is number 122, about the fish status report—if you recall, we were having some conversation about numbers and then you took some questions on notice. I want to ask about that answer in this graph and the arrows. I cannot make them add up. We were trying to work out where the different fish had gone, and the status ‘not classified’—and I want to come back and ask a question about that in a minute—went up to ‘not overfished’, ‘overfished’ and ‘uncertain’.

My figures add up that you have got 20 in ‘not overfished’ and only 23, not 24, in ‘overfished’ or ‘overfishing’. What have I got wrong, or are your figures wrong?

Dr Bygrave—Perhaps I can explain. The chart that we provided on notice shows the trend from 2004 to 2005 in the stocks. It shows that the number of not overfished species went from 17 to 19 and that the number of overfished species and species subject to overfishing went from 17 to 24. The number of species that were classified as uncertain stayed the same at 40. What is confusing potentially is this status, the ‘not classified’ classification. To take you back to where we started on this at the last hearings, on page 5 of the overview of these fishery status reports, we have four rows: the ‘not overfished’ row, the ‘overfished including overfishing’ row, the ‘uncertain’ row and the ‘status not classified’ row. That shows that over time we have been classifying an increasing number of stocks.

In 2005 we classified 83 stocks. We will be considering taking out this row for the next fishery status reports to avoid this confusion in the future because it is potentially confusing, as it is raising questions.

Senator SIEWERT—We were going through that before and I appreciate that, but you tried to indicate where ‘status not classified’ has gone. I was also asking about ‘uncertain’, because that seems to have remained the same. What you have pointed out through this is that there was movement between the various categories. In ‘status not classified’, five goes up to ‘uncertain’, four goes up to ‘overfished’ and two goes up to—

Dr Bygrave—The ‘status not classified’ classification reflects the species that have not been considered in previous reports.

Senator SIEWERT—Yes. I understand all that. What I am having trouble with is 15. For example, of the 17 overfished, 15 were still classified as not overfished.

Dr Bygrave—Yes.

Senator SIEWERT—Two went down to ‘overfishing’.

Dr Bygrave—That is right, and we had an increase from ‘uncertain’ of three. We had an increase of the status ‘not classified’ and there is a split of stocks there which again is a bit confusing because there were a splitting of two previously classified stocks into four separate stocks, which were orange roughy and the small pelagic species as indicated there.

Senator SIEWERT—I want to come back to that. I cannot make it add up. You have got 15 plus three plus two; to me that makes 20.

Dr Bygrave—I can take this on notice but that is because of the splitting of those stocks.

Senator SIEWERT—So the table still does not tell me what is going on. I am not trying to be difficult.

Dr Bygrave—As I mentioned before, to avoid confusion in the future we will be taking out that ‘status not classified’ row because what it is aiming to reflect is the increasing number of stocks that we have classified over time. In 2005 we classified 83 stocks. In 2004 we classified 74 stocks. If you go right back to 1992, you see we classified only around 30 stocks. If you add up the first three rows plus the 52, you get to the number of stocks that we have classified in the past year.

Senator SIEWERT—Despite the fact that I am finding it difficult, it is useful because it is useful to know, when you have classified new stocks, where they are actually going in.

Dr Bygrave—It is a useful trend to indicate but probably not in that table, because it is confusing in that table. But it is still a useful figure to report because it reflects that there has been an increase in the number of stocks classified over time.

Senator SIEWERT—Yes. Can I go back to the issue that we touched on just then, of the four separate stocks. So you split two. You did not split one into four. You split two into two, didn’t you?

Dr Bygrave—Two into four.

Senator SIEWERT—What were the two originally called?

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

Senator SIEWERT—Could you tell me what those two were and then what they were split into, because here it just says ‘orange roughy’ and ‘small pelagics’.

Dr Bygrave—Yes. I will take that on notice.

ACTING CHAIR (Senator Adams)—Thank you very much.

[10.29 pm]

Rural policy and innovation

Senator O’BRIEN—Firstly, I am interested in the department’s contribution to the running of the Rural Financial Counselling Service. For the past two years there has been an underestimation of the cost. What methodology does the department use in estimating the demand for those services?

Mr Thompson—I am not sure where you are seeing the underestimate for the services, but the costs for the Rural Financial Counselling Service are estimated on the number of counsellors we expect to employ across the state, the average cost of those counsellors, the cost of providing motor vehicles, accommodation, those sorts of things, plus the costs that will be incurred for training and like activities.

