



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

STANDING COMMITTEE ON ECONOMICS

ESTIMATES

(Supplementary Budget Estimates)

THURSDAY, 23 OCTOBER 2008

CANBERRA

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SENATE STANDING COMMITTEE ON
ECONOMICS**Thursday, 23 October 2008**

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

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

Senators in attendance: Senators Abetz, Boswell, Brandis, Bushby, Cameron, Eggleston, Farrell, Fielding, Fifield, Forshaw, Furner, Heffernan, Hurley, Johnston, Joyce, Ludlam, Milne, Parry, Pratt, Ronaldson, Williams and Xenophon

Committee met at 9.01 am**TREASURY PORTFOLIO**

Consideration resumed from 22 October 2008.

In Attendance

Senator Conroy, Minister for Broadband, Communications and the Digital Economy, and Senator Sherry, Minister for Superannuation and Corporate Law

Department of the Treasury

Dr Ken Henry AC, Secretary to the Treasury

Outcome 1—Sound Macroeconomic Environment**Output Group 1.1 Macroeconomic Group**

Dr David Gruen, Executive Director, Macroeconomic Group

Mr Tony McDonald, General Manager, Macroeconomic Policy Division

Mr Jason Allford, Acting General Manager, Domestic Economy Division

Ms Rose Verspaandonk, Manager, Macroeconomic Policy Division

Mr Adam McKissack, Principal Adviser, Domestic Economy Division

Dr Paul O'Mara, Principal Adviser, Macroeconomic Group

Mr Mike Waslin, Principal Adviser, Domestic Economy Division

Outcome 2—Effective Government Spending Arrangements**Output Group 2.1 Fiscal Group**

Mr Nigel Ray, Executive Director, Fiscal Group

Ms Jan Harris, General Manager, Budget Policy Division

Mr Micah Green, Manager, Budget Policy Division

Mr Matthew Brine, Manager, Budget Policy Division

Ms Karen Incher, Manager, Budget Policy Division

Mr Michael Willcock, General Manager, Commonwealth-State Relations Division
Mr Steve French, General Manager, Industry, Environment and Defence Division
Mr Geoff Francis, Principal Adviser, Industry, Environment and Defence Division
Ms Natalie Horvat, Manager, Industry, Environment and Defence Division
Ms Meghan Quinn, Manager, Industry Environment and Defence Division
Ms Peta Furnell, Acting General Manager, Social Policy Division
Mr Peter Robinson, Principal Adviser, Social Policy Division
Mr David Pearl, Principal Adviser, Social Policy Division
Ms Deidre Gerathy, General Manager, Corporate Services Group
Mr Rob Donnelly, General Manager, Corporate Services Group
Mr Richard Hayes, Director, Regulatory Development Branch

Outcome 3—Effective Taxation and Retirement Income Arrangements

Output Group 3.1 Revenue Group

Mr David Parker, Acting Executive Director, Revenue Group
Ms Christine Barron, General Manager, Indirect Tax Division
Ms Sue Vroombout, Acting General Manager, Personal and Retirement Income Division
Mr Trevor Thomas, Principal Adviser, Personal and Retirement Income Division
Mr Mark O'Connor, Principal Adviser, Personal and Retirement Income Division
Mr Nigel Murray, Manager, Personal and Retirement Income Division
Mr Tony Coles, Manager, Personal and Retirement Income Division
Ms Maryanne Mrakovcic, General Manager, Tax Analysis Division
Mr Colin Brown, Manager, Tax Analysis Division
Mr Damien White, Manager, Tax Analysis Division
Mr Phil Gallagher, Manager, Tax Analysis Division
Mr Marty Robinson, Manager, Tax Analysis Division
Mr Rob Heferen, General Manager, Australia's Future Tax System Review
Ms Brenda Berkeley, General Manager, Tax Design Division
Mr Jonathon Rollings, Manager, Tax Design Division
Mr William Potts, Manager, International Tax and Treaties Division
Mr Martin Jacobs, Manager, International Tax and Treaties Division
Mr Matthew Flavel, Manager, Business Tax Division
Mr Tony Regan, Manager, Business Tax Division
Mr Bill Brummitt, General Manager, International Economy Division
Mr Paul Flanagan, General Manager, International Finance Division

Outcome 4—Well-Functioning Markets

Output Group 4.1 Markets Group

Mr Jim Murphy, Executive Director, Markets Group
Mr Geoff Miller, General Manager, Corporations and Financial Services Division
Mr Andrew Sellars, Senior Adviser, Corporations and Financial Services Division
Mr Bede Fraser, Manager, Corporations and Financial Services Division
Ms Marian Kljakovic, Manager, Corporations and Financial Services Division
Ms Kate Preston, Manager, Corporations and Financial Services Division
Mr Mark Sewell, Manager, Corporations and Financial Services Division
Ms Alix Gallo, Manager, Corporations and Financial Services Division

Mr Richard Sandlant, Senior Adviser, Corporations and Financial Services Division
Mr Patrick Colmer, General Manager, Foreign Investment and Trade Policy Division
Ms Veronique Ingram, Manager, Financial Systems Division
Ms Kerstin Wijeyewardene, Manager, Financial Systems Division
Mr Andre Moore, Manager, Financial Systems Division
Ms Vicki Wilkinson, Manager, Financial Systems Division
Mr Trevor King, Manager, Financial Systems Division
Mr Peter Martin, General Manager, Australian Government Actuary

Australian Bureau of Statistics

Mr Ian Ewing, Acting Australian Statistician
Mr Peter Harper, Deputy Australian Statistician, Population, Labour, Industry and Environment Statistics Group
Ms Susan Linacre, Deputy Australian Statistician, Social Statistics Group
Ms Janet Murphy, First Assistant Statistician, Corporate Services Division
Ms Debra Foggin, Chief Finance Officer
Ms Beverley Forner, Chief Finance Officer
Mr Paul Sheedy, Acting Assistant Statistician, Office of the Statistician
Ms Gillian Nicoll, Assistant Statistician, Corporate Services Division
Mr Garth Bode, First Assistant Statistician, Social Statistics Division

Australian Competition and Consumer Commission

Mr Graeme Samuel, Chairman
Mr Brian Cassidy, Chief Executive Officer
Mr Adrian Brocklehurst, Chief Finance Officer
Mr Richard Chadwick, General Manager, Adjudication
Mr Michael Cosgrave, Group General Manager, Communications
Mr Joe Dimasi, Executive General Manager, Regulatory Affairs Division
Mr Scott Gregson, General Manager, Coordination
Mr Tim Grimwade, General Manager, Mergers and Assets Sales
Ms Helen Lu, General Manager, Corporate Branch
Mr Nigel Ridgway, General Manager, Compliance Strategies
Mr Mike Kiley, Acting General Manager, Enforcement Branch—Canberra
Ms Michelle Grover, Executive Officer, Australian Energy Regulator
Mr Sebastian Roberts, General Manager, Water Branch

Australian Office of Financial Management

Mr Neil Hyden, Chief Executive Officer
Mr Michael Bath, Director, Financial Risk
Mr Pat Roccosta, Chief Financial Officer

Australian Prudential Regulation Authority

Dr John Laker, Chairman
Mr Charles Littrell, Executive General Manager, Policy, Research and Statistics
Mr Wayne Byres, Executive General Manager, Diversified Institutions Division
Mr Keith Chapman, Executive General Manager, Supervisory Support Division
Mr Senthamangalam Venkatramani, General Manager, Central Region Specialised Institutions Division

Australian Securities and Investment Commission

Mr Tony D'Aloisio, Chairman
Mr Jeremy Cooper, Deputy Chairman
Ms Belinda Gibson, Commissioner
Mr Justin Owen, Manager, Government Relations
Mr Stephen Woodhill, Executive General Manager, Corporate Affairs
Mr Malcolm Rodgers, Senior Executive Leader, Strategy
Mr Lindsay Mackay, Technical Adviser to the Deputy Chairman
Mr Barton Hoyle, Lawyer, Strategy

Australian Taxation Office

Mr Michael D'Ascenzo, Commissioner
Mr David Butler, Second Commissioner
Mr Mark Konza, Acting Second Commissioner
Ms Raelene Vivian, Chief Operating Officer, Operations
Mr Bill Gibson, Chief Information Officer
Mr Neil Oleson, Deputy Commissioner, Superannuation
Ms Sally Druhan, Assistant Commissioner, Financial Operations
Mr Steve Vesperman, General Manager, AVO Valuation Corporate Support

Corporations and Markets Advisory Committee

Mr John Kluver, Executive Director

Productivity Commission

Mr Gary Banks AO, Chairman
Mr Michael Kirby, Acting Head of Office
Dr Ralph Lattimore, Assistant Commissioner
Mr Terry O'Brien, First Assistant Commissioner
Dr Lisa Gropp, Acting First Assistant Commissioner

CHAIR (Senator Hurley)—I declare open this meeting of the Senate Standing Committee on Economics. The Senate has referred to the committee the particulars for the proposed expenditure for 2008-09 and certain other documents for the portfolios of Innovation, Industry, Science and Research; Resources, Energy and Tourism; and Treasury. The committee may also examine the annual reports of the departments and agencies appearing before it. The committee has fixed Friday, 12 December 2008 as the date for the return of answers to questions taken on notice. Senators are reminded that written questions on notice can only be submitted to those agencies nominated to appear at this round of supplementary estimates and need to be provided to the secretariat by the time the committee concludes its hearings tonight.

Today the committee will begin by examining the Australian Prudential Regulation Authority and then continue in the order shown on the agenda. I remind everyone to switch off their mobile phones or make them silent. Under standing order 26, the committee must take all evidence in public session. This includes answers to questions on notice. 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.

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 department and agencies which are seeking funds in the estimates are relevant questions for the purpose of estimates hearings. I remind officers that the Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise.

The Senate has resolved that an officer of a department of the Commonwealth or of a state shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits only questions asking 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 ground 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 would be contrary to the public interest to answer a question must be made by the minister and should be accompanied by a statement setting out the basis of the claim.

[9.04 am]

Australian Prudential Regulation Authority

CHAIR—I welcome Senator Sherry, representing the Treasurer, and officers of APRA. Minister or officers, do you wish to make a brief opening statement?

Senator Sherry—I do not, Chair, but I understand Dr Laker does.

Dr Laker—Thank you, Chair, I will make a brief opening statement. This is the third occasion on which I have appeared before this committee since the global financial market turbulence began in the middle of 2007. On the first two occasions in February and June this year I could not offer the committee any comfort that the end of the turbulence was then in sight. I cannot do so today. Over the past few weeks we have witnessed yet more severe bouts of volatility in global equity markets and further dislocations in global funding markets, notwithstanding the initial US and other rescue packages, unprecedented in their scale and scope. Over more recent days governments around the globe—including the Australian government—have intervened in more decisive and concerted ways to support stability and confidence in banking systems.

Globally, there are some early signs that these actions are helping frozen funding markets to thaw. Domestically, feedback from our regulated institutions is that the government's deposit and term funding guarantee, which APRA fully supports, has calmed what was a growing disquiet on the part of some depositors. However, global recession concerns are now weighing heavily on equity market sentiment.

On my two previous appearances I was nonetheless able to reassure the committee that the Australian financial system was coping well with the global market turmoil. I continue to offer that reassurance to the committee today. Australia has a financial system of undoubted underlying strength, and Australians can be confident in the financial institutions that APRA

regulates. This judgement is fully consistent with the Reserve Bank of Australia's assessment in its latest *Financial stability review*, which is worth repeating, and I quote:

In this difficult environment, Australia has benefited from having strong and profitable financial institutions with few problem assets on their balance sheets, and a sound regulatory regime. While the Australian financial system has not been completely insulated from developments abroad, it is weathering the current difficulties much better than many other financial systems.

Our 2007-08 annual report, which gives a detailed account of our supervisory activities during the turbulence, will shortly be tabled before the parliament. In the interest of time I do not propose today to repeat the story, but the committee may find it helpful to have a brief overview of the four industries that APRA supervises. Among these industries, authorised deposit-taking institutions—banks, building societies and credit unions—have felt the impact of global market turbulence most, and this sector has been subject to intense APRA scrutiny. This scrutiny has focused particularly on liquidity and funding, credit quality and capital. Overall, ADIs, as we call them, have been able to meet their funding needs, albeit at much higher costs; have low levels of impaired assets by historical and international standards, though the levels are rising; and have sound levels of profitability and capital.

For life insurance and superannuation funds, the substantial deterioration in global and domestic equity markets has reduced the value of the large equity portfolios they hold. We are closely monitoring the capital buffers of life insurance companies and friendly societies, and the overall capital position of that industry is sound. Superannuation funds are, as we know, delivering negative returns to fund members for the first time in five years, while flows into superannuation products have also been subdued after record inflows in 2006-07. The fortunes of the general insurance industry have been tied more to storms that were physical in character, not financial, and this industry remains very well capitalised.

Recently, the government announced that it will be working with the relevant Australian regulators to design a template that could be adopted by the international authorities, a template that links capital adequacy requirements to executive remuneration in a way that acts against excessive risk taking in financial institutions. The government also said that it would be examining with APRA what domestic policy actions would be appropriate in pursuit of this objective. This initiative is squarely in line with and will give impetus to one of the recommendations of the Financial Stability Forum to deal with the global financial crisis. The forum, a global body established to promote international financial stability, noted that compensation arrangements in major financial centres often encourage disproportionate risk taking with insufficient regard to longer term risks. It recommended that regulators and supervisors should work with market participants to mitigate the risks arising from inappropriate incentives in remuneration arrangements.

The issue of executive remuneration is a complex one but is not entirely new territory for APRA. In a paper to a major Reserve Bank conference in August last year, I talked about what is called 'agency risk', the risks that the interests of management might not be aligned with the interests of shareholders and creditors and how executive remuneration arrangements can accentuate this risk in sustained good economic times. Our view then and now is that executive remuneration that helps to deliver strong returns on capital over time, adjusted for the risks involved, or that rewards genuine outperformance of competitors does not of itself

raise prudential issues. For a prudential regulator, agency risk issues arise if remuneration arrangements encourage management to focus on a shorter term horizon than the long-term approach that would also be in depositors', policy holders' or fund members' best interests. Incentives to generate short-term profitability or drive up the share price more rapidly than competitors can tempt management to pursue aggressive trading or growth strategies or to hollow out the institution by paring back capital buffers or cutting costs, particularly in middle and back offices where risk management functions reside. For these reasons, trading and growth strategies, the size of capital buffers and the resourcing of risk management areas are major elements of our supervision of financial institutions.

APRA is currently working with the government on an appropriate template for executive remuneration in APRA regulated institutions, and I cannot comment on that work today. What I can say, however, is that APRA is taking a principles based approach that is focused on the structure of executive remuneration arrangements and the incentives, explicit or implicit, built into them. We have always seen the setting of remuneration levels as the responsibility of boards and shareholders. On that note my colleagues and I are happy to take the committee's questions.

CHAIR—Thank you, Dr Laker.

Senator BRANDIS—I do not know if you happened to be watching the estimates yesterday, but we had some evidence from Dr Henry about the dealings between Treasury and APRA in relation to what I might loosely call the banking package, the package of measures announced by the Prime Minister on 12 October. Dr Henry's words were to the effect that there had been extensive consultations between Treasury and APRA in relation to the package. That is right, isn't it?

Dr Laker—That is correct.

Senator BRANDIS—Was APRA consulted both in relation to the guarantee of wholesale borrowings and the deposit guarantee?

Dr Laker—Yes.

Senator BRANDIS—Those consultations in relation to those two measures presumably took place in the same series of conversations and exchanges.

Dr Laker—Yes.

Senator BRANDIS—When were you or your officers first consulted in relation to these measures?

Dr Laker—The question of how a government may respond to a financial crisis is a subject that the Council of Financial Regulators has been discussing extensively for a long period of time, so that is the background—

Senator BRANDIS—I understand that is the background. One could theoretically say, 'These sorts of things have been argued about in economics journals since before the time of John Maynard Keynes,' but I want to focus specifically on the adoption and emergence of these particular measures. I want to focus on the short-term rather than the background, if I may.

Dr Laker—There had been extensive discussions between ourselves, the Reserve Bank and Treasury over September and early October because the crisis had intensified in that time. Those discussions were focused initially on the Financial Claims Scheme, which was being prepared for presentation to the parliament.

Senator BRANDIS—Is that what I have called the deposit guarantee?

Dr Laker—You could call that the deposit guarantee. In the week and more leading up to that particular weekend when the government made its announcement, what had changed internationally was that a number of countries, initially starting with the Irish government, had taken quite comprehensive steps to guarantee not just deposits but a broader range of liabilities. That is the background to the discussions that took place between the members of the council leading up to the government's decision.

Senator BRANDIS—Thank you. That is exactly what I wanted to know—the steps immediately prior to the Prime Minister's announcement. Was APRA's participation in those discussions exclusively through the forum of the Council of Financial Regulators, or were there also bilateral discussions between APRA and Treasury?

Dr Laker—In that week and over that weekend—

Senator BRANDIS—You mean the week prior to 12 October.

Dr Laker—Yes. As I say, these go back a lot earlier in time, but in that particular week and over that weekend they were based on bilateral phone and email discussions between APRA, the Treasury and the Reserve Bank, as you would expect.

Senator BRANDIS—I think it is a fair characterisation of the evidence yesterday from Treasury that after the proposal had been discussed at the Council of Financial Regulators there was a consensus among the participants in relation to it. Does that sit with your recollection?

Dr Laker—I did watch some of that estimates hearing. The Secretary answered a question about the views of the Reserve Bank and said that he and the governor were of one mind.

Senator BRANDIS—Were you of the same mind?

Dr Laker—I could use the same expression to refer to APRA as well.