Senator O'Brien—The basis of the question was that in 2004-05 estimated and actual funding was \$4.62 million but in 2005-06 the estimated was \$4.63 million and the actual was \$5.656 million.

Mr Thompson—It has actually spent more than the initial estimate?

Senator O'Brien—Yes. An underestimation of the cost.

Mr Thompson—Sorry. I thought you meant we underspent. The explanation for those costings was that in 2004-05 into 2005-06 the drought intensified and the demand for the services of rural financial counsellors, which we monitor through their regular reports, increased and we received additional funding to supplement the services to meet the demands from drought. The estimation methods we have used have been consistently the same, but the demand increased and additional funding was provided.

Senator O'Brien—So is it fair to say that between 2005-06 and 2006-07 demand nearly doubled?

Mr Thompson—Two things happened between 2005-06 and 2006-07: (1) demand increased; and (2) we introduced quite a number of changes to the program, including increased governance of the services, increased training provision and the release of money to new service providers which more fully met the costs that were being incurred by the services. Both costs and demand went up.

Senator O'Brien—What was the basis of the increased funding in the coming financial year to \$13.778 million?

Mr Thompson—That is taking into account two factors: the increased demand that is still expected during drought and the distances they will have to travel, which will include fuel costs et cetera. In addition, drought and the low levels of water availability in the Murray-Darling Basin have in our estimation increased likely service demand to quite a large extent, so we have supplemented the services.

Senator O'Brien—Have the service providers recently completed a funding application round?

Mr Thompson—They have recently completed the funding application round for supplementary money for drought.

Senator O'Brien—Are they required to reapply for funding for three years commencing in the coming financial year?

Mr Thompson—The current contracts we have with them expire at the end of the current program, which is June 2008, and the proposal is that the services will be re-let for a subsequent period of time with the new program money that was announced in the budget. So yes, there will be a grant application process called later this year.

Senator O'BRIEN—Do you keep material on a state by state, region by region basis on where the rural financial counsellors are located?

Mr Thompson—Yes, we do.

Senator O'BRIEN—Can this committee receive a copy of that?

Mr Thompson—I do not have it with me, but we can take that on notice and provide it.

Senator O'BRIEN—Okay. Do you know what the average case load per counsellor is?

Mr Thompson—It varies quite significantly, depending on the area, but we do have that data. Again, I do not have that level of detail here, but I can provide it.

Senator O'BRIEN—I would appreciate that, broken down by state, territory and region. The beyondblue website states:

Recent figures show that suicide is also more common in rural and remote areas than in the city, especially among men.

Does the department have data on the suicide rates in men and women by region or location?

Mr Thompson—No, we do not. People's mental health issues are the responsibility of other departments.

Senator O'BRIEN—Financial counsellors are not, by their description, supposed to be personal counsellors, but are they trained to identify at-risk behaviour or signs of depression?

Mr Thompson—As you say, they are not trained to be personal counsellors and they are not there to provide advice. They are usually trained in what is called mental health first aid, so that when they do encounter signs of depression or the like they are in a position to help immediately and refer that person to appropriate support.

Senator O'BRIEN—I note that Sussan Ley announced in a media statement in October last year that Centrelink had received funding to assist with increased demands for personal counselling. What work is done to skill up Centrelink staff on rural issues, to understand the issues that might underpin behaviour?

Mr Thompson—You would have to speak directly to Centrelink on that, but we do have a regular liaison with Centrelink so they are aware of rural issues as we see them. We brief Centrelink staff on the issues that are emerging in rural Australia, and in rural communities we have put in place arrangements so that Centrelink, FaCSIA and our counsellors, advisers and drought support workers can work as a team in those communities and support each other.

Senator O'BRIEN—Do you have any information on the connection between referrals to psychologists or social workers and the rural financial counsellors' service provision?

Mr Thompson—In the data we collect as part of our monitoring of the Rural Financial Counselling Service we keep track of the number of referrals counsellors make to other services. I am not sure whether that breaks down into the level of mental health advice, financial advice or legal advice. I can certainly get the information on the number of referrals that are made but I could not be sure that we actually keep track of the mental health referrals. But the counsellors do serve as a portal to mental health workers because in some cases the financial counsellors are the first people to encounter these people.

Senator O'BRIEN—In cases where a financial counsellor identifies a need for an immediate referral and there is a prohibitive waiting period at Centrelink or the local community health centre or GP, is funding available to expedite the referral of clients directly to the appropriate service?

Mr Thompson—We do not have funding either for providing mental health services or for referring mental health services. If there are issues with FaCSIA, Centrelink or state based service providers, they would be matters that only they could answer.