Senator BRANDIS—I do not want to waste too much time canvassing what was said yesterday, but to say when a policy proposal ultimately goes to government that officials are of one mind does not necessarily mean that there has not been a canvassing among them of issues and a debate about the shape of the proposal in advance of the arrival at that common view.

Dr Laker—As a general question, I could give you a general answer: yes, that is part of the discussions we had about the nature of the recommendation we would put to government. It was framed against a very, very unprecedentedly difficult week in global financial markets. There was not a debate about what Australia needed to do. The difficulty that we see from an APRA perspective, and I can only bring an APRA perspective to these discussions, is that our institutions that were reliant on offshore wholesale funding were finding that that market, previously a deep, mature market with funding available across the full spectrum of

maturities, had collapsed into an overnight market. The loss of trust in that market was palpable, so our concern was that the institutions relying on those markets were at risk of being severely penalised in competing with banks in other regimes that had sovereign guarantees behind them. So that was the background to the discussions. It seemed to me what was needed was fairly straightforward.

Senator BRANDIS—Turning to the deposit guarantee scheme, it was initially the government's positions that there should be a cap, then it was the government's position that the guarantee should be unlimited and now the government's third position is that there should be some fee, which some people say is a tax, on deposits of more than a million dollars. What was APRA's initial position?

Dr Laker—The discussions about the Financial Claims Scheme and the material that was being prepared for presentation to parliament was in a particular context. That context was the failure of one institution, for whatever reason, and the impact that would have on depositors. The early access scheme, as the financial scheme is in the depositing-taking sector, was designed to provide an assurance to depositors in that institution that they would have early access to part of their money. That was the context in which that scheme was developed. The context in which the discussions took place was much broader than that, as it turned out. The decisions that the government would take on wholesale funding clearly had implications for how you would design the deposit guarantee scheme. The whole context had changed in the course of that week.

Senator BRANDIS—That is very helpful but, coming to my question, what was APRA's initial position in relation to whether or not there should be a cap?

Senator Sherry—That is going to advice to government.

Senator BRANDIS—I have not asked him about any advice he has given to government, as a matter of fact. I have asked him about APRA's position.

Senator Sherry—It is one and the same thing.

Senator BRANDIS—No, it is not. I have not asked the witness any questions about advice given to government.

Senator Sherry—It is one and the same thing.

Senator BRANDIS—No, it is not.

Senator Sherry—Yes, it is.

Senator BRANDIS—This is an agency. It is not a department.

Senator Sherry—Yes, it is. It is one and the same thing in terms of advice.

Senator BRANDIS—I will rephrase my question. Dr Laker, I do not want you to tell me about any advice you gave to the government. In responding to my question, the question I am about to ask you, I want you specifically to exclude from your answer any advice you gave to the government. Do you understand me? Could I make myself clearer?

Dr Laker—Yes.

Senator BRANDIS—What was APRA's initial view in relation to the question of whether there should be a cap?

Dr Laker—There was a consensus view of the Council of Financial Regulators when that scheme was first developed.

Senator BRANDIS—What was that view?

Dr Laker—That there would be a cap on the amount to which the depositor would have early access. That was the view of the council; that was unanimous.

Senator BRANDIS—What was the cap to be?

Dr Laker—I think there was an announcement made that the cap would be \$20,000 at that time.

Senator BRANDIS—All right. Now, was that the view taken at the meeting of the Council of Financial Regulators about which we heard last night that occurred on the afternoon of Friday, 10 October?

Dr Laker—I would have to say that events were moving quite quickly at that point—

Senator BRANDIS—Sure.

Dr Laker—and the discussions that were underway amongst the members were really in a much broader context.

Senator BRANDIS—Look, I can well appreciate that this would have been a very mobile series of events given the urgency of the matter. But we did hear that there was a meeting of the Council of Financial Regulators on the Friday afternoon and another one on the Sunday and perhaps there were others that we did not hear about yesterday. But the consensus view of the Council of Financial Regulators, which as I understand you, APRA subscribed to, was that there should be a cap of \$20,000. Yes?

Dr Laker—As I say, Senator, that was the original design of the financial claims scheme in a different context, yes, that is right.

Senator BRANDIS—Yes, and APRA agreed to that position?

Dr Laker—It was a unanimous view of the council members.

Senator BRANDIS—Unanimous, all right. When did APRA change its mind, or is that still APRA's view?

Dr Laker—Senator, I am going over the same answer I gave you before. The context in which government responses to what was happening globally changed quite substantially in the course of that period.

Senator BRANDIS—I understand that.

Dr Laker—We were looking at a broader set of questions than just the operation of that claims scheme. One of the broader considerations we needed to look at was what other countries were doing in the way of providing support to their banking systems. What we were picking up in our contact with our regulated institutions was about how the Australian community was feeling in relation to these developments.

Senator BRANDIS—Sure. Dr Laker, again in responding to the question I am about to ask you, I want you to tell the committee nothing about advice given by APRA to government; I am just asking about APRA's view. Was it APRA's view, at a subsequent time to the initial view that you have just described, that the claims scheme should be unlimited or uncapped?

Dr Laker—In the context of what the government was also proposing to do for guaranteeing term funding liabilities, yes.

Senator BRANDIS—So for whatever reason, and we will go to the reasons in a moment, APRA's view moved from the proposition that there should be a guarantee capped at \$20,000 to a position that there should be an uncapped guarantee; correct?

Dr Laker—Yes, but in the context of a wider set of responses.

Senator BRANDIS—I am going to ask you about that context in a moment. So APRA's view changed and my next question is, what were the circumstances that caused APRA's view to change?

Dr Laker—The circumstances were the very difficult developments that were taking place in global financial markets that particular week leading up to an uncertain outcome that weekend when the G7 and the G20 met. That was an important element. Another element in our thinking was the reality that governments in other jurisdictions were taking quite comprehensive measures to support the stability of their financial systems that would have left the Australian banks, which themselves had been performing well, at risk of being severely penalised in markets by having to compete with banking institutions which were being supported by sovereign guarantees. That was a fundamental change in the context. I think that there was a very palpable sense going into that meeting at the G7 and the G20 at the IMF annual meetings that global financial systems were starting to stare into the abyss at that point.

Senator BRANDIS—Can you put a date on when APRA's view, for the reasons you have described, changed?

Dr Laker—It was in the week leading up and probably quite close to that weekend—

Senator BRANDIS—Quite close to the weekend of the 12th?

Dr Laker—when we realised just how strained global financial markets were at that point.

Senator BRANDIS—Was that change of view a change of view that was expressed at a meeting of the Council of Financial Regulators, or was it a change of view that APRA arrived at within its own councils and then shared with the other regulators? What was the point at which that new position was adopted, and by whom?

Dr Laker—I am just trying to recollect the dynamics of meetings over that time, but it was in the context of discussions about how the government might respond to the actions of other governments and, as I say, growing disquiet amongst the depositor community about all these implications for Australian institutions.

Senator BRANDIS—When you say discussions, do you mean discussions within APRA or discussions between APRA and other agencies?

Dr Laker—Within APRA and within discussions with other agencies.

Senator BRANDIS—The other agencies being the members of the Council of Financial Regulators?

Dr Laker—Yes. I cannot emphasise enough how difficult that week was in global markets.

Senator BRANDIS—Sure.

Dr Laker—So that is why I think the process was certainly very collegiate but it was in a very difficult environment globally.

Senator BRANDIS—Did Dr Henry, by the way, participate in those discussions on behalf of Treasury or was it a more junior officer?

Dr Laker—I would have to check my recollection of that one. There were Treasury officials there but—

Senator BRANDIS—Do you have any recollection of Dr Henry being a participant at any meeting at which you were a participant?

Dr Laker—Yes, but I would have to go back and check—

Senator BRANDIS—No, I am not asking you which particular one.

Dr Laker—No; yes.

Senator BRANDIS—That is fine. Dr Laker, you heard the chairman say when she read the opening statement that the proper scope of questions in these committees includes, and I am quoting her words, ‘factual questions about when and how policies were adopted’. I do not want you to tell the committee about the content of policy advice. I think we know what it was by inference from what you have already told us, but I do not want you to tell the committee about policy advice. I just want you mindful of the chairman’s instruction to us all. I just want you to tell us, did APRA give advice, policy advice, to government directly or were APRA’s views mediated through the Council of Financial Regulators?

Dr Laker—It was the latter.

Senator BRANDIS—So APRA did not give any direct advice to the Treasurer or to your minister?

Dr Laker—On that particular weekend our dealings were through Treasury.

Senator BRANDIS—Again I am not asking what the advice was, but in relation to either the Financial claims scheme or the guarantee of wholesale borrowings, was there advice given directly to ministers from APRA?

Dr Laker—Our advice was given through the Secretary of the Treasury.

Senator BRANDIS—So you did not say to Senator Sherry or to Mr Swan any of these things directly; you expressed your view to government through Dr Henry. Is that right?

Dr Laker—Through the council, yes.

Senator BRANDIS—And only by that medium?

Dr Laker—Over that weekend, yes.

Senator BRANDIS—What about prior to that weekend?

Senator Sherry—Sorry, just before Dr Laker goes on, I had no involvement in these decisions, I was not consulted.

Senator BRANDIS—I am sorry, Senator Sherry; well, to the Treasurer or any other relevant minister. Prior to the weekend, did APRA give advice directly to ministers, including the Treasurer?

Dr Laker—We had been discussing with the Treasurer developments in markets and developments in our regulated institutions from the beginning of this crisis. It is not a discrete process; we have been talking all the way through.

Senator BRANDIS—No, I understand that. I understand that this is a highly mobile and very dynamic process in which the scene is changing, sometimes on an hourly basis. I do not think that is any secret to any of us and there is no criticism implied in any of my questions of you. In the week prior to the Prime Minister's announcement on Sunday, 12 October, APRA did give some advice, did it, to the Treasurer in relation to the Financial claims scheme or the guarantee of wholesale borrowings scheme?

Dr Laker—In the period leading up to that weekend, our discussions were broader discussions about how our regulated institutions were—

Senator BRANDIS—These discussions you are talking about now were with the Treasurer?

Dr Laker—As I say, we have had regular discussions with the Treasurer.

Senator BRANDIS—That is fine; I would expect you would. And those discussions included discussions about the financial claims scheme and the guarantee of wholesale borrowings?

Dr Laker—About the financial claims scheme, but only in the context of what was being proposed for parliament. Most of the council's work in that area had been done well before the events of the last few weeks.

Senator BRANDIS—So you had discussions about the financial claims scheme with the Treasurer in the previous week but not about the guarantee of wholesale borrowings, the second leg of this?

Dr Laker—As I say, that context changed in a pronounced way in the last couple of weeks of September/early October when other governments began to do that, to take that step of guaranteeing wholesale funding requirements. It was not an issue that governments were focusing on or that we were focusing on up to that point. It was only after there was quite unprecedented action taken overseas that it became an issue for Australian banks.

Senator BRANDIS—Is this the action that began in Ireland and then in some European countries?

Dr Laker—The US had a very substantial rescue package which was on the table, but I think the main step taken by the Irish government of guaranteeing a wider range of liabilities was one that really forced a substantial rethinking within Europe about how to cope.

Senator BRANDIS—After that happened, did you give some advice to the Treasury in relation to that matter?

Dr Laker—Not in the specific context of what the government might do, but what we were looking at was the immediate impact. We were feeding into the discussions the impact we saw on our regulated institutions. That impact was increasingly becoming negative. There was not a point of time; this was a process in which markets really began to freeze and money was only available at very, very short terms or overnight terms.

Senator BRANDIS—I understand that. So you had those discussions, but those discussions did not include a recommendation for the adoption of the guarantee of the wholesale borrowings scheme—that came from another source, did it?

Dr Laker—I am not sure whether that goes to advice or not.

Senator BRANDIS—I do not want you to tell me what your advice to government was; I would like just to know what topics were covered. I do not want to know the substance of the advice.

Dr Laker—The topics that we cover in our discussions, as you would expect, are the perspective that APRA brings from its day-to-day and intense discussions with individual institutions. That is our discussion basis.

Senator BRANDIS—I will not go on with that. Thank you, that is very helpful. I want to ask you about this issue, particularly in relation to the financial claims scheme, of moral hazard. It must have been very plain to you, when you turned your mind to the question of the consequences of an unlimited scheme or an uncapped guarantee, that there would be issues of moral hazard; must it not?

Dr Laker—They are issues that are raised in those discussions throughout the globe.

Senator BRANDIS—I invite you in your own words to describe to the committee what your concerns about the moral hazard issue in relation to the uncapped financial claims scheme are.

Dr Laker—The concerns that APRA had leading up to the government's announcement were twofold. One was that there was a great danger that Australian banks, in particular our strongly performing banks, would struggle in global funding markets against the competition coming from banks that were subject to a government guarantee from their governments. Major Australian institutions fund themselves in part through these wholesale offshore markets, and they were turning their back on Australian banks. So that was the first consideration. The second consideration was that, notwithstanding that I and many others have spoken very strongly about the fundamental strength of the Australian banking system, the media coverage, the television coverage, in that week was close to doomsday in some of its perspectives, and that was clearly unsettling the community.

Senator BRANDIS—That is really a decision for politicians though, isn't it?

Dr Laker—Well, we did not take the decision. You asked me the context of my approach to moral hazard.

Senator BRANDIS—Sure, that is right.

Dr Laker—I think that, given the developments offshore and the responses of governments offshore, our concern as a prudential regulator was that we were vulnerable to a

substantial loss of wholesale confidence and retail confidence notwithstanding the fact that our institutions are strong. That was foremost in my thinking.

Senator BRANDIS—Thank you. Nevertheless, we now have a situation, don't we, in which depositors at institutions to which the financial claims scheme applies do have a sovereign guarantee? That must lead to market distortions in relation to institutions not covered by the financial claims scheme, must it not?

Dr Laker—That has certainly been a concern raised by those that have not been covered by the scheme, but—

Senator BRANDIS—Even just limiting ourselves to those covered by the scheme, the moral hazard issue does not go away. There are two issues here, aren't there? There is the market distortion of less than comprehensive coverage, and then, in relation to those institutions that are covered, there is the moral hazard issue, isn't there?

Dr Laker—Let me answer the moral hazard question secondly. But, firstly, what I would say is that what we need to compare is not life before 12 October as if nothing was happening and then the announcement of the government guarantee. The question would have been: what would life have been like on Monday if the Australian government had been alone in not taking part in concerted action? That is why it is very hard to compare before and after. Can I just answer—

Senator BRANDIS—Dr Laker, can I just say to you—this might shorten things—that I think we all accept that. I think we all accept that there was the devil's own choice here, that there were very, very grave perils that were imminent and therefore policy decisions had to be made perhaps under less than satisfactory timing constraints. Nevertheless, that does not camouflage the fact that there may have potentially been problems associated with those decisions. I understand the context, but I want to dwell on the latter.

Senator Sherry—Sorry, just before Dr Laker goes on. The witness is answering your question. He is entitled to answer the question, and he is directly answering it. I just ask that you do not cut him off part-way through.

Senator BRANDIS—I am just trying to shorten things.

Senator Sherry—Well, these are extraordinary complex issues, Senator Brandis.

Senator BRANDIS—Which is why it is important that the questions be focused, Senator Sherry.

Senator Sherry—Yes, and it is very important that they are comprehensive, and I just ask that Dr Laker not be cut off.

Senator BRANDIS—That is fine, Senator Sherry; I am just trying to make things happen faster. Yes, Dr Laker?

Dr Laker—Thank you, Senator. Can I give you the second part of the answer on moral hazard—

Senator BRANDIS—Yes please.

Dr Laker—by referring you to a speech I gave earlier this week. I addressed the ABACUS-Australian Mutuals annual convention. This is the grouping of mutuals in building

societies, credit unions and now friendly societies. I said to them that the government guarantee was not a reason for institutions to lower their guard on managing risk and it certainly would not be a reason for APRA to lower its guard as the prudential supervisor. Our supervisory intensity will be as strong, if not stronger, now with the government guarantee in place as it was beforehand, because we are conscious that institutions might think that the liquidity problem that they were facing might therefore be solved and it is hats in the air. Our institutions do not think that. I think they are being responsible and very cautious and prudent going through this period. We want to make sure that they maintain that focus. That is how we will address possible unintended consequences. As we have been for the last 12 months, we are breathing heavily—

Senator BRANDIS—Unintended but not unanticipated? The fact that we are having this discussion shows that the consequences are plainly anticipated, even though they are not intended. Do you accept that observation?

Dr Laker—Unanticipated but not unintended?

Senator BRANDIS—No, unintended but not unanticipated. You have anticipated these consequences by addressing your mind to the very matters you have just mentioned, haven't you?

Dr Laker—It is only a question of degree, because we have been pressing our banks and deposit taking institutions all the way through the crisis to really stay extremely focused and extremely alert. It just means that we need to maintain that intensity all the way through, and I think that message is well accepted by the institutions that we supervise.

Senator BRANDIS—I trust you are right. But you as the prudential regulator have found that this moral hazard problem has landed in your lap. There is an enhanced expectation now of APRA in its prudential supervision for these very reasons, isn't there?

Dr Laker—There is always a potential moral hazard when a prudential regulator supervises one sector of the financial system. That is why it is very important that we have a robust regulatory framework. That is the Australian approach, and it has served us very well. So this is not new territory.

Senator BRANDIS—Okay. I do not know if you heard this part of Dr Henry's evidence yesterday, but Dr Henry told the committee words to the effect that there was detailed consideration being given to what I described as due diligence, the supervision of institutions that might seek to take advantage of the guarantee of wholesale borrowings. Can you tell us a bit about how far, only from a process point of view, the development of those due diligence issues in relation to implementation of the guarantee of wholesale deposits has proceeded, and when you expect APRA might be in a position to put before government, if it has not already, some specific proposals?

Dr Laker—Your question goes to the details of the arrangements and how the guarantee might actually be applied in practice. The Secretary to the Treasury would have told you yesterday that they are still being finalised, and it is not appropriate for me to comment on the details of those. We are doing a due diligence of our regulated institutions day in, day out. That is the nature of our role.

Senator BRANDIS—I understand that.

Dr Laker—What is critical to us is that our institutions have the capital and the funding to honour their financial promises. This is our bread and butter work. This is what we would expect to continue to do whether they use the guarantee or not.

Senator BRANDIS—I understand it is your bread and butter work, but I think we are all in furious agreement that these are extraordinary times, and the degree of difficulty and the degree of moral hazard has plainly been elevated as a result of these perhaps necessary measures. What additional due diligence, if I can use that shorthand expression, is APRA proposing?

Dr Laker—The details of how the guarantee scheme arrangements will work are to be resolved and to be announced. I can only answer in that context.

Senator BRANDIS—When do you think you will be in a position to put something before government?

Dr Laker—We are contributing to the design details, but we are not the main player in that process. We are involved in the discussions about how it might work. I am surrounded here by people who have worked flat out for the last year and a half doing due diligence. It is not apparent to me how we could do any more. The question is how can our role provide an assurance that the guarantee is being offered wisely. That is our role.

Senator BRANDIS—All right. Did APRA consider which APRA-regulated ADIs should be excluded from the scheme?

Dr Laker—The discussion on how the term ‘funding guarantee’ should work was a general discussion about the scope of the guarantee and the actions that were taken by other sovereigns and authorities. It was in that context that the discussions broadly took place.

Senator BRANDIS—Yes, I understand that. Coming to my question, did you consider which ADIs should be excluded from the scheme?

Dr Laker—I think all of the parties involved in those discussions were looking at how the guarantee would work, at what sort of due diligence you might want to say APRA can provide and at the legal consequences of the difference between a subsidiary and a branch. As well, we were looking at what other governments were doing.

Senator BRANDIS—I take it that the answer to my question is yes, in the context you have just explained.

Dr Laker—We were providing a prudential perspective on those considerations.

Senator BRANDIS—Why were foreign bank branches which are APRA-regulated ADIs excluded from the scheme?

Dr Laker—You are asking me about the government’s decision.

Senator BRANDIS—No. I am asking for APRA’s opinion; in APRA’s opinion, why was it appropriate to exclude APRA regulated foreign bank branches from the scheme?

Senator Sherry—That was a decision taken—

CHAIR—Excuse me, do senators or the officers have any objection to the committee being filmed? No? Okay. Sorry, Minister .

Senator Sherry—I thought we had an objection to filming here. That was a decision of government policy. I will take it on notice, Senator Brandis.

Senator BRANDIS—Thank you, Senator Sherry. In responding to my question, Dr Laker, I do not want you to comment on government policy; I do not want you to go anywhere near government policy, okay? I want to know APRA's opinion.

Dr Laker—No, APRA's advice.

Senator BRANDIS—Why is it appropriate to exclude foreign bank branches from the scheme?

Dr Laker—Are you asking me for my advice, the advice we provided?

Senator BRANDIS—No, I am asking for APRA's opinion.

Senator Sherry—Effectively you are asking for the advice. You might term it 'opinion', but—

Senator BRANDIS—No, I have asked him specifically not to go into the question of advice.

Senator Sherry—I said I will take the question on notice and I will pass that on to the Treasurer.

Senator BRANDIS—The question you are taking on notice is not a question I asked.

Senator Sherry—I am taking on notice the question you have just asked.

Senator BRANDIS—But I am not asking about advice. I am asking Dr Laker about APRA's opinion.

Senator Sherry—I am sorry, despite the way you worded it, I believe you are, and as Dr Laker has indicated, and as I have indicated, we are taking that on notice.

Senator BRANDIS—Dr Laker, without referring to any advice to government at all, either specifically or by implication, I want to know your view of the appropriateness of excluding foreign bank branches from the scheme, the APRA view?

Dr Laker—I do not know how I can differentiate my opinion from my advice.

Senator BRANDIS—I am only asking APRA's opinion. Advice is not always followed, and opinions are not always embodied in advice; that is why I have narrowed and limited the question as specifically as I have.

CHAIR—Senator Brandis, you referred to my opening statement, and in that opening statement I think I did read that witnesses must not be asked for their opinion.

Senator BRANDIS—No, to quote the statement in full, Madam Chairman, 'Witnesses will not be asked their opinion about government policy.' You also said that witnesses could be asked to explain policy.

CHAIR—I will read it in full: 'The Senate has also resolved that an officer of a department of the Commonwealth or of a state shall not be asked to give opinions on matters of policy

and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister.'

Senator BRANDIS—Which is why I specifically asked Dr Laker not to directly or by implication deal with government policy in his answer. I am asking for APRA's view about the—

Senator PRATT—What is the point of the question, then?

Senator BRANDIS—APRA is not the government; APRA is an agency.

Senator PRATT—It all pertains to policy.

Senator Sherry—It is one in the same thing.

Senator BRANDIS—It is not one in the same thing, as you know as well as I do, Senator.

Senator Sherry—We will agree to disagree. It is one and the same thing, Dr Laker has indicated that he cannot differentiate and I am taking it on notice and will take it to the Treasurer for you.

Senator BRANDIS—Dr Laker, I would like you to explain for me, following the chairman's instruction that witnesses may be asked to explain policy but not to express opinions about it, the rationale for excluding foreign bank branches from the scheme?

Senator Sherry—That is the third attempt. No matter how you attempt to reword it, that is being taken on notice.

Senator BRANDIS—You are not very subtle, are you?

Senator Sherry—Nor are you!

Senator BRANDIS—The earlier questions were about APRA's view. For reasons which appear irrational to me, which nevertheless I am obliged to abide by, that question was ruled inappropriate. The chairman read a statement and said witnesses may be asked to explain policy but not to give their opinions about policy. This is a policy. It is part of the scheme. Foreign bank branches are excluded. Dr Laker, I would like you, word for word, following the chairman's instruction, to explain the policy.

CHAIR—The chair's instruction says that the officer should be given an opportunity to refer it to a minister.

Senator BRANDIS—Madam Chairman, would you please read for us the passage you read before when you said witnesses may be asked to explain policy but may not be asked to give their opinions on policy?

CHAIR—The Senate has resolved that an officer of a department of the Commonwealth or of a state shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister.

Senator BRANDIS—Keep reading.

CHAIR—This resolution prohibits only questions asking 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.

Senator BRANDIS—Pause there, Madam Chairman. Dr Laker, you heard what the chairman's instruction was. I am entitled to ask you for an explanation of a policy but I am not entitled to, and I do not, ask you to give your opinion about the policy. Given that we know what the policy is—that branches of foreign banks are excluded from the scheme—I would like you to explain that policy.

Dr Laker—Are you asking me about the reasoning for that policy? I can explain the policy. It is straightforward at this point.

Senator BRANDIS—I would like you to explain the rationale of the policy.

CHAIR—It is clear that it needs to be referred to the minister.

Senator Sherry—I am taking it on notice. Dr Laker has indicated that he is unable to differentiate between the question and policy advice despite the four attempts of Senator Brandis, so we are taking it on notice.

Senator FIFIELD—On a point of order: if it is appropriate to ask for a policy to be explained, it is extraordinarily difficult to explain a policy without also explaining the rationale for the policy. The two go together. You cannot explain a policy without explaining the rationale for the policy.

CHAIR—The policy is the minister's policy. I accept the view of Dr Laker and the minister that it should be put to the Treasurer to explain.

Senator FIFIELD—But that defeats the entire purpose of estimates. If you cannot ask for a policy of the government to be explained, it defeats the purpose of estimates. You cannot explain a policy without explaining a rationale. That is what a policy is. A policy is a rationale for a particular action.

CHAIR—The estimates committee is not being stopped from asking the question to explain the policy. The question is being directed to the correct person, which is the minister.

Senator BRANDIS—The correct person actually is Dr Laker. As Senator Sherry said before, he has nothing to do with this. However, he is the minister at the table.

Senator Sherry—Dr Laker has indicated his position and so have I. We will take it on notice.

Senator BRANDIS—All right, I will move on. Dr Laker, did you, the Treasurer, the Governor of the Reserve Bank and the chairman of ASIC receive on 17 October 2008 a letter on behalf of foreign authorised deposit-taking institutions which contained these words, 'As foreign authorised deposit-taking institutions, we are very concerned that the government's recently announced guarantee in relation to wholesale funding and deposits did not extend to foreign bank branches.' It went on to explain the concerns and the problems of foreign bank branches and the problems that they perceived would arise from their exclusion from the scheme. Do you remember receiving a letter to that effect?

Dr Laker—Yes.

Senator BRANDIS—Did you consider that letter?

Dr Laker—Yes.

Senator BRANDIS—Did you discuss that letter with the Treasurer?

Dr Laker—No, I did not discuss it with him directly.

Senator BRANDIS—You were nevertheless aware of the matters raised in it not later than at the time at which you received that letter on 17 October.

Dr Laker—Yes.

Senator BRANDIS—Had you in fact anticipated some or all of those concerns prior to them being drawn to your attention by the letter of 17 October?

Dr Laker—Those issues were brought to our attention through our daily contact with our regulated institutions. We were aware of some of the issues.

Senator BRANDIS—So the matters that were raised with you on 17 October were not matters that you had not previously been aware of. Pardon the double negative.

Dr Laker—We in APRA were aware of the issues.

Senator BRANDIS—And had been before 17 October.

Dr Laker—Before that letter arrived, yes.

Senator BRANDIS—Thank you. So you knew what the consequences for the foreign bank branches would be? Were you aware of those consequences prior to the meeting of the Council of Financial Regulators on Friday 10 October?

Dr Laker—We were aware of two things: firstly, that a number of other governments were taking action to protect wholesale deposits and, secondly, that the details of what other governments were doing were still not complete, and they still are not complete. It is difficult to be categorical about how these impacts will play out. This is not an issue just for the Australian government. This is an issue that affects other governments.

Senator BRANDIS—You have made that perfectly clear. But you took this view at the meeting on 10 October—and you have told us that this emerged during the course of that week—well aware of the consequences for foreign bank branches. Is that right?

Dr Laker—We have been made aware since the announcement of particular concerns by particular foreign bank branches, and we have that letter. But the circumstances of foreign bank branches differ from one country to another. We need to know the full details of what other governments are doing to clarify the status of branches and their access to funding in Australia, so the matter is still to be decided.

Senator BRANDIS—That is the very thing I want to touch on.

CHAIR—It is 10 o'clock and other senators have questions for APRA.

Senator BRANDIS—I am trying to get through this as fast as I can.

CHAIR—Can you give me any estimation of how long you will be?

Senator BRANDIS—I do not think I will be more than another 10 minutes.

Senator PRATT—Are we due to start on the Productivity Commission now?

Senator BRANDIS—These are indicative guidelines only, Senator Pratt, as you perhaps do not know.

CHAIR—Exactly. I will give you some time, but we do have other senators with questions.

Senator BRANDIS—I am very grateful to the committee and I am grateful to the minister for his relative forbearance.

CHAIR—If you could do it under 10 minutes, that would be useful.

Senator BRANDIS—Dr Laker, on that very last point, since the announcement of the scheme on 12 October has APRA monitored the flow of funds from foreign bank branches to ADIs covered by the guarantee?

Dr Laker—We have been monitoring all movements of funds since that date, as we did before.

Senator BRANDIS—So I may take it that the answer to my question is ‘yes’.

Dr Laker—Yes.

Senator BRANDIS—Since 12 October, what amount has been moved from foreign bank branches to ADIs covered by the scheme?

Dr Laker—I will have to take that on notice. I do not have the figures in front of me.

Senator BRANDIS—Do you have a general idea? I would like an estimate. I do not think it is fair to pin you down to the nearest dollar figure. But if you have monitoring this, and it is a very important matter, you must have a rough idea. Can you please take the specific amount on notice but tell us—

Dr Laker—I will take this on notice because I cannot give you a specific or a general amount. The figures move day by day. There are ins and outs. It is based on advice we are getting from treasurers and our own collections. I cannot give you a broad figure at this point.

Senator BRANDIS—On the business days that have elapsed since 12 October, which up to yesterday is eight business days, would the flow of funds out of foreign bank branches into ADIs covered by the scheme be in the billions of dollars or the hundreds of millions?

Senator Sherry—The witness has indicated he will take it on notice and provide the committee with the accurate figures.

Senator BRANDIS—Let me come at it another way. There has been net movement, hasn’t there? We can say that.

Dr Laker—There have been, as I say, movements in several directions and funding support from parents. We look at the overall picture about how these institutions are travelling. I think those, whatever the movements might be in actual quantitative terms, have slowed until the details of the scheme are announced. I will have to take on notice any particular quantitative numbers. We look at it institution by institution.

Senator BRANDIS—I understand that, but anybody who reads the financial press knows this: during the last eight trading days since the announcement of the scheme, there has been some net movement—I am not going to press you to put a figure on it for reasons we have discussed—of funds from foreign bank branches to ADIs covered by the guarantee. Isn’t that right?

Dr Laker—It is very hard to find a specific linkage that says the funding went from one group to another group. We look at the funds that go in, but we do not ask a particular depositor where they may have moved to.

Senator BRANDIS—But you have followed the flow of funds between nominated institutions, haven't you?

Dr Laker—Yes. We follow the aggregate.

Senator BRANDIS—So you must be aware of whether between these two different categories of institutions—that is, foreign bank branches and ADIs covered by the scheme—there has been a net flow of funds. You must know that.

Dr Laker—Yes.

Senator BRANDIS—And there has been, hasn't there?

Dr Laker—There has been a flow of funds into our authorised deposit-taking institutions. There had been substantial flows to some of those anyway before the guarantee, so that process has continued.

Senator BRANDIS—I am not asking you, by the way, whether you say there is a causal relationship. I am specifically not asking you that question. So there has been a net flow of funds. I have limited myself so far to foreign bank branches. What movement has there been from all funds which APRA monitors into guaranteed ADIs?

Dr Laker—I would have to take that on notice because we are not daily tracking all of our institutions as to what they are doing with their funds on a daily basis. We are selectively looking at the major institutions as to what is going in and out, not right across the board.

Senator BRANDIS—If you are selectively looking at these, presumably the selection of those you look at has been made for a considered and strategic reason.

Dr Laker—We have had a specialist team talking to treasurers since this crisis began. We cannot cover the field, but we do talk to more active participants in short-term money markets. We have had that group as our main contact point all the way through.

Senator BRANDIS—Are you able to say whether any trends have become apparent in the movement of funds to guaranteed ADIs?

Dr Laker—There was what you might call a flight to quality before the guarantee had been announced. Our concern was where those funds might be coming from within the regulated sector, not just from outside. The feedback we are getting in our own intelligence is that there is a net flow of funds into our authorised deposit-taking institutions that would be covered by the guarantee. As to the movement of others outside the guarantee in our regulated sector, mainly foreign bank branches, it is hard to see a trend. There was an initial reaction, and then pending the details—

Senator BRANDIS—What was the initial reaction?

Dr Laker—There would have been a movement away from holding deposits. But that was an initial reaction, and the most recent advice I have is that that situation is on hold pending the announcement of the details of the guarantee.

Senator BRANDIS—So there was an initial flow of funds from foreign bank branches to ADIs and after that initial reaction you are telling us that that has plateaued pending the announcement of the detail. Is that a fair description?

Mr Byres—I would have said the outflow is continuing but it has slowed.

Senator BRANDIS—The outflow from foreign bank branches to ADIs is continuing but it has slowed.

Mr Byres—But it is very variable from institution to institution.

Senator BRANDIS—Thank you very much. Are you in any better position, Mr Byres, than was Dr Laker to put even an approximate figure on the net flows?

Mr Byres—No. I will take it on notice. But in some cases it has been very large.

Senator BRANDIS—Is it a figure in the billions?

Mr Byres—I would hesitate to say definitively ‘yes’, but it is certainly very substantial.

Senator BRANDIS—One last question.

CHAIR—All right.

Senator BRANDIS—Dr Laker, yesterday in his evidence Dr Henry said that the Council of Financial Regulators did not talk about lifting the cap from \$20,000 until the conference on Friday, 10 October. On what date was APRA first consulted? If you cannot give me the precise date, then establish it by reference to events, such as before or after the 12 October announcement, for instance. When was APRA first consulted about lifting the \$20,000 initial cap?

Dr Laker—In the last couple of days preceding the announcement on the weekend.

Senator BRANDIS—Dr Henry said it was at the meeting on Friday, 10 October. Does that sound right?

Dr Laker—Yes.

Senator BRANDIS—That was when you were first consulted about lifting the \$20,000 cap?

Dr Laker—In the context of the council, yes.

Senator BRANDIS—That was the first occasion?

CHAIR—Thank you, Senator Brandis.

Senator BRANDIS—Sorry, there was a qualification that I want to clear up. You said ‘in the context of the council’.

Dr Laker—That is when that discussion came up.

Senator BRANDIS—Was APRA independently, in the context of the council, consulted about lifting the \$20,000 cap at a time earlier than that meeting on 10 October?

Dr Laker—I do not have a recollection about discussions before then. At that stage we were anticipating a presentation of the bill to the parliament.

Senator BRANDIS—So your first recollection of APRA being consulted on this issue of lifting the \$20,000 cap was at the meeting of the council on 10 October. Is that your evidence?

Dr Laker—In the context of looking at a broader set of responses to the difficult environment we were in at the time, yes.

Senator BRANDIS—You have explained that to us, but I want to isolate it from the context. I just want to establish one fact in black and white: when APRA was first consulted on this matter. Both you and Dr Henry have told us that it was discussed at this meeting of 10 October, so that is not in controversy, but I just want to know one other fact—that is, whether APRA, outside the context of the meeting of 10 October, was consulted about the matter and, if so, when.