Senator O'BRIEN—In my own state, the Mayor of Southern Midlands, Councillor Bisdee, called on the federal government to recognise the importance of rural health in EC areas by providing funding on a dollar-for-dollar basis to state government to extend and increase health services in drought-declared areas. Is this department involved in any consideration of that idea?

Mr Thompson—I am not aware of being involved in that particular idea but we have, on a number of occasions over the last two or three years, been looking at what support governments could provide for areas impacted by drought. I have been involved in policy options for that. To that extent, we were involved in the consideration of identifying mental and rural health as issues which were addressed in the drought package last year when the additional money was provided for FaCSIA and Centrelink for our social, community and mental health counsellors. The assistance that is available under exceptional circumstances for those people who qualify for the relief payment includes a healthcare card.

Senator O'BRIEN—What role, if any, will the Rural Financial Counselling Service play in the COAG National Action Plan on Mental Health?

Mr Thompson—I am not aware of any particular role that has been identified for them in that, but their normal role in mental health issues is to act as a source of information for those people who are expert in that area or are a source of referrals, so in that sense they would be a part of the support service or access service to enable people to be referred to other services. They are also a source of information about what might be going on in rural areas which can be fed into other service providers.

Senator O'BRIEN—Can you give us an explanation as to how the \$13.78 million in the coming financial year for the Rural Financial Counselling Service will be spent?

Mr Thompson—It will be spent on supporting some 100 financial counsellors who are distributed across Australia now. It will also be used to provide training for those counsellors and to assist with the training and information provision of the service providers. We will also be using it for collating information on the effectiveness of those services.

Senator O'BRIEN—How much will be expended within the department?

Mr Thompson—We expect to spend \$2.3 million, both within the department and on services such as training, monitoring and reporting.

Senator O'BRIEN—How much on training, monitoring and reporting and how much on pure administration? What is that 20 per cent?

Mr Thompson—It is around 20 per cent and, of that, around half is spent on staff performing the job. There are approximately 10 staff administering the program. The remaining money is on information, training et cetera.

Senator O'BRIEN—How much does it cost to support the 100 financial counsellors?

Mr Thompson—It depends on how you calculate that. As I said, the essential figure is about 10 staff, but we believe the cost of training and everything else is essentially—

Senator O'BRIEN—I mean the financial counsellors themselves. How much does it cost you to pay for the financial counsellors' services?

Mr Thompson—The money that is on the ground, directly for them?

Senator O'BRIEN—Yes.

Mr Thompson—That is \$13.7 million minus \$2.3 million.

CHAIR—So it is \$100,000 extra.

Mr Thompson—It is \$11.4 million. Counsellors cost about \$180,000 per counsellor on the ground, taking into account salaries, on costs, car, accommodation, training.

Senator O'BRIEN—Will that expenditure be even across the financial year?

Mr Thompson—Yes. There is no reason why we would expect it to vary. It may be variable from month to month, but even over the year.

CHAIR—How many counsellors did you say you had—100?

Mr Thompson—We will have, on average over the next financial year, something like 100 full-time equivalents. They do vary from time to time. Some are part time, some are full time. Numbers rise and sometimes numbers fall.

CHAIR—At \$180,000 each, they add up.

Mr Thompson—Yes.

CHAIR—There must be people coming and going.

Mr Thompson—There is a bit of coming and going, and some cost a bit less than that, some cost a bit more. Some areas are higher cost because of high amounts of travel.

Senator O'BRIEN—I want to ask about FarmBis now. This program only appeared in appropriation bill No. 2 in the portfolio estimates. Why is it now in both bill No. 1 and bill No. 2?

Mr Thompson—The major change that was made to FarmBis in the budget was to deliver it as a national program as opposed to payments to the states. This financial year we are running a national program in combination with the run-out of the previous program so it appears in bills Nos 1 and 2. In future it would be a bill No. 1 program delivered on a consistent national basis.

Senator O'BRIEN—The money in this FarmBis component represents new funding for the program which was not originally contained in the 2006-07 portfolio estimates?

Mr Thompson—Yes. It represents a mixture of new money and old money.

Mr Bowen—In the budget estimates bill 2 on table 2.8 shows an allocation of \$8 million, which is the money for finishing the current FarmBis program this coming financial year, with the agreements with the states. The bill 1 money is on table 2.7, which shows \$5.3 million, which is to commence the national program in New South Wales and Victoria.

Senator O'BRIEN—How is the rest of the national rollout being funded and over what period?

Mr Bowen—The rest of the national rollout is shown on table 2.2, which shows the estimates for the following three financial years. It shows the totals there of around about \$9.5 million, \$9.3 million and \$9.4 million, which will cover the estimated cost of running the program across all states and territories.

Senator O'BRIEN—The \$2 million from 2007 and 2008 is a reduction. That has gone into the out years, has it?

Mr Bowen—The \$2 million in 2007-08 is taking off the existing money because it is an anticipated saving because we do not anticipate the demand will be as high in the current program as it winds down.

Senator O'BRIEN—Why is it estimated to bounce back up?

Mr Thompson—There would be at least two reasons for that. One is that demand for training has been low in those states affected by drought because farmers have had other things. We also found with a number of programs that when you commence a new program there is a novelty factor and people suddenly become interested in it again, when you combine it with some communications about this new program that is here, and they participate. The level of expenditure in aggregate will be about the same in 2008 as the expenditure in 2007.

Senator O'BRIEN—Can you explain the rationale for commencing the national program in New South Wales and Victoria, and I think the ACT, from 1 July 2007, rather than all jurisdictions?

Mr Thompson—I can commence to answer that. We had existing contracts with the other states that went through till the end of June 2008. New South Wales were not participants in the current FarmBis program, so there was no program there. Victoria had signed an agreement only up until June 2007. The ACT would be delivered as part of the New South Wales arrangement. In both those states without the national program—in the case of New South Wales there was not a program, in the case of Victoria we would have had to extend—there was the opportunity to commence the national program straightaway. In the other states we will run out the state delivered program in accordance with the agreement that we already have.

Senator O'BRIEN—How is the administrative amount in each of the out years calculated?

Mr Bowen—The administrative expense is based on current funding levels for training expenses by both the Commonwealth and the state, averaged on recent monthly ones over the program so far, plus we have factored in a share for additional funding for New South Wales which is not in the current program. The New South Wales share is based on the uptake of training when they were last participating in FarmBis.

Senator O'BRIEN—So those figures are predicated on improved conditions in rural areas, given the reduction in 2007-08 because of the drought? I think that is what you told us.

Mr Thompson—Yes. I said one of the reasons for the reduction is that we have been advised that farmers are not interested in training. In accordance with the best forecast we have of something like a bit better than a fifty-fifty chance of being average, we have planned on average uptakes.

Senator O'BRIEN—We have no idea of whether the money is likely to be spent or whether it will be spent early or late?

Mr Thompson—It is a demand driven program in that respect, so we have no idea whether it will be spent early in the financial year or late.

Senator O'BRIEN—Historically, how many people have participated in the FarmBis program on a yearly basis?

Mr Thompson—I do not know whether we have the figure on a yearly basis.

Mr Bowen—We have some data here on training occasions. That means that some people may attend more than one course. The data we have is looking at the current program over the last 2¼ years that it has been operating. Over that time, the total number is 28,000.

Senator O'BRIEN—Just over 1,000 a month?

Mr Bowen—On average, yes.

Senator O'BRIEN—There are no departmental outputs in 2007-08, but something approaching \$1 million and then declining on 2008-09 and the other out years. Why is that?

Mr Bowen—There is existing funding already allocated in previous budgets, so there is funding in 2007-08 for departmental costs.

Senator O'BRIEN—How much is provided in 2007-08?

Mr Bowen—In 2007-08 I think the number is about \$1.4 million.

Senator O'BRIEN—Why does that reduce to just under \$1 million the following year?

Mr Thompson—We are moving to a national method of program delivery, so the cost of supporting planning groups and delivery arrangements in every state is one of the major areas for reduction. By delivering it on a national basis there are lower administrative costs.

Senator O'BRIEN—How many staff?

Mr Thompson—At the national level at the present time we have 7.4 full-time equivalents.

Senator O'BRIEN—Will agencies outside of DAFF administer the program?

Mr Thompson—The proposal is that we will have an outsourced program administrator to do the receipt of applications and the administration of the applications and we expect to shortly be releasing that for tender. So we do not know what that cost will be and would not be in a position to comment on it at this stage.

Senator O'BRIEN—Bear with me while I just check further questions—

Senator Abetz—I am sure they can all be put on notice.

Senator O'BRIEN—I was looking for a short one to fill in the last three minutes.

Senator Abetz—Don't feel an obligation!

Senator O'BRIEN—There is not a short one. Maybe we will come back tomorrow.

Senator Abetz—What a great idea.

CHAIR—Thank you all.

Committee adjourned at 10.57 pm