Dr Laker—I will take that on notice, only because I am not the only person that handles these matters and I do not know at what lower level any discussions might have taken place. But certainly from my memory of it there were discussions about the limit because the question of a higher limit had been raised at the political level, so the matter was in front of everybody at that point. I will take on notice whether or not there had been any soundings of the people who had been working on the details. There was a process of detail going on.

Senator BRANDIS—Can Mr Littrell, Mr Byres, Mr Chapman or Mr Venkatramani assist?

CHAIR—Senator, it is being taken on notice.

Senator BRANDIS—What has been taken on notice is Dr Laker's knowledge. I am now asking other gentlemen about their knowledge. Can any of the other officers at the table assist? Dr Venkatramani?

Mr Venkatramani—I was not involved.

Senator BRANDIS—Mr Chapman?

Senator PRATT—Senator Brandis has had his 10 minutes.

CHAIR—Senator Farrell.

Senator Sherry—Senator Heffernan, I think the events are significantly serious not to make trite and stupid interjections. I would not expect that from anyone.

CHAIR—Senator Farrell.

Senator BRANDIS—Mr Chapman, were you—

CHAIR—No, Senator Farrell has a question.

Senator BRANDIS—I have not finished my question.

CHAIR—No.

Senator BRANDIS—I was in the middle of a question. Are you taking the call away from me in the middle of a question?

CHAIR—Yes, I am. Senator Farrell.

Senator BRANDIS—Point of order, Madam Chairman.

Senator FARRELL—Madam Chairman—

Senator BRANDIS—Could I have a point of order? Senator Farrell, I have a point of order. As you know, a point of order must be taken immediately.

Senator Sherry—Could I just respond to the question? All the officers will take it on notice and check with officers in APRA, as Dr Laker has indicated.

CHAIR—Your point of order, Senator Brandis?

Senator BRANDIS—In view of what the minister said, I will not persist with the point of order.

CHAIR—Right.

Senator FARRELL—Dr Laker, I have a couple of questions about your policies with respect to industry superannuation funds. Obviously part of your responsibilities are to monitor the directorships of those funds. As you would be aware, these industry superannuation funds are generally made up of employer directorships and employee representative directorships. Does APRA have a policy on the length of service of directors of those industry superannuation funds?

Dr Laker—Can I give you a general answer, and then I will ask Mr Venkatramani, who is our longstanding resident expert on superannuation, to answer. In our general governance standards, which apply to all of our other regulated institutions, we do not have a formal limit on tenure. What we do have is a requirement that boards seek to renew themselves and find an appropriate balance between length of service, freshness of ideas and criticality of approach. But we have not imposed or sought to require any maximum tenure limit.

Mr Venkatramani—Just to supplement that, across the entire gamut of superannuation trustees, particularly post-licensing strengthening, we have been focusing on the fact that collectively trustees have the skills and knowledge, fitness and propriety to discharge their functions. One aspect of this is what you refer to. We have not taken that kind of prescriptive approach either to industry funds or to any other funds to say that X is the number of years beyond which you should not be a trustee.

Dr Laker—I might add that the other requirement that we do ask our boards to follow is that they assess their own performance. That is an important way in which questions of longevity of tenure might be addressed, if the overall performance of the board and its members fall short of some expectations.

Senator FARRELL—I suppose the only concern is if the impression was being created in boards that there was an expectation for longer serving directors to turn over. In the current environment when there is quite a bit of instability, perhaps experience might be an important factor in making those sorts of decisions.

Dr Laker—Which is why we eschewed the notion of a fixed tenure limit and focused instead on performance—but still for all of that, renewal.

Senator FARRELL—Thank you.

Senator JOYCE—Are you aware that banks are not issuing letters of credit at the moment for exporters?

Dr Laker—I am not aware of that, no.

Senator JOYCE—Obviously this has a major impact on exporters who do not know at the end of the day if they are going to get paid. What do you propose to do to investigate this?

Dr Laker—We will take up that matter with our major institutions and talk with them to see whether there is a basis for that. It is not something that has come to our attention, and we are talking to them closely.

Senator Sherry—If you have a constituent complaint of concern specifically, and I suspect you do because you are asking the question, I think you should refer the information to APRA.

Senator JOYCE—I just did.

Senator Sherry—In a general sense, yes, but it may be appropriate, depending on the call of your constituent or the specifics, to provide a bit more detail.

Senator JOYCE—It is not actually from a constituent; it is from a major academic. We were just going through it.

Senator Sherry—Okay.

Senator JOYCE—Not the one you are thinking of, either.

Dr Laker—If you are able to give us a reference to what he is suggesting, we can then follow it up more closely.

Senator JOYCE—Do you believe that, in the current market there is an awareness by people of who the counterparty is when identifying risk?

Dr Laker—We would certainly expect our institutions to be very, very aware of who their counterparty risk is to, and I think the events of the last 12 months in some offshore complex markets has really brought home to institutions around the globe the importance of identifying where the risk actually lies. It is really at the heart of our approach to credit risk management.

Senator JOYCE—With respect to short selling, how will the current change in policy actually be policed?

Dr Laker—That is not a matter for APRA. We do not involve ourselves in short selling issues.

Senator Sherry—That is a matter for ASIC.

Dr Laker—It is a matter for ASIC.

Senator JOYCE—In APRA's view, how much underwriting of a contingent liability can the government take on before the government's position is as tenuous as that of the banks?

Dr Laker—That question is beyond my competence. I am not in public finance, I am in prudential regulations.

Senator Sherry—That is a matter for Treasury.

Senator JOYCE—It is a matter for APRA too, because it pertains to the whole conduct of the financial market. Have you, or has anyone within your department, been made aware of any amount of possible contingent liability that is out there in the financial markets that needs to be covered?

Dr Laker—Banks themselves are subject to reporting requirements on their liabilities. We look very closely at the risks to which institutions can be exposed. Again, it is part of what we do in our coverage and our understanding of risks.

Senator JOYCE—Has anybody actually come up with an amount? Is there any sort of amount, even a ballpark amount, of what this contingent liability could be?

Dr Laker—Of contingent liabilities?

Senator JOYCE—Obviously, if the government is covering the liability, what is the actual contingent liability out there that is proposed to be covered by the current process of issuing guarantees?

Dr Laker—I am not even sure how I could begin to answer that question. Let me take that one on notice.

Senator BUSHBY—In your discussions in relation to the global financial credit meltdown with foreign regulators, which I presume you would have held in recent months—

Dr Laker—Yes.

Senator BUSHBY—have you formed a view as to what exactly went wrong, where the mistakes were made, and how the situation of Bear Stearns, Merrill Lynch and Lehman Brothers in the US and Northern Rock in the UK could have been avoided?

Dr Laker—How long do we have, Senator? Can I give you a short answer and refer you to an excellent speech that the Governor of the Reserve Bank gave yesterday, which provides an overview of developments? They have their origins in a period of low interest rates, a search for yield, some structural flaws in the so-called securitisation model or the originate-to-distribute model, and a very strong appetite for risk on the part of investors at the time. That, coupled with lower credit standards in US mortgage lending, US subprime lending, was a very dangerous cocktail.

Senator BUSHBY—That last point crosses on this: to what extent was regulatory failure a factor?

Dr Laker—It is an awkward question to ask one regulator about another regulator. I think the dust is yet to settle on what could have been done in the US to strengthen credit standards. A lot of the mortgage origination that was in the subprime area was outside regulatory coverage. I think that one of the major questions for our colleagues in the United States is whether or not the regulatory regime suffered from underlaps as well as the considerable overlaps that it has. The financial stability forum is the international body which is looking at regulatory responses and, among a wide range of regulatory responses, there are not that many that go to prudential supervision. They go to the role of credit rating agencies; they go to the role of incentives; and they go to the role of transparency in complex markets. There are a whole range of areas where you might say that the rules and the infrastructure did not work as they should have.

Senator BUSHBY—That is interesting. I hear your point about not wanting to comment on other regulators as a regulator. I will turn it around slightly differently. Rather than commenting on where the problems were in other jurisdictions, what is it about Australian regulation that you think might enable us to weather this better than other places have,

particularly since in February of this year you told us that you believed that Australian banks did not have a significant exposure to the US subprime crisis? Given that a lot of things have changed and that may not be a totally accurate statement now—

Dr Laker—That particular statement remains accurate. The exposures are limited. There are a number of elements. One is that our financial institutions by and large have no exposures to complex structured securities. Some did, and some have disclosed that, and we are paying from the equity markets for that exposure. It was not territory in which our major institutions or our smaller institutions involved themselves. Secondly, throughout the last five years or more, credit standards on the whole in the regulated sector have been strong and strictly enforced. Frankly, we have been nagging—

Senator BUSHBY—Strictly enforced by whom? Through APRA?

Dr Laker—I was about to say that we have been nagging our institutions on that point for several years, so their exposure to so-called non-conforming borrowers is very, very limited. The capital base of our financial institutions, particularly the deposit-taking institutions, has been strong all the way through. There are institutions still recording very, very strong levels of profitability. Underlying that has been the fact that we have had a strong economy and opportunities to write sensible and prudent business in our environment.

Senator BUSHBY—Last night we heard from the markets group of Treasury in response to a series of questions that I asked that regulations, such as the 1999 act, bringing in the state building societies and banks under your purview, have actually assisted in minimising the risk of some of the Northern Rock type situations occurring in Australia. Would you say that that type of regulation has also helped us avoid some of the risks that might be present in other jurisdictions and other regulations that may have been introduced?

Dr Laker—I think that in general terms we have had a robust regulatory framework. In the deposit-taking area, it is part of a global regulatory framework, with some adaptation to Australia, but it is this so-called Basel framework. We have enforced it strongly, but I would have to say that we have been dealing for the most part with institutions that have been very prudent in their approach to risk. The fact that we had a housing market boom and a correction several years before the US and UK situation might well have proved to be an eye-opening experience for our institutions that there were downsides but that there are booms that do correct it. I think we had a fairly salutary reminder in 2003 and 2004 about the dangers of excessive lending. That has been helpful as well, I think, to keep this system sober.

CHAIR—We really have to shut down now because we need to get on to the Productivity Commission.

Senator EGGLESTON—Could I put some questions on notice?

CHAIR—Yes, certainly.

Senator EGGLESTON—They are on executive remuneration, capital ratios, bank guarantees and superannuation losses.

Dr Laker—Certainly, Senator.

CHAIR—Thank you, Dr Laker, and the other officers from APRA.

[10.29 am]

Productivity Commission

CHAIR—Welcome, Mr Banks. Do you have a brief opening statement?

Mr Banks—I do. All I will do is give you the headlines of the things that we have done to allow you more time to ask questions. Of the things that are under way and where we have put draft reports out, you will be conscious that an inquiry looking at paid maternity, paternity and parental leave got quite a lot of press. We are in the process of getting feedback and having public hearings, which is an important part of our process on that. We have an inquiry report on drought support measures that will be coming out soon, which is a very important inquiry. Again, we will have hearings around the country to get reaction to that.

Another review of mutual recognition schemes is due out at the end of November—and a swag of regulation related ones looking at regulatory burdens in different areas that have come out of the COAG emphasis on developing good regulation. Speaking of COAG, there are some in the pipeline as a consequence of COAG decisions, including one on parallel importation of books, another on Australia's anti-dumping system, and one on the gambling industry, which is an update on the commission's inquiry from 10 years ago.

In addition, we have ongoing work that we do as a steering committee for the government services review. We have the famous blue books and also the ochre book that looks at Indigenous disadvantage, and they are coming out progressively next year. We do a range of supporting research under our act to help inform government in areas supplementary to the inquiries that we receive, and we have looked at a wide range of things, including aged care services, trends in the Australian population fertility and part-time employment issues.

Of the inquiries that have been released since last time I talked to you, we had one on the market for retail tenancy leases in Australia. We had another one on chemicals and plastics regulation, again following up the regulation theme, and one on modelling the economy wide effects of future assistance to the textiles, clothing and footwear industries. That is a very quick run-through of the headlines of what we have been doing, and we would be happy to take your questions.

CHAIR—We appreciate that Mr Banks. Senator Joyce?

Senator JOYCE—My first question is to the minister. I refer him to output 1.1.1: Government commissioned projects. The review of the Operation Sunlight report on overhauling budget transparency has been done. It was completed before 30 June 2008. My question to you, Minister, is: why has that report not been tabled?

Senator Sherry—I will have to take that on notice for you, Senator Joyce. I am sorry I cannot give you any further information. Can I just clarify: did the Productivity Commission have anything to do with Operation Sunlight?

Mr Banks—No.

Senator Sherry—I am bit puzzled as to why you would ask the question here.

Senator JOYCE—It has actually; it is government commissioned projects under output 1.1.1.

Senator Sherry—Okay, I will take it on notice, Senator Joyce. Sorry, 1.1.1? We have dealt with it.

Senator JOYCE—Government commissioned projects.

CHAIR—This is under the Productivity Commission.

Senator Sherry—I will take your question on notice and I will get an answer for you.

Senator JOYCE—You aware of what the report is about?

Senator Sherry—No, I am not. Other than a general knowledge of Operation Sunlight and those issues, but, no, I am not and I will take it on notice for you.

Senator JOYCE—It was into the area of accountability by government.

Senator Sherry—I am aware of that in a general sense but in terms of any detailed analysis, no.

Senator JOYCE—Credit availability.

Senator Sherry—Sorry, just to clarify: 1.1.1 government commissioned projects to the Productivity Commission; Operation Sunlight has got nothing to do with the Productivity Commission.

CHAIR—Nevertheless, Minister, you have undertaken to take it on board.

Senator Sherry—I will, but that is not a question for this area of estimates.

CHAIR—No.

Senator BUSHBY—Does the Productivity Commission have reserves that are being looked at for Operation Sunlight?

CHAIR—I think it is all academic. The minister will take it on notice.

Senator Sherry—We will take it on notice, and that is drawing a very long bow. On that basis, you could ask—

Senator BUSHBY—I have some information from another agency where they are looking at that and I am just wondering—

Senator Sherry—On that basis, you could ask about Operation Sunlight on almost any program at any estimates. Anyway, I will take it on notice.

Senator BUSHBY—And it is probably a valid concern—

Senator JOYCE—With your investigation into rental tenancy leases, do you believe that there is competitive neutrality there? Do you believe, from your preliminary investigations, that it is an open and diverse market? Do you believe the power of the person, the rental tenant, is comparable in any way, shape or form to the power of the landlord?

Mr Banks—If I could unpack those. The competitive neutrality issue does not really arise unless government is involved in some way as a provider of services. The other point that you raise is a very important point and that is about the imbalance of power between individual small retailers and the larger shopping centre complexes. As you know, we looked at that. We found that that was indeed the case and we looked at the range of things that were there to redress some of that imbalance in our final report. We found that a number of the approaches

that have been followed to promote transparency and to regulate in that area had had a beneficial effect but needed more work. We proposed a number of things, including a code of conduct which we thought could be helpful and very much targeted at the large shopping centre complexes.

Senator JOYCE—Would this code of conduct be a mandatory code of conduct or a nominal code of conduct or an aspiration? Is it going to have legislative backing?

Mr Banks—We saw the code of conduct as being something that would be conditional on moving from what currently is a quite piecemeal regulation that has significant costs of its own and that has wider effects on retailing than just the problem of the large shopping centres and their smaller lessees. In that sense, we saw that as a useful device for moving away from quite a complex badly targeted set of regulations at the moment. For a code of conduct to be effective, it requires ultimately that there are some sanctions to ensure that it is conducted properly and met. I do not know whether my colleague, Terry O'Brien, wants to comment more specifically on that.

Mr O'Brien—No, I think that traverses the issue very well. This is an area where an intrinsic complexity is that the legislation is all state and territory legislation. The commission's recommendation was couched in terms of the Commonwealth facilitating the introduction by landlords and tenant organisations of such a code of conduct. But, it is the sort of area where one can only work indirectly and where the government's response to these recommendations has conducted further work among the state and territory ministers involved through COAG.

Senator JOYCE—I want to move towards your assessment of the emissions trading scheme and the issues of competitiveness between Australia and our major overseas trading competitors. Have you been involved in any way, shape or form in that process?

Mr Banks—No, you might recall we had some discussion on the last occasion about the work that the commission had done there. It has provided inputs to other reviews but not conducted the primary reviews themselves or done the modelling that obviously has been the backbone of some of the work underpinning the emissions trading system. I guess I would answer the same way as last time: we are not in a position to answer those more detailed questions.

Senator JOYCE—Do you envisage any future involvement of the Productivity Commission in regard to the emission trading scheme?

Mr Banks—I would not rule it out. It fits the profile of the commission's role in a sense that these are complex issues, there are winners and losers in the regime et cetera, there is some uncertainty going forward. There are many, many dimensions to an effective policy response. It may well be that the government finds a niche in there in what is probably a crowded arena of policy advice for us to provide the kind of advice that we can provide.

Senator JOYCE—Where do you envisage that sort of policy advice pertaining to? Where would you see you had the expertise and the gambit to go into that area? I am presuming—I believe you do.

Mr Banks—It would be a bit hard for me to say that we did not have the expertise in all areas pertaining to that issue. Some of us might recall in fact that I headed an inquiry back in 1991 into the costs and benefits of reducing greenhouse gas emissions which preceded the Rio summit. That was one of the early international forums for considering the issue back then. But, there is a role for many players. The area where we can help most is where there is most uncertainty. It is most important to get public input through a public inquiry kind of process. Some areas that are very research intensive are not all that amenable to getting wide public involvement so it would depend on the particular area I think. As I said, already government have moved a fair way so it would be a judgement for government as to where—there may be some residual issues or refinements over time, or indeed reviews of regimes down the track where it would be useful to have the kind of independent public inquiry process that the commission can bring to bear.

Senator JOYCE—Do you see your role as looking at the fundamental process of how much this product costs before an ETS, what will the cost structure be after an ETS and whether that industry will remain productive?

Mr Banks—My understanding is that the modelling, to the extent that any model can, would be directed at looking at the price impacts and how they flow through into economic activity generally in its distribution across different sectors. That is not something that you could really answer off the top of your head, other than to say that if there is a positive carbon price it is going to flow through into higher energy prices generally—that is a given.

Senator JOYCE—Let us look at the productivity of, for instance, our agricultural industry. Would it be fair question to say that I would be able to ask you, in your role as the Productivity Commissioner, to ask, ‘If we put this cost impost on agricultural production of, for instance, beef cattle, will that industry will remain productive?’ I am not saying the government is; I am just asking is this a role that you could undertake? Would you be able to go away and assess that and come back and tell us whether that industry will be productive or not?

Senator Sherry—Senator Joyce, the PC is not doing any work in the area. Other organisations are doing work in the area. It would be more appropriate if your suggestion went to the minister in order for him to make a reference if he came to that conclusion. It is not for the PC to speculate about issues of areas of research already underway by other organisations or other departments.

Senator JOYCE—Minister, with due respect, I am asking if they have the capacity and the capability to do the assessment? I am not asking them whether they are doing the assessment.

Senator Sherry—The minister, if he were mindful after submission, can do a reference.

Senator JOYCE—Would they have the capacity to do it? It is just a simple question, Minister. Does the Productivity Commission have the capacity to undertake an investigation in that area if they were asked?

Senator Sherry—I am confident the PC has the capacity to undertake an investigation into almost anything that I can think of, except for the possible reservation of some areas of financial services.

Senator JOYCE—Thank you very much for your answer, that is what I am looking for. It was not that hard. With the drought and your current inquiries into drought and drought support and where agricultural production is in light of the current economic policies that have been proposed by both presidential candidates in the United States at this point in time, how do you see our productive capacity in a world where obviously some foreshadowed trade barriers are being reinserted into the process?

Mr Banks—That is very speculative. But, I think you hit on a good point and that is in difficult times—

Senator JOYCE—Not if you listen to Senator Obama.

Mr Banks—I guess the point I was going to make is that in difficult times there is always the temptation to reach for trade restrictions as a way of shoring up domestic jobs. In the Great Depression, that was one of the second waves of action that actually made the global crisis worse. I suspect there has been a bit of learning since then, more generally, which we are already seeing playing out in more coordinated policy. I would be hoping that that would also apply to the kinds of actions that the US might want to take on trade policy. As I say, I would be speculating. Clearly, any exporter that faces increased barriers in its key markets is going to face difficulties.

Senator JOYCE—Have you been given directions to look at these issues on a global scale and to reinterpret them back into a domestic effect for Australia?

Mr Banks—No, we have not. Again, if the government saw fit to ask us about issues to do with international trade policy and their impacts on Australian industries, we would certainly do that. We have done quite a bit of work, as you know, in the past in the trade policy area.

Senator JOYCE—In the current issue of credit availability, obviously that is vitally important for productivity. This morning I had sent to me the issues regarding access to credit for exporters, letters of credit; these apparently have been, if what he says is right, curtailed. He is a very reputable source; he is a PhD at a major university. Have these issues of credit availability and how they affect Australia's productivity been referred to you?

Mr Banks—No, they have not. I should say that typically the commission is looking at longer term issues that probably transcend cyclical developments or even crises such as the present unless there is something there where we can help that would have a shorter term pay-off. Typically the things we are looking at are changes in regulatory systems or incentive systems that could be expected to enhance productivity over time. So no, we have not looked at or been asked to look at that particular issue.

Senator JOYCE—Have you had referred to you the effects on exports by the proposed emissions trading scheme as a comparative analysis to other like or avoided policies overseas as a long-term process of our productivity in our nation?

Mr Banks—Sorry, I am not sure of the question.

Senator JOYCE—Has it been referred to you for an investigation what the effect of the emissions trading scheme will be on Australia's exports in consideration that other countries overseas will not have one of the same effect, and how Australia's trade relationship will play out in the long term by reason of that?

Mr Banks—No, the answer is we have not been asked that.

CHAIR—Senator Joyce, do you have much longer on your questions?

Senator JOYCE—I am just investigating exactly what the Productivity Commission is doing in the long term for the assessment of where Australia's position is in the world.

CHAIR—Certainly I understand that.

Senator JOYCE—There is no investigation in—

Senator Sherry—Senator Joyce, its work requests and its workload are on the web and the reports are up.

Senator JOYCE—I will cut to the point.

Senator Sherry—A significant body of your questions are speculative about what the PC may do or what you would like them to do, and you are wasting a considerable amount of the questioning time of other senators.

Senator JOYCE—They are not speculative at all. They are relevant questions about what has been referred to them by the government and whether they are actually relevant or not to where Australia is. We have brought up some of the major issues—such as credit, ETS, global trade—and none of these have been referred to the Productivity Commission.

CHAIR—Senator Joyce, it was just an innocent question because I was calculating when we would have morning tea. We are planning to have it at 11.15 am and we will have the Corporations and Markets Advisory Committee before then.

Senator XENOPHON—Mr Banks, it may surprise you that I will be asking you some questions about the gambling inquiry that the Productivity Commission will be undertaking. I just wanted to compare the two terms of reference, the 1999 terms of reference and the terms of reference recently announced. In 1999, the terms of reference referred to the redistributive effects of gambling, but this inquiry does not. It was my understanding that the government was going to effectively replicate the terms of reference of the previous inquiry, adding on a couple of other points. I think they have in terms of the harm minimisation measures, the effectiveness of state and territory governments and the introduction of harm minimisation measures. What did the redistributive effects of gambling mean back in 1999 in the context of your inquiry and what do you say about that not being included now?

Mr Banks—Thank you for that question. This inquiry gives us an opportunity, as you have indicated, to update the work we did before. My reading of the terms of reference, which have been made public, is that they do broadly replicate the previous terms of reference with some further emphasis on harm minimisations that have occurred since our last inquiry. I think the key thing is that it is an update. The commission has the ability to look at all issues that are germane to the inquiry that it is undertaking. Issues to do with redistributive effects, which are quite important in that we trace through, are ones that I imagine we would look at again.

Senator XENOPHON—You do not feel constrained by the absence of that specific term of reference?

Mr Banks—No, we do not. Item 4 talks about the ‘social impacts of the gambling industries’ et cetera, which is very broad and would enable us to look at some of the distributional effects, et cetera, that occur through gambling as well as the extent to which it is regressive, the taxes involved, and the impacts of problem gambling and what that does in terms of diversion of spending from other activities onto gambling et cetera. All of these things I am sure the government would be expecting us to canvas. I think you have picked up that there is a slight variation between the two sets of terms of reference, and obviously we pay careful attention to our terms of reference, but ultimately we will be doing an update focused on the things that we think are particularly important at the moment. We will have a process, as you would be aware, of putting out an issues paper which we hope to do by Christmas and then consulting with people, getting submissions and through that process hopefully focus on all the areas where an update could most illuminate public policy.

Senator XENOPHON—There is another change between the 1999 to 2008 terms of reference. In 1999, there is reference to the effects of gambling on community development and the provision of other services. The current inquiry refers to the contribution of gambling revenue on community development activity and employment. Given the differences in definition between effects and contribution—I have got my *Macquarie Dictionary* definition out but I am sure we both know what it means—there is a significant difference, is there not, between the two? ‘Effects’ is a more neutral term, it can look at the downside, the jobs that would be lost by money being spent on gambling and other sectors of the economy, but ‘contribution’ of gambling revenue is much narrower. Does that not direct you to only look at the positive effects of employment of gambling without the negative effects of money not being spent elsewhere?

Mr Banks—The wording, if you look at it, talks about ‘contribution of gambling revenue’, which you could assume, if you can assume anything in this area, is more likely to be positive than negative whereas ‘effects’ referred to gambling per se rather than the revenue that government got and redistributed from that. But I would come back, Senator, to my earlier comment that I would imagine that we would be looking at both the contribution and the effects quite frankly in what we do, and I imagine the government would expect us to do that and participants would be seeking that we do a comprehensive job.

Senator XENOPHON—In relation to the process as to the terms of reference, it obviously comes from the Treasurer; that is the formal mechanism under the act. To what extent was it a case of these terms of reference simply coming to you in this form? In terms of process and protocols, was there toing and froing as to what would be the most effective way of dealing with them in terms of efficacy of an approach? How does it normally work?

Mr Banks—It can work in different ways. In the case of gambling, I am probably on the public record some years ago saying that in time it would be good to have an update or perhaps a 10-year review. Now whether that had any influence or not, I do not know. Ultimately, you and others, a lot of community groups and indeed the industry itself had been calling for a review. The announcement of the review came through the COAG process. We had not been involved in the development of the terms of reference. That is not unusual, particularly for terms of reference that are announced by COAG but then sometimes there can be scope for further iterations to refine the terms of reference and sometimes not. We never

write our own terms of reference; at best we only ever have an input to ensure that a task is doable. But in this case, as I say, we did not have a direct input into the terms of reference.

Senator XENOPHON—But you do not feel constrained with these terms of reference in any way in terms of being as thorough and comprehensive as you were back in 1998?

Mr Banks—That is right, Senator. I guess I would say that we do not see ourselves necessarily just replicating what we did last time. Things move on. I think we identified last time that gaming machines were particularly problematic relative to some other forms of gambling like lotteries, for example. So it may well be—and we will indicate this in an issues paper that we will hopefully get out by Christmas—that we would be focusing our update on the areas that count most while attempting to be more comprehensive in the broader scope of it. In fact, I see these terms of reference facilitating the kind of approach which I think people will expect.

Senator XENOPHON—The infamous efficiency dividend: what does that mean in terms of the Productivity Commission's budget?

Mr Banks—As a relatively small organisation and a research based organisation with no spending programs as such, any such dividend flows through to fewer people that we employ. We do not have any spare capacity, so ultimately it affects the amount of work we can do. Then it comes back to government to, in a sense, prioritise work that it wants done from us. At a broad level that is the effect it has. If you want it in any more detail about how the most recent dividends have impacted on staff numbers, we could provide that.

Senator XENOPHON—Yes, if you could take that on notice. In general terms, does it mean that the commission either is constrained in the extent of an inquiry on a particular issue or on the number of inquiries or is it both?

Mr Banks—It would impact more on the number than a particular inquiry that we may be doing. Obviously we would be having conversations with the relevant departments about our capacity to do things in advance and those conversations would be framed by the resources at our disposal, which, as I say, the numbers of staff we have are reducing over time. Again, that then becomes a prioritisation issue for government.

Senator XENOPHON—The health minister announced recently that there will be an inquiry into the health system in terms of the differences between the public and private health systems. I do not think the terms of reference for that have been established; I think there is still some negotiation in relation to that. There has not been an inquiry as to the—if I can put it crudely—bang for your buck you get between the public and the private systems in terms of outcomes, in terms of comparative procedures and the like. Why is that? I would have thought, given that is such a huge part of the states' and the Commonwealth's budgets that it would have been done by now. It is not a criticism of the commission it is just that we do not seem to have that data.

Mr Banks—No. There are probably a couple of answers to that. One is, I think, the wider issue behind that and that is the broader health system with its public and private dimensions and the interface between those two. You will probably remember that the commission did a major inquiry into the private health insurance system back in about 1997 where we were directed to focus on the private health insurance aspects. In that time, obviously, we looked at

aspects to do with the operation of the private hospital versus public and so on but that inquiry was relatively circumscribed. It opens up a wide range of policy issues on the one hand. On the other, there are just the data issues of comparing like with like, which I understand is incredibly complex in this area. There are issues as to how you define inputs and outputs, the various other influences that might impact on a hospital's performance depending on whether it is in the bush or in the city et cetera. So it is no easy task and it could well be, to come back to your question, that the complexity of the task relative to the potential benefits at various points when policy was being formulated meant that it just was not done.

Senator XENOPHON—Thank you. I have a final question for the minister. Minister, I am just trying to understand in terms of the process of the Productivity Commission's terms of reference for the gambling inquiry, the differences in those terms of reference between 1999 and 2008. If you could take on notice the representations I have made. I sent a letter to the Minister for Families, Housing, Community Services and Indigenous Affairs putting in my two bob's worth, as did other groups. Could I get details of the representations made by various stakeholders—industry, welfare and non-government organisations—that led to the formulation of these particular terms of reference?

Senator Sherry—I will have to take it on notice.

Senator XENOPHON—Yes, I understand that, thank you.

CHAIR—Thank you Mr Banks and other officers of the Productivity Commission.

[11.00 am]

Corporations and Markets Advisory Committee

CHAIR—I will now call the Corporations and Markets Advisory Committee. We are doing this straight through and then going to a break at 11.15 am. Welcome, Mr Kluver. Do you wish to make an opening statement?

Mr Kluver—Thank you, Senator. It may assist the committee if I just quickly summarise the current position of the advisory committee, what it is doing, the state of some of its reviews and the possible timing of some of its forthcoming reports. To recap: in September last year the advisory committee published a discussion paper called *Shareholder claims against insolvent companies: implications of the Sons of Gwalia decision* that dealt with the consequences of the High Court decision earlier that year in *Sons of Gwalia*. Prior to that decision, there was a view in the commercial community that when claims were made by shareholders in any capacity in an insolvency, that those claims were postponed behind ordinary unsecured creditors.

In the High Court decision it was held that the nature of the claim in that case, based upon consumer protection legislation, was such that the shareholders were in fact unsecured creditors and therefore had the same rights as all other unsecured creditors. We published a discussion paper in September last year. We have received a large number of submissions, which I suppose you could summarise as saying tend to be polarised a little bit between those who support the policy behind the High Court decision and those who support some reversal of that High Court decision to postpone shareholder claims. That matter is currently under

very active review by the advisory committee and we would anticipate a report on that within the current financial year.

In February this year, we published a discussion paper *Issues in external administration*. This dealt with various matters that were referred to us by the previous government in consequence of an insolvency bill that was presented to the federal parliament. There were 16 issues that arose under various aspects of external administration. This matter is also under very active consideration by the advisory committee and again I anticipate a report on that, certainly within this financial year.

In May this year, we published our report *Long-tail liabilities: the treatment of unascertained future personal injury claims*. This arose from the James Hardie matter and the question in that particular case as to what provision should be made for persons, in this case asbestos victims, whose claims and entitlements had not yet arisen but statistically would arise in the future and what protection should be afforded to them in relation to both the actions of solvent companies and also insolvent companies. As the law stands at the moment, these persons, until such time as their symptoms arise, cannot be treated as creditors and therefore if a company goes into insolvency then no provision is to be made for them. We made a number of recommendations both for solvent companies and for insolvent companies seeking to achieve a balance on the one hand between ensuring that these asbestos victims and other future unsecured creditors of this nature are protected, but at the same time not pushing companies in the direction of insolvency or making it difficult for an insolvency to operate or to prejudice the interests of other unsecured creditors. That was published in May this year.

Finally, in June this year, we published a discussion paper entitled *Members' schemes of arrangement*. Part of this discussion paper arose from a reference that was given to us by the former government on the question of whether the headcount test should be abolished. At the moment, for a members' scheme of arrangement to proceed, there needs to be a vote in favour of the scheme both by 75 per cent by value of the shares and also 50 per cent of the shareholders by number, and there was a question whether that particular test should remain. Given that the committee has the legislative power to initiate its own reviews, the committee felt that this could be a useful opportunity to review more generally members' schemes of arrangement given that there had been no review of this in Australia as of recent times and given the trend towards the increasing use of schemes as an alternative to a takeover bid to achieve a change of corporate control. This discussion paper was released in June 2008, we have just recently received most of the submissions on it and we anticipate commencing work on the review, moving towards the report soon with a view hopefully to it being published within this financial year. That is a quick overview of the current state of the major projects before the committee.

CHAIR—Thank you, Mr Kluver.

Senator JOYCE—I am really fascinated as to why we called you here. I imagine it is probably one of the first times you have ever turned up. Would that be correct?

Mr Kluver—I have been coming to Senate estimates committee meetings since I first commenced with the advisory committee which was in January 1990, so I have come to quite

a few. I have not always got on; sometimes I have been told there are no questions and I have been sent back home. Coming to a committee, I much prefer to be called and to be able to discuss matters with you rather than going through all the exercise, spending a lot of time sitting in the other room and then being told that there are no questions for me. I appreciate the opportunity and I am looking forward to the questions that you might ask me, Senator.

Senator JOYCE—And so are my staff sitting back in my room who were supposed to have been digging through finding the questions, but I have got my questions already worked out. My questions pertain to long-tail liabilities and, with regard to the James Hardie case, the process you went through to ascertain a liability for an event as yet unforeseen but possible. How in your belief do you get those issues onto a document so that people can be fully aware of the contingent liability that is in front of them?

Mr Kluver—There are a number of aspects and we dealt with this in the report. We first of all looked at the accounting principles, in particular AASB 137 that looked at the question of what are the current obligations of a company in regards to long-tail liabilities. We reviewed that provision in some detail given that, if we look back at the history of James Hardie, certainly at the time of 1999 and 2000, there was a question about whether for these types of long-tail liabilities—that is, where you statistically know that there are liabilities which will arise in the future without knowing how many and how much it will be—there needs to be an accounting recognition of this. In our report we took the view that AASB 137 requires a recognition of long-tail liabilities, which is an estimate by the directors, recognising its limitations and recognising it is only an estimate, and that AASB 137 makes provision for that. I think a very important feature that we sought to confirm in our report was the obligation to disclose where there was a reasonable possibility of a long-tail liability, recognising that it did not lock the directors into a specific figure because that is not possible.

Secondly, in regards to solvent companies, we considered that there were a number of ways in which the interests of long-tail liability parties could be protected without at the same time prejudicing the ability of a company to generate the profits necessary to ensure that in the future they can pay. There is no point in creating such a problem for solvent companies that they are pushed into insolvency. We had a number of recommendations which were more focused, particularly in the case where a company wished in some manner to reduce its capital. The effect of that is that you are returning money to the shareholders at the expense of creditors. Now normally, provided a company remains solvent of course, that is an acceptable procedure. We have procedures, for example, for reductions of capital in the Corporations Law to allow it, but under the current law there is a very important control and the control says that you cannot act in a way that is detrimental to the interests of creditors. We recommended that that concept be widened so that when directors were proposing a reduction of capital or other form or way in which money was to be returned to shareholders, that they also had to take into account a calculation of whether that would be detrimental to the interests of long-tail liabilities. They can do it through actuarial tests as to what this is about. In our report, we go into some detail about the way in which actuaries can estimate future potential liabilities and build that into their reasoning process.

Senator JOYCE—With AASB 137, how would you note a potential liability, as an extraordinary item? I imagine you go through probability or regression analysis of what a

possible liability may be. When would it become substantial enough that you would need to note it on your books?

Mr Kluver—Can I have just a moment, Senator? I will find the relevant part of the report where we talk about this. There are two circumstances in which AASB 137 operates: AASB 137 requires that you have to either recognise a provision on the balance sheet or you have to disclose contingent liabilities in the financial statements. They are the two circumstances. We first of all looked at the question of recognising the provision on the balance sheet. In our report, in section 2.4.1, we discuss the circumstances in which we believe provision would have to be made in the balance sheet. We noted a recent case in the Federal Court where the company made provision in the balance sheet. We indicated, depending upon the level of probability and the circumstances that that may well be a case where the decision is made, given that of course with accounting standards a decision has to be made on which you go, that the level of future liability may be sufficiently precise as to require provisioning in the balance sheet.

Senator JOYCE—In regard to the calculation of that, Mr Kluver, would they need to substantiate in any formal working paper how they came up with that provision?

Mr Kluver—There are three tests in order for a provision to be made. First of all, you have to have a present obligation as a result of some sort of past event. It is probable that an outflow of resources embodying economic benefits will be required to settle that obligation, and then a reliable estimate can be made of the amount of that obligation. Now, there can be some disputation as to whether the circumstances are such that it is possible to make a reliable estimate or not. But, remember, that is only one side of AASB 137. If the circumstances are such that the company does not feel that the circumstances are sufficiently—

Senator JOYCE—Probable.

Mr Kluver—crystallised to require a provision, there is still the other requirement that they must disclose contingent liabilities in their financial statements.

Senator JOYCE—Yes, they must disclose—dead right.

Mr Kluver—In section 2.4.2 of the report, we look in some detail at the question of when a contingent liability arises.

Senator JOYCE—When does a contingent liability arise?

Mr Kluver—A contingent liability is a possible obligation—and of course, remember, this is the accounting standard, not my speak.

Senator JOYCE—You are going very well, Mr Kluver.

Mr Kluver—Thank you. It is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the entity. If we look at those particular elements then we can say there is a past event, and the past event is usually the contraction of asbestosis by particular victims. Existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events, and that will be as people contract asbestosis. Some people who have been exposed to asbestos will; some people will not, and they will not themselves know, let alone anybody else, until such time

that occurs. It is uncertain, because statistically you do not know how many will arise, but some will arise.

Senator JOYCE—But there are probability tools and statistical analysis tools for you to determine that, aren't there?

Mr Kluver—That is correct, and it is not wholly within the control of the entity—well, it is wholly outside the control of the entity because, for people who contract asbestosis, that is beyond the ability of the company to recall that particular circumstance. Those are the essential features of it. We then analyse in the report how that operates. We reach an advisory committee view in section 2.6, in which we consider that no amendment to AASB 137 is required; it is more to just draw to the attention of companies the existence of AASB 137, which in our view would require the disclosure either—

Senator JOYCE—In the balance sheet as a provision.

Mr Kluver—I beg your pardon?

Senator JOYCE—In the balance sheet as a provision or—

Mr Kluver—Either a provision in the balance sheet, or you disclose a contingent liability in the financial statements.

Senator JOYCE—Contingent liability in financial statements.

CHAIR—We will be going for a break before too much longer.

Senator JOYCE—That is all right. Because it might not be just someone who is involved with asbestos; it could be any person or entity.

Senator Sherry—I know what you are getting at, and I think Dr Henry well covered this yesterday, Senator Joyce.

Senator JOYCE—Senator Sherry, you are not pre-empting what I am asking, are you?

Senator Sherry—No. It is very clear what you are asking about, and Dr Henry covered it very well yesterday morning.

Senator JOYCE—So it is any contingent liability that has an assessable probability of a certain outcome for which there will be a certain substantial financial ramification.

Mr Kluver—The report that we dealt with was the treatment of unascertained future personal injury claims. Our discussion paper and the report dealt with future personal injury claims. It did not seek to go beyond the ambit of future personal injury claims.

Senator JOYCE—Thank you very much, Mr Kluver; you have been very helpful.

CHAIR—Thank you, Mr Kluver, and thank you, Minister.

Proceedings suspended from 11.18 am to 11.30 am

INNOVATION, INDUSTRY, SCIENCE AND RESEARCH PORTFOLIO**In Attendance**

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

Department of Innovation, Industry, Science and Research**Executive**

Mr Mark Paterson AO, Secretary
Ms Patricia Kelly, Deputy Secretary
Mr Tim Mackey, Deputy Secretary

AusIndustry

Mr Paul Sexton, Acting Executive General Manager, AusIndustry
Mr Chris Birch, General Manager, Research, Development and Venture Capital
Mr Sam Skrzypek, General Manager, Business Development & Commercialisation
Ms Judith Zielke, General Manager, Innovation
Mr Russell Edwards, Acting General Manager, Customer Service
Ms Mimi Mastrolembo, Manager, Business Development & Commercialisation

Corporate Division

Ms Melissa McClusky, Head of Division, Corporate
Mr Richard Byron, General Manager, Human Resources and Facilities Branch
Ms Brad Medland, General Manager, Corporate Finance Branch
Ms Chris Butler, General Manager, Corporate Strategy Branch
Ms Cherie Ellison, General Manager, Business Collaboration Branch
Ms Michele Clement, Manger, Strategy and Communication
Ms Susan Charles, Manger, Marketing & Communication
Ms Denise Le Mesurier, Manager, Ministerial Liaison Office

eBusiness Division

Mr Ken Pettifer, eBusiness Division Head
Mr Mike Sibly, General Manager, Online eBusiness Services Branch
Ms Trish Porter, General Manager, ICT Systems Branch

Enterprise Connect

Mr Barry Jones, Head of Division, Enterprise Connect
Mr John Dean, General Manager, Enterprise Connect
Mr Ken Miley, General Manager, Trade and International

Industry and Small Business Policy

Ms Sue Weston, Head of Division, Industry and Small Business Policy
Mr Tony Greenwell, General Manager, Business Conditions Branch
Mr Michael Schwager, General Manager, Small Business and Deregulation Branch
Mr Richard Snabel, General Manager, Industry Policy and Economic Analysis Branch
Mr Mark Riffel, Acting General Manager, Business Registration and Licensing Branch

Innovation Division

Mr Craig Pennifold, Head of Division, Innovation
Ms Tricia Berman, General Manager, Innovation Policy
Mr Peter Chesworth, General Manager, Pharmaceuticals and Enabling Technologies

Ms Stella Morahan, General Manager, Cooperative Research Centres

Mr Tony Weber, General Manager, Innovation Analysis

IP Australia

Mr Philip Noonan, Director General

Manufacturing Division

Mr Steve Payne, Head of Division, Manufacturing Division

Mr Peter Clarke, General Manager, TCF and Automotive Reviews

Mr Ivan Donaldson, General Manager, GM Australian Building Codes Board

Mr Mark Durrant, General Manager, TCF and Engineering Branch

Mr Michael Green, General Manager, GM Manufacturing Innovation Branch

Mr Mike Lawson, General Manager, GM Aerospace, Defence and ICT Branch

Ms Cecilia Wood, Acting General Manager, Automotive, TCF and Engineering Branch

National Measurement Institute

Dr Peter Fisk, Acting Chief Executive Officer

Questacon

Professor Graham Durant, Director, Questacon

Mr Graham Smith, Acting General Manager, Questacon

Ms Lorraine Neish, General Manager, Questacon

Science and Research Division

Ms Jessie Borthwick, Head of Division

Mr Stephen Irwin, General Manager, Science Policy & Programs Branch

Mr Justin Withers, Acting General Manager, International Science & Coordination Branch

Ms Anne-Marie Lansdown, General Manager, Research Infrastructure Branch

Dr Anne Byrne, General Manager, Research Policy & Compacts Taskforce

Australian Institute of Marine Science

Ms Linda McNamara, Acting Executive

Australian Nuclear Science and Technology Organisation

Dr Ron Cameron, Acting Chief Executive Officer

Mr Doug Cubbin, Chief Finance Officer and Acting Chief of Operations

Mr Steve McIntosh, Senior Canberra Liaison Officer

Mr Andrew Humpherson, General Manager, Public Affairs

Mr Mike Seirs, Canberra Liaison Officer

Australian Research Council

Professor Margaret Sheil, Chief Executive Officer, ARC

Mr Len Marsden, Chief Operating Officer, ARC

Ms Leanne Harvey, General Manager, Research Excellence

Mr Andrew Cameron, Director, Resources

Commonwealth Scientific and Industrial Research Organisation (CSIRO)

Dr Geoff Garrett, Chief Executive

Dr Alastair Robertson, Deputy Chief Executive, Science Strategy and Investment

Mr Mike Whelan, Deputy Chief Executive, Operations

Mr Allan Gaukroger, Chief Finance Officer, Chief Finance Officer

Dr Joanne Daly, Group Executive, Agribusiness

Dr Andrew Johnson, Group Executive, Environment

Dr Steve Morton, Group Executive, Manufacturing, Materials and Minerals
Dr John Wright, Director, Energy Transformed Flagship
Dr Alex Zelinsky, Group Executive, Information and Communications Sciences and Technology
Dr Jack Steele, Chief of Staff, Business Services
Dr Hanna Jaireth, Manager, Ministerial and Parliamentary Liaison
Dr Grant Farrell, Adviser, Ministerial and Parliamentary Liaison
Mr Huw Morgan, Manager, Media Liaison

CHAIR—The Senate Standing Committee on Economics will now examine the Innovation, Industry, Science and Research portfolio, commencing with the Australian Nuclear Science and Technology Organisation. For the benefit of officers, I advise that the committee has fixed Friday, 12 December 2008 as the date for the return of answers to questions taken on notice.

[11.31 am]

Australian Nuclear Science and Technology Organisation

CHAIR—I welcome Senator Carr, the Minister for Innovation, Industry, Science and Research, and Mr Mark Paterson and officers from ANSTO. Minister or officers, do you wish to make an opening statement? Minister?

Senator Carr—No.

CHAIR—Mr Paterson?

Mr Paterson—No thanks, Chair.

CHAIR—We can begin straightaway with questions then.

Senator EGGLESTON—I have asked about ANSTO at the last two lots of estimates, of course. The plant at Lucas Heights, I understand, has been closed for 11 of the past 14 months. Is that the case?

Dr Cameron—Yes.

Senator EGGLESTON—What has been the ongoing—

Dr Cameron—As you know, the very last time the plant was shut down for about 10 months for an issue to do with fuel, which is now resolved. So the plant is currently operational.

Senator EGGLESTON—It is currently operational. There was a problem, however, with a water leak, was there not?

Dr Cameron—That is correct. There still are ongoing investigations into the best method to deal with the seepage that we have from the light water into the heavy water, which is an internal problem within the reactor.

Senator EGGLESTON—Can you provide us with a little bit more detail on that? Obviously heavy water is important in terms of the development of isotopes and the general use of this facility, but how is it that light water, so-called—and what is light water? Is that ordinary water or water without the addition of hydrogen?

Dr Cameron—Yes, certainly. I am very happy to give the background. The light water is ordinary water which is used to cool the reactor. It is pumped in the bottom and out the top and acts as a coolant. At the bottom of the reactor pool there is another vessel called the reflector vessel, which sits directly round the core. The purpose of the reflector vessel and the heavy water in that reflector vessel is to reflect the neutrons back in so we get maximum use of neutrons. There has been some seepage of the ordinary water in the pool into the reflector vessel. That is not a safety issue; it is just an operational issue for us. Over a period of time, it degrades the purity of the heavy water, and so we lose some neutron flux, and we have been looking for about a year now at the best way to resolve that. During the shutdown there was a partial solution to that problem which was partially successful, but we are looking for a more final disposition of that issue. The responsibility for finding that disposition is totally with the reactor vendor, INVAP.

Senator EGGLESTON—Thank you. The most important role, I suppose, of the reactor is to produce isotopes for medical use in Australia. I asked some questions about that in the last lot of estimates. Could you perhaps provide us with some information about the production of medical isotopes at the present time. Are you meeting Australia's needs at the present time, and what isotopes are being produced, of course?

Dr Cameron—Yes, I think we are meeting Australia's needs. The last cycle of the reactor worked, as usual, for 26 days. During that time, we did 55 irradiations. We essentially irradiated all the isotopes that we need, except for molybdenum-99. We are continuing to import molybdenum-99. That is not an issue to do with the reactor; it is to do with the fact that we are at this stage commissioning a new molybdenum-99 plant. We took the opportunity of having a new reactor to build a new plant, and that plant is going through a hot-commissioning phase, which we hope to be completed by Christmas. So we hope that early in the New Year we will be in full production of indigenous molybdenum-99. Currently we import that.

Senator EGGLESTON—Where are you importing it from?

Dr Cameron—Mainly we import it from South Africa.

Senator EGGLESTON—Are there any problems with the reliability of the South African supply?

Dr Cameron—From time to time we get a number of problems. It could be that they have had a production problem themselves, it could be that they are shut down for regular maintenance, as has occurred recently, or it could be that sometimes we have radiopharmaceuticals offloaded from planes so they do not make the transport. About every two weeks we have some sort of problem with import. We are nearly always able to recover that by bringing our staff in and working very long hours to see if we can supply, even though we get late or partial deliveries, and generally our delivery in full on time is about 97 per cent or 98 per cent.

Senator EGGLESTON—And this is mostly from South Africa?

Dr Cameron—It is mostly from South Africa.

Senator EGGLESTON—You mentioned other sources for molybdenum-99. What other countries supply you with this isotope?

Dr Cameron—Generally around the world there are very few suppliers, and that is why the OPAL reactor is so important. There are about four other major suppliers in the world, which are all operating with very old reactors, and some of them are coming near the end of their life. So it is very important that we have our own indigenous supply. That issue will become increasingly serious over the next few years. When we are operating our own molybdenum production next year, we will also have the capability of helping out some other countries which are facing shortages.

Senator EGGLESTON—Who are the other four main suppliers?

Dr Cameron—The other major supplier is Nordion, which is in Canada. There is a major supplier in Europe from the Petten reactor and a group called IRE, which is a radiochemical company that sources from a number of reactors currently. The Petten reactor is shut down, and they are now sourcing some from France and some from elsewhere. Then in Argentina there is also a supply which is not in that major league but is a significant supply nevertheless.

Senator EGGLESTON—What specifically is molybdenum used for? Is it for imaging or treatment?

Dr Cameron—Molybdenum itself is not used directly. What happens to molybdenum is that it is loaded into a generator. The generator is supplied to a hospital or a nuclear medicine centre. In the course of its decay, molybdenum decays into technetium-99m, and it is technetium that is usually injected as a diagnostic. Technetium provides something like 80 per cent of the diagnostic needs of the nuclear medicine community.

Senator EGGLESTON—Thank you. You mentioned a new plant. Have you received adequate funding for that? Given that you had a cut to your budget in the May budget, how are you funding that new plant?

Dr Cameron—Yes, that plant is funded out of capital. We have had no cuts to our capital budget, so there is no difficulty in completing that plant.

Senator EGGLESTON—I understand that you are involved in the construction of cyclotrons at Lucas Heights. Is that not the case?

Dr Cameron—That is correct.

Senator EGGLESTON—And they are used to produce tracers used in PET scans. But I have a comment that the construction of the cyclotrons was not put to tender in a competitive market. Is that the case or not? How is that cyclotron-building program being funded?

Dr Cameron—Can I give you just a little bit of background. We were the first in Australia to produce FDG, which is the main PET isotope you are talking about. We did that out of our national medical cyclotron at the Royal Prince Alfred Hospital. It was never really designed for that purpose, and it became increasingly uneconomic to do so, so we stopped supplying FDG some years ago.

However, there was still a big demand in the market for PET isotopes, and a number of hospitals and others approached us, so we decided to re-enter that market. We announced that

we would build a cyclotron to produce that isotope. The process was we had discussions with all the major players in the market. We had discussions about partnerships with a number of the local players as well. We had, essentially, estimates from the major manufacturers of cyclotrons as to what it would cost, but what we were looking for was really the best product for the Australian market. We took all that information to our board, and the board made the decision that PETNet, which is the major brand of PET isotope suppliers around the world and has the best reputation for reliability and innovation, was the right group for an innovative organisation such as ourselves to partner with.

Senator EGGLESTON—I would just like to ask you a question about your workforce. In Dr Switkowski's 2006 report on the viability of a domestic nuclear industry, he identified manning as one of the key issues. As a consequence of the budget cuts which were made to ANSTO, I understand from previous answers to questions that you cut back on your training program. Could you tell me where we are now with training of people to work in the nuclear industry and the nuclear medical industry in Australia?

Dr Cameron—Yes. Obviously, training and staff development is a very important issue for us. That arises because there is no indigenous course in nuclear engineering in Australia or in some of our core areas as well. We used to be able to rely on recruiting people from overseas, but with the global expansion in nuclear, particularly in nuclear power, it is increasingly difficult, if not impossible, to do. So we do put a lot of effort into recruiting graduates and other staff and developing them internally, plus we also use secondments overseas for that purpose. So we continue to put a lot of effort into that, and we do not see ourselves going back on that process.

Senator EGGLESTON—Thank you. The only other question I would ask you is about ANSTO's plan to add a new store for radioactive waste on site by February next year because of the delays by the federal government in establishing a federal nuclear waste dump elsewhere. Would you like to provide us with some information about that?

Dr Cameron—Yes, I welcome that opportunity, because that story has been incorrectly reported a number of times. We store nuclear materials on site. That is not radioactive waste; that is nuclear materials. Nuclear materials are distinguished from radioactive waste. They are covered by the safeguards act of things that we have to look after appropriately. Currently we store them in two or three locations on site. What we wanted to do was build a single store where we could put all that material. So we made an application under the EPBC Act for a nuclear materials store, and that is just to centralise our storage of existing nuclear materials. However, one advantage of doing that is that it does create some space, and that space can be used for storing radioactive waste. We are, of course, very much hoping for the development of a radioactive waste repository as soon as possible, and this does give us a little bit of space to continue to store the waste safely on site, pending that repository being established.

Senator EGGLESTON—The chair has ended my time, but I may have some questions to put on notice for you.

Senator LUDLAM—I might just perhaps continue on the line that Senator Eggleston was pursuing. Can you confirm for us that you do not think that your referral under the EPBC Act for the nuclear materials store should qualify as a nuclear action and be caught under EPBC?

Dr Cameron—That is correct. There is a requirement under the act to define whether or not it is a controlled action under the act. Our judgement is that because of the nature of what we are doing it would not be a controlled action, but, nevertheless, we have to put our submission, and that determination is made by the department. The department has notified us that it agrees with us that it is not a controlled action.

Senator LUDLAM—Why would the construction of a nuclear materials store not be, in your view, a nuclear installation under the act?

Mr McIntosh—There are two things to be satisfied under the act. For it to be a controlled action, it must be a nuclear action and it must be likely to have a significant impact on the environment. We said that it was a nuclear action but because of the controls in place it was unlikely to have a significant impact on the environment, and the department of the environment has agreed with that assessment. So we are not disputing it is a nuclear action; what we are saying is it is a nuclear action but not a controlled action.

Senator LUDLAM—Is it not the case, though, that while you are consolidating the storage of nuclear materials in the new store that is yet to be built you will be moving waste materials into places where they have not been stored before? Is that not a consequence? Did I misread what you have said before?

Dr Cameron—No, that is correct; but, of course, we manage radioactive waste and nuclear materials on our site every day of every year, so there are inevitably movements across our site. The determination under the act was whether there was any likelihood of an environmental impact. With the controls which we have in place, there has never been, and there is not likely to be, any environmental impact, and that was an argument which was accepted.

Senator LUDLAM—Can you give us a bit of a sense of the costs, or the annual maintenance and running costs of the new reactor?

Dr Cameron—Yes. The annual operating costs are around \$10 million.

Senator LUDLAM—What were the costs of the shutdown? Have you quantified the overall costs of the 10- or 11-month shutdown of the reactor?

Dr Cameron—Yes, we have. Those total costs amount to approximately \$14.4 million. However, of that amount, \$4 million relates to the costs of importing isotopes; about \$4.3 million relates to the cost of new fuel, which is still a contractual issue that we are dealing with between ourselves and the reactor vendor; and about \$6 million is related to the loss of income that we might have had if the reactor had been operating and we had been producing isotopes.

Senator LUDLAM—So what is the status of your negotiations with INVAP over cost recovery and liability issues?

Dr Cameron—Well, those are being conducted under the contract. The contract has the appropriate remedies and processes that we have to follow for dealing with notification of defects, discussion with the reactor vendors and how that goes, and we have followed the contract and sought appropriate legal advice on doing that. Clearly, initially our view was that the principal aim for us was to resolve the issues as soon as possible. Now the issues of the

fuel are resolved, we still are working with the reactor vendor on the issue of the seepage that we discussed earlier, but we are well into the process of negotiation. Those are obviously commercial negotiations, but we will be applying the terms of the contract rigorously.

Senator LUDLAM—Do you have an expected time when those negotiations will be concluded?

Dr Cameron—We would expect that certainly within this financial year we will complete those.

Senator LUDLAM—Okay. Just moving on, can you give us an idea of the current status timelines and plans for the decommissioning of the former HIFAR reactor on the site?

Dr Cameron—Yes, the process with the HIFAR reactor is it was shut down in January time. We then went through the first stage, which was to remove the fuel and heavy water and some of the other rigs. At that point, really it does not constitute a reactor anymore. We had to apply for changing from an operating licence to a possession and control licence. We made that application to the regulator for a possession and control licence. That possession and control licence has recently been granted. A possession and control licence allows us to what we would call get the reactor into safe enclosure, and that is a process that we are going through now. When that has been done, then we will apply for a licence to decommission it.

Senator LUDLAM—Decommission means demolition—cutting the building up and—

Dr Cameron—Yes, that will be restoration essentially to a greenfield site.

Senator LUDLAM—Okay. Great. What became of the fuel and heavy water from the HIFAR reactor when that was removed?

Dr Cameron—The fuel is removed and then it is actually spent fuel. Under our contract with the United States, that spent fuel will go back to the United States and there will be no waste returned to Australia. We are planning that final shipment for next year, so next year the final lot of HIFAR fuel will have gone from the site. So there will be no more spent fuel from the HIFAR reactor on the site. The heavy water is in the process of the negotiations with Argentina. We have arranged that they will take the heavy water from the HIFAR reactor. They have a plant in Argentina where they can repurify it and, therefore, reuse it.

Senator LUDLAM—When do you expect that last shipment to go out to the United States?

Dr Cameron—It will go out next year. For reasons of security I am not at liberty to disclose the actual date, but it will be in the first half of next year.

Senator LUDLAM—And it is the case that the material that is sent to the United States—we are not contracted to return any of the spent fuel that might have gone to France or to Scotland—is contracted to return?

Dr Cameron—Yes, that is correct. This is American-obligated uranium. Because it is American-obligated uranium, the spent fuel goes to the United States, and there is no waste to return to Australia.

Senator LUDLAM—So if we could go back perhaps to where we began, do you believe that you have the capacities and facilities to manage the waste and the other associated radioactive materials on site indefinitely?

Dr Cameron—We can make provision to do that, but currently our existing radioactive waste store probably has about two years left in terms of capacity. So we are looking at a number of methods to make better use of that capacity. We are doing some supercompaction, and that will reduce our waste volumes, but at some point we will have to decide whether there is a need to build another building.

Senator LUDLAM—In terms of the capacity that you are freeing up or you are proposing to free up with the new facility that was announced last month, how much more time does that weigh?

Dr Cameron—That essentially gives us about two years.

Senator LUDLAM—Does ANSTO have first jurisdiction over the nuclear materials that are returned to Australia from France or from other parties?

Dr Cameron—The material returned from France and the UK is waste from the reprocessing of spent fuel that was sent overseas from ANSTO, so therefore it is ANSTO's waste material.

Senator LUDLAM—And can I just confirm, apart from the material that is scheduled to be sent to the United States, there is no other spent fuel on site at this time; everything has been sent overseas?

Dr Cameron—In terms of the HIFAR reactor, with this next shipment, all that waste will go overseas. We had another small reactor called Moata, which was a reactor which we used for experiments and some irradiations. There is some spent fuel from that reactor as well. We intend to ship that as well next year. In addition, of course, OPAL is beginning to produce spent fuel. Each time we shut down we change about one or two fuel elements. The intention is that all that will go in a shipment to the United States for the first 10 years of operation.

Senator LUDLAM—Is the OPAL fuel American obligated, or was that eventually to return to Australia?

Dr Cameron—No, that is American-obligated uranium.

Senator LUDLAM—So the fuel from OPAL is not intended to remain in Australia eventually once it has been reprocessed?

Dr Cameron—Let me just explain that. The Americans have an arrangement called the foreign research reactor take-back program. That program was due to expire, I think, in 2006, and it was extended for 10 years. So up to 2016 that allows for all spent fuel from our reactor to go back to the United States. After 2016 it will either be extended again or we will have to look for alternative arrangements.

Senator LUDLAM—We had better move on. We have a fairly short time. Has ANSTO been involved in discussions about siting for a nuclear waste facility in the Northern Territory or elsewhere?

Dr Cameron—ANSTO has had a role for a number of years in providing advice to the relevant department on issues to do with criteria that might need to be satisfied for siting, design of nuclear waste stores, issues to do with management of nuclear waste and what you need to do in terms of packaging or repackaging. So we provide technical advice to the department on those issues.

Senator LUDLAM—And it is your understanding that the nuclear waste facility that is intended there would be for a store for intermediate-level waste but also a long-term repository for the old reactor core and the spent fuel after it is returned?

Dr Cameron—Yes. Government policy, both the previous government and the existing government, is that it will be co-located—a radioactive waste repository and an intermediate-level waste store.

Senator LUDLAM—When are you anticipating the return of the fuel from France?

Mr McIntosh—Can we just go back to the previous question? It is a store for the intermediate-level waste, including the returned waste from the spent fuel, which would be co-located with a low-level waste repository. There is no proposal for a repository for the reprocessing waste.

Senator LUDLAM—There is no proposal for a repository for the reprocessed waste returned from France?

Dr Cameron—The waste returned from France will go to the intermediate-level waste store.

CHAIR—Senator Forshaw.

Senator FORSHAW—Have you concluded?

Senator LUDLAM—No, actually. However, I will come back afterwards.

Senator FORSHAW—I wanted to ask one question in regard to the negotiations with INVAP, and I apologise for coming in, but I have been tied up in other estimates with another committee, so I hope I am not asking a question that may have been asked before. You said you are in negotiations currently with INVAP with respect to if I can call it difficulties that have been encountered in recent times. Are you able to provide me—you can take this on notice if necessary—with details of how much compensation, level of payment, has been made by INVAP to ANSTO or the extra costs that they have had to meet to remedy the previous problems that were discovered after the construction?

Dr Cameron—There are a number of issues here. Perhaps I could take them one at a time. Firstly, the contract is very clear that the responsibility for remedying the defects lies with the reactor vendor and all costs associated with that remedy lie with them as well.

Senator FORSHAW—You can take it, as you would know, Dr Cameron, that I am familiar with the contract, as much as we were able to see of it.

Dr Cameron—No, I just thought for the record, Senator Forshaw, it was worth saying.

Senator FORSHAW—Yes, sure.

Dr Cameron—The second issue is that of course we are assisting in that process and so it is to our advantage to work that through as quickly as possible, so there will be time from our staff involved in that, but I think we have also made the point in previous estimates that in the commissioning period that we are still in with the reactor there is no penalty for business losses. That is not unusual. This is a complex piece of equipment. The equivalent German reactor took four years to commission. We expect to do it in two years. You are aware that the Large Hadron Collider in Europe is down for a long period of time. All these complex pieces of equipment take time to get working optimally. So in that period of time, no reactor vendor will take any penalty for business losses. If they were to do it, they would simply add it to the contract price; we would end up paying for it anyway. So during the period of commissioning there is no compensation for business losses. We are pursuing, though, with our insurer, Comcover, whether we are covered for business losses. So we are negotiating with INVAP and we are pursuing an insurance claim—

Senator FORSHAW—What were those business losses? I do not want to take the time of the committee. It might be better at the end if you take it on notice and give me a fuller report. I have not got the time to get all the detail out now, but I am aware of the problems that arose during construction. The holes, I think, were drilled in the wrong place, or words to that effect, if I could put it in layman's terms. I am interested in getting a detailed analysis, a report on those repairs, costs that had to be met and who met them for the major problems that have arisen in this process.

Dr Cameron—I think I can tell you what I said earlier: that any defect is the responsibility of the reactor vendor, and they bear the costs of fixing it. It was only an issue of time.

Senator FORSHAW—Yes, but do we know how much?

Dr Cameron—It would not be reasonable for us to go and say, 'We want to know all your costs.' That is entirely up to them. We have a performance contract that requires them to perform. What we are looking for all the time is whether they are performing according to the contract, but we have not gone into the details of how much it costs them to do that.

Senator FORSHAW—Are you saying that ANSTO does not know, for instance, that when the faults were discovered some time back during construction, and there had to be major repairs and new work done, what the equivalent cost of that might have been? I think it is important that we know. I take the point that the vendor has to make good, has to deliver the product that was contracted for, but it is a project that was estimated to cost \$300 to \$400 million—I cannot remember the exact figure now—and if we find that during the whole process, whilst recent problems had been encountered after the reactor was started up, there are more problems which the vendor has to remedy, it is important for us that we should be able to find out the total estimated costs of fixing all of this, whether it is by government, INVAP or whoever. It goes back to one of the crucial issues that we looked at—

CHAIR—Senator Forshaw, we are running short of time.

Senator FORSHAW—It goes back to one of the crucial issues of whether or not the original contract and arrangements were actually suitable.

Dr Cameron—In answer to that, we had an original sum of money for this contract. To that was added some additional money, around \$26 million, when we were in the 911 issue

and we had extra security requirements. The government has provided the original contract sum plus the \$26 million, and no other money. We have worked within that sum of money for all this period of time. It has been inflated according to the number of years we have gone but, other than that, there has been no additional money required from the government.

Senator FORSHAW—I put you on notice that I will pursue this again, because it is not in my view satisfactory to say that, because the vendor has to fix it, we are not entitled to find out the significance in terms of potential costs of those faults, and also the impact upon the delay and the time that this reactor has not been able to operate.

CHAIR—Thank you, Dr Cameron.

Senator ABETZ—Chair, could I have your forbearance to ask two discrete questions of ANSTO? I know that we are over time.

CHAIR—Two quick questions.

Senator ABETZ—Thank you very much. Dr Cameron, can you indicate to the committee how many scientifically qualified people ANSTO has had to let go or not replace as a result of the budget adjustments—I will make a neutral statement about that—but how many fewer scientists are currently being employed at ANSTO?

Dr Cameron—As we mentioned previously, our estimate was that we would have to let go some 80 staff. We are through that process now, and we have let go 80 staff. About 40 of those staff were from our operational side. Some of those are, of course, scientifically qualified as well; about 40 were from our research side—

Senator ABETZ—Can I truncate this? That which you indicated last time has happened? There is no change?

Dr Cameron—There is no change.

Senator ABETZ—All right, that is all I need to know on that one. I understand ANSTO has an accumulated reserve. If that is the case, is it in direct danger of Senator Carr's ministerial colleague Tanner, who is running Operation Sunlight—I would have thought it would be Operation Darkness, quite frankly—for ANSTO. Nevertheless, do you have a reserve and is it under threat from being taken off you?

Dr Cameron—Clearly ANSTO is funded in a number of ways. We have our operational funding and our capital funding. Most of that capital funding is depreciation funding. That depreciation funding is how we refurbish and maintain and develop new facilities on site. There are proposals that would look at dealing with that depreciation in a different way so that agencies would not be funded under the current basis.

Senator ABETZ—That will have flow-on budget consequences?

Dr Cameron—That will have a flow-on consequence which is still to be worked out.

Senator ABETZ—Which might mean even more scientists having to leave.

CHAIR—Thank you Dr Cameron, for coming here today. I call the Commonwealth Scientific and Industrial Research Organisation.

[12.06 pm]

Commonwealth Scientific and Industrial Research Organisation (CSIRO)

CHAIR—Welcome to the CSIRO and to Dr Geoff Garrett. Do you have an opening statement?

Dr Garrett—Yes, I would like to make a few comments, if I may. I appreciate this. We have not taken up this offer before over this wonderful eight years I have had as Chief Executive of CSIRO, an honour which I appreciate and a great privilege, but this is my last appearance at Senate estimates. I would like to comment about the importance of science and the national innovation system. I would like to comment about CSIRO's role and the contribution it is making, and to highlight some of the things that we have been doing over the last year or so.

First, in these turbulent, uncertain and fast-changing times, we need more science that will enable us to enhance our national productivity and competitiveness, not less. We need science that will deliver the development of new industries and new technologies. We need science that will help us deal with the major significant challenges that we have in our world, whether it is water scarcity, climate change, energy security or an ageing population. As our minister said just this week, 'In times like this, it is good to know that here in Australia we have CSIRO, an organisation with an 80-year track record of delivering just that kind of science, and one that delivers practical benefits every day'—let me repeat that, 'every day'—'to industry and the community at large here in our nation.' As our chairman, John Stocker, has said, 'If Australia did not have a CSIRO, we would have to invent one.'

For these reasons, we have strongly supported the recent National Innovation System review, the NIS, and we have appreciated the extensive effort, significant research and very substantial consultation of the review panel that is extremely evident in this report. A lot of hard work has gone into that process. We believe that a strong focus on research and innovation is absolutely central to Australia's ability to respond to the major challenges and opportunity that we have now, and into the future. We agree that the time is right for focus, for renewal and for investment in the NIS. However, as we commented in our review, we believe that the current system is too complex and too fragmented. We need less competition, less duplication and particularly more collaboration—domestically, internationally, across boundaries, across disciplines and with the end users of research, particularly our industry—to ensure that the fruits of our labour get taken up and create jobs, create wealth, and create improvement in quality of life.

There are currently real challenges in our nation around the proper funding of research. We need to better focus our efforts on the major priorities. We cannot be all things to all men and women. Most particularly, we believe that an important key to addressing these issues is getting role clarity in our system, really understanding who is on the line for what. Clarifying the roles of these various institutions we believe will enhance the collaboration, reduce complexity and duplication, and benefit us all. That is point one. Against that background, what is CSIRO's role as our premier national science agency? I would say the following.

Size matters. CSIRO is, in my experience, a creative powerhouse; a billion dollar annual turnover enterprise with 6,400 staff across 50 sites across our nation. In addition, at any point

in time we have 2,000 or so visitors who use our facilities and work with our staff—students and collaborators alike. Based on our scientific outputs, CSIRO is in the top one per cent of world's R&D labs in 13 research areas: from agricultural science, biochemistry and biology through to chemistry, computer science and space science. That is a major achievement for a small nation. In your CSIRO, Senators, we have a globally competitive research capability to assemble scientific teams and partnerships, at a scale and diversity—I repeat, a scale and diversity—that cannot be matched, that is relevant to the magnitude and complexity of the challenges we face, and the opportunities. The exemplars of this are our national research flagships which see our world-class scientists—researchers, engineers and technologists—seeking to focus on the big issues, such as climate change, water, obesity, clean energy, and on some major opportunities in the minerals domain, in new food technologies, in ocean science and in manufacturing. So, throughout, therefore, our core and distinctive role in the National Innovation System is the conduct of large-scale strategic and applied research that delivers economic, environmental and social benefits for us here in Australia.

Our teams and their partners consistently—wonderful stuff—deliver the knowledge and innovative solutions that are required to help address these major challenges facing our nation. Just over the past year, for example, we have provided a complete assessment of all the available water across 18 catchment areas within the Murray-Darling Basin covering one million square kilometres, one-seventh of our continent, the most comprehensive and complex whole of basin water assessment ever undertaken in Australia. Tight time scales; wonderful delivery. We played a central role in helping eradicate the highly contagious horse disease equine influenza, and we developed a range of options with many of our partners for the nation's transport fuel futures. You will find many examples in our annual report tabled in parliament last week. I trust this will be obligatory bedside reading for all senators, particularly of this committee.

Senator ABETZ—We are all armed with it.

Dr Garrett—We tackle the big problems and deliver new and practical solutions by working in close partnership with others in our national and global innovation system, as well as those who benefit from our research.

Of fundamental importance is that our success depends critically on building and maintaining strong relationships. As we highlight in our report, our flagship programs now have more than 400 partners and collaborators amongst our universities, amongst the private sector, other PFRAs, as well as key international organisations. In addition, one of the wonderful things that has come out of this program is the highly regarded Flagship Collaboration Fund, where we help facilitate the active involvement of a wide range of players in the wider research community to help us for our nation achieve the ambitious goals, the big goals, we have set for these flagships. I would say that, wouldn't I? Let me quote a couple of our partners. For example, Professor Graeme Young, distinguished internationally of the Flinders Medical Centre. 'The Preventative Health Flagship is the best multidisciplinary group in the world working on colorectal cancer. By identifying the specific problems in health, and then by constructing the solutions in a multidisciplinary and collaborative manner, it is establishing a unique place in the world.' The RAN's Commander

Andrew McCrindle states, 'The Wealth from Oceans Flagship is game changing in terms of its focus on practical outcomes. That is why the Navy is a partner.'

I must say that one of the huge professional delights of my last few years is the wonderful attributions and letters we get about the contribution we are making in our nation. You can feel really proud of what your CSIRO is delivering. The unique breadth and depth of our scientific capability, from the atom to the universe, enable us to advance our knowledge and help drive beneficial change here in Australia for our environment, industry and society.

I have a couple of more examples. Over the past year with our partners we have discovered a toxin that leads to necrotic enteritis, a disease that costs the poultry industry world wide \$2 billion. We have analysed the chronically understudied carbon particulates in the deep sea, 1,000 metres down, to gain a better understanding of the sequestration of carbon dioxide in our oceans. We have identified the presence of large amounts of unseen molecular gas for a better understanding of the massive galaxies and testing existing theories on dark matter. I often say throughout the organisation, 'Wow, what amazing stuff, what amazing breadth, what amazing contributions!' You can feel very proud of what CSIRO is delivering for you, Senators. In a world where science and innovation are key, Australia's current and future competitive advantage would be fundamentally compromised if we did not have a CSIRO.

In conclusion, as we have done for more than 80 years, we have continued to achieve much in recent times. Secondly, we have changed, proactively adapting to the needs, challenges and opportunities presented. We will continue to change into the future. Science leads change. Australia looks to CSIRO for leadership in science, and leadership in innovation. Thirdly, CSIRO's role is significant. It is unique and different and complementary to the other players in our National Innovation System.

A final comment, if I may: in these estimates, as I have experienced over these eight years, it is the Senate's job to probe, to engage, to inquire, to question, to consider, to evaluate, and most appropriately so. You also have the weighty responsibility, the awesome responsibility, to help craft our future and the future of the people of Australia. Indeed, you and your parliamentary colleagues have stewardship for our future. And so too do we. Science is about helping solve problems now and creating a better future. We live by our maxim: Australian science, Australia's future. We strive for it, we work for it; that is why we are here. Thank you very much.

CHAIR—Thank you, Dr Garrett.

Senator ABETZ—If it was not disorderly, I would have applauded Dr Garrett's statement. Normally I object to what I consider to be lengthy opening statements, but can I say on this occasion it was, at least by me, very well received. The enthusiasm and sincerity with which Dr Garrett has delivered his opening speech I think was absolutely appropriate but highlighted the way that he engaged in his job. I for one want to put on record the former government's, and now opposition's, sincere thanks for the way that he conducted himself during his period that is soon to end as the CEO of CSIRO. Australia and the scientific community are better off as a result of your stewardship of that important role. Can I say a very sincere and heartfelt thank you, Dr Garrett, for your stewardship.

Dr Garrett—Thank you very much indeed, Senator.

CHAIR—I think you speak on behalf of the committee, but now unfortunately we are back in business.

Senator ABETZ—As Dr Garrett was delivering his statement, I was wondering whether it would be possible to have it tabled and copied for us?

Dr Garrett—Surely.

Senator EGGLESTON—I, too, would like to endorse Senator Abetz's praise of Dr Garrett. I think we all respect the great contribution that CSIRO has made to science in Australia over the years, and hope it certainly continues into the future. One of the issues is finance for science and scientific research. Following the budget, I believe that CSIRO had to slash something like 100 jobs and close two laboratories. I wondered what further impacts there have been on the operations of CSIRO following the \$63.6 million cutting of your budget which occurred earlier in the year?

Dr Garrett—I will make a comment and some of my colleagues will, I am sure, chip in. Through the process—and we have been very well endowed in previous budgets in terms of the growth, particularly around our flagship programs—there was a reduction, and we talked about it at the last Senate estimates. The comprehensive science investment process that we have had in place for the last four years has provided us with the opportunity to make the changes and implement the cuts that we were required to do in a considered, thoughtful and balanced way. We worked very hard to look at our overhead structures and our administrative arrangements, to minimise the impact on science and scientific staff. In fact, in recent times, we have continued to grow the number of scientists that we have in our environment.

We have implemented the site closures. We are in the process of that in several domains, including Rockhampton and also Merbein and, as we reported last time, there will be an estimated net loss of jobs of approximately 100. It is also fair to say that, through the reprioritisation processes, new resources are coming into the environment for clean coal technology. In the federal May budget, \$25 million was earmarked over the four-year period for increasing our research in that area. In renewable energy, solar thermal and photovoltaics we will have access to \$100 million of new funding, so there will be significant areas in which we will be growing our activity. I wonder if Mr Whelan or any of my other colleagues have more detailed comments to make?

Mr Whelan—Just to note that, in terms of the plans that we outlined to you at the last hearing and Dr Garrett's comments summarising those this morning, we are proceeding on track with those changes. They are not ahead of schedule or behind schedule.

Senator EGGLESTON—I am very pleased to hear that you have moved into other areas. I wondered particularly where the axe had fallen within your organisation. What programs have been cut?

Mr Whelan—In terms of research programs, as a direct result of the efficiency dividend, very few if any. As Dr Garrett has indicated, and as I think we suggested at the hearing last time, what we have tried to do through our response to the change in funding circumstances is to reduce overhead support costs, site costs and management costs where we can. We made a difficult decision to close two regional laboratories where we felt that the capacity that we had in those sites would be better deployed with other capacity at some other major sites. We are

seeking to minimise the impact on the research programs at those two sites at Merbein and Rockhampton. We have also announced the closure of two small field stations, and we announced that we would accelerate the consolidation of our facilities in North Sydney. We also merged two divisions—the divisions of forestry bioscience and textiles and fibre—into other divisions to reduce management costs. By and large, we have tried to quarantine the impact of the budget changes to overheads and fixed costs, to minimise the impact on research. Where we have made some adjustments to research changes this year, it has generally been in response to a reduction in industry investment. That has been the case in some agricultural areas whereas, as technology has matured and the research has matured, it is time for industry to pay an increasing share of the costs of that research. Where they have not been able to, we have redirected the resources into higher priority areas. But, by and large, we have sought to minimise the impact of the budget changes on research programs.

Senator EGGLESTON—Has it largely impacted on agricultural research?

Mr Whelan—The two major regional laboratories, Merbein and Rockhampton, definitely have an agricultural flavour to them; that is the nature of regional laboratories. But the three laboratories in Sydney—at Marsfield, Lindfield and Macquarie University—have an ICT focus, so in that case there is not an impact on the agricultural sector. The impacts are in those domains.

Senator EGGLESTON—Is CSIRO helping make up the deficit in funding through your COMET—Commercialising Emerging Technologies—program? Could you tell us a little about that?

Mr Whelan—The COMET program is run by the department.

Senator EGGLESTON—It is not a CSIRO program as such?

Mr Whelan—No.

Senator ABETZ—Have there been immediate benefits by collaborations through the COMET funding?

Mr Whelan—Certainly. Where there are programs that the government offers through other portfolios and companies take advantage of that, then they use that to collaborate with CSIRO.

Senator EGGLESTON—Can you quantify that in any degree?

Mr Whelan—I could not do that now, but I could take it on notice.

Senator Carr—You could perhaps take this opportunity to outline developments with regard to the Merbein site.

Mr Whelan—Absolutely. I touched on the Merbein site. As some members might be aware, it was a very difficult decision to make to close that site, and we have been working closely with industry stakeholders since we made that announcement. We have visited the Mildura site and met with our local stakeholders on several occasions. We had been exploring with the local community and industry whether it might be possible for them to generate sufficient funds to invest in research at Merbein and keep the facility open. As it has come to pass, that is not going to happen. Therefore we will be proceeding with the closure of the site

and the consolidation of resources in Adelaide and Canberra. However, we have, through that process, agreed to support the local Sunraysia development group to maintain a horticultural presence in that region, and CSIRO is currently exploring ways it can support them. Hopefully we will be able to give you an update on that the next time we meet.

Senator Carr—I might take this opportunity to table the statement that has been released today on the Merbein situation.

Senator XENOPHON—Dr Garrett, in relation to the efficiency dividend: I think Mr Whelan has said you are seeking to minimise the impact of that efficiency dividend. My understanding is that the efficiency dividend this year has meant that it has cut across research, and that has not been the case in previous years—is that the case?

Dr Garrett—That is correct. It applied across the whole organisation as opposed to the overhead component.

Senator XENOPHON—And that had not been the case previously?

Dr Garrett—That is correct.

Senator XENOPHON—Mr Whelan says that you are seeking to minimise the impact; that does not mean that the impact is minimal, though, does it, in terms of some of your research programs?

Dr Garrett—No. As we have indicated, there are some research projects in the agricultural area and other areas, in the materials domain and the textiles domain, that have been terminated.

Senator XENOPHON—I have had complaints from constituents in the Riverland—and also they applied to the Sunraysia region—about the Merbein facility and what that means. Would it be fair to say that the cutting of that program in some way would compromise the work that was done in terms of yields and wine grapes and citrus and the like?

Mr Whelan—We do not expect so. Certainly the work on wine grapes will continue with the relocation of the research team from Merbein to Adelaide. We will maintain our existing station there in terms of the citrus crops that we have there, and we are looking at an orderly transfer. We will not actually leave the station for probably another 30 months. We are seeking to maintain our wine grape stock collection and the citrus collection that we have there. We have negotiated with the township to maintain a lease over the station where we hold those. What we are trying to do is to make sure that, as currently funded and agreed research programs finish, there is an orderly transfer of technology through to the local constituents.

Senator XENOPHON—I echo and endorse the comments of the government and opposition senators about the terrific work that the CSIRO does. At page 121 of your annual report, in relation to financial performance, you refer to the favourable operating surplus as primarily a result of an additional \$47.2 million over budget in IP equity sales, and this related to the receipt of 91.3 million Carbon Energy Pty Limited shares as part of the proceeds from the sale of CSIRO's interests in Carbon Energy Pty Limited on 23 June 2008. What has happened to the value of those since the meltdown?

Mr Whelan—The value of those moves up and down every day. The data I have for 15 October—I have not checked the watch list this morning—suggested that those shares were

worth 34 cents a unit, and if that valuation had to be brought to account, it would represent a reduction in value of \$44 million—approximately equivalent to the increase in value that was taken into our books at 30 June—which is why the footnote is made to the financial statements to note that people should not interpret those as somehow meaning that CSIRO had \$50 million in cash on its books at June that it could have been off and investing. We end up acquiring and being the custodian of shares in companies to which we transfer technology from time to time, and the vagaries of the market drive the value.

Senator XENOPHON—It certainly was not a criticism. It was just a reflection on how you have been impacted by the world financial markets. The following question relates to page 74 of your report. You talk about a number of joint ventures. I will not ask you questions about those joint ventures. The first one listed refers to a Chinese security inspection systems specialist, Nucotech Co. Ltd. What forecasts have there been in relation to the impact of what has happened with world financial markets? Do you expect that there will be less revenue coming in from those joint ventures?

Dr Garrett—To take that particular joint venture as an example, the technology is well advanced. Nucotech are a major supplier to Australian customs. We have a joint development in cargo-scanning technology. Their forecast is the security domain will continue to be a very important marketplace. They are in the throes of doing the financial analysis in terms of the revenues in our area. But we have received no indication—in fact I have received the opposite indication—that the research and development programs are on track and being funded over the next six to 12 months. It is, however, the case that in a number of our industry related contract areas with major organisations there is a wait-and-see view. I think it is likely to impact on our external revenue generated in this year because of a more conservative approach. Sadly, very often in these tight financial climates R&D is the first casualty. We are obviously continuing to work with our clients to ensure that is not the case. We are being very vigilant in watching that impact.

Senator XENOPHON—In relation to the Murray-Darling Basin Sustainable Yields Project, have the efficiency dividend cutbacks had any impact in either the timing or the scope of that project?

Dr Garrett—That was a fully funded contract by the government. My understanding is that over the 16 months delivery all the reports were delivered within essentially a two-week deadline, so it has not affected that.

Senator XENOPHON—In terms of the scope of the sustainable yields project, does it include and is there any consideration to looking at the water efficiency and the productivity of various regions? In the Riverland in my home state, people pride themselves on being very water efficient. They have had to be since the 1967 drought when they began to rejig their irrigation system. Is that something that is included in that project, or is that something that CSIRO will be looking at?

Dr Garrett—I will ask my colleague the group executive responsible for environment, Andrew Johnson, to pick up that one.

Dr Johnson—The short answer to the question is ‘no’. But that work on on-farm water use efficiency is an important part of our portfolio as part of our Agricultural Sustainability

Initiative. So it is not part of the Murray-Darling Basin Sustainable Yields Project, but it is work that CSIRO is doing in another part of the organisation.

Senator XENOPHON—How far is that advanced in terms of establishing how efficient a region is in terms of its food productivity?

Dr Johnson—To the best of my knowledge that work has not taken a regional focus, but it has tended to take a sectoral focus. So we work closely, for example, with the rice industry or the sugar industry and take an industry by industry approach, so obviously the distribution of that industry would come into play.

Senator XENOPHON—Would it be reasonable for it to have a regional focus in terms of the infrastructure and the water efficiency of different regions?

Dr Johnson—Absolutely. When we take a sectoral approach, for example, we would work with the irrigation, citrus, wine grape industries and so on where there are particular issues associated with an industry.

Senator XENOPHON—So there is not a particular priority for a regional focus at this stage?

Dr Johnson—Achieving on-farm water use efficiency is a priority focus for CSIRO across the country.

Senator XENOPHON—But, given the federal government's buyback and looking at restructuring communities in terms of the drought, climate change and issues of overallocation, is there a specific focus on saying that one region is more water efficient than another in terms of looking at allocating scarce resources or improving efficiencies in those regions?

Dr Johnson—No. To restate, we have not made a priority decision on that basis. We are seeking to work with the key agricultural industries across the country to improve water use efficiency in Australian agriculture overall.

Senator XENOPHON—Minister, I might have to need to get a briefing on that sooner rather than later. I have one final question relating to the *Southern Surveyor*, your survey vessel.

Senator ABETZ—That is Tasmanian territory.

Senator XENOPHON—I might upset Senator Abetz.

Senator ABETZ—Not at all. If you use your time on that, it frees up time for me.

Senator XENOPHON—Okay. There is only one vessel that looks at the territorial waters, the exclusive economic zone and the continental shelf. Is that right?

Dr Garrett—That is correct.

Senator XENOPHON—As I understand it, the importance of the vessel is to look at the resources, both natural and mineral, in the—

Dr Garrett—In the blue water regime—yes, that is correct.

Senator XENOPHON—In terms of its economic impact, the more surveying you do the more we know about where our resources are and how to responsibly use them.

Dr Garrett—That is also correct.

Senator XENOPHON—Australia has 59,736 kilometres in coastline, and I looked up Belgium and it has 66.5 kilometres of coastline. It has at least two vessels and we have one. Does the fact that we have only one vessel compromise our ability to look at the economic resources in the exclusive economic zone?

Dr Garrett—It does not compromise our ability. Our ability will be enhanced hugely when we have the opportunity to replace the vessel. The minister might want to make a couple of comments because it is a very significant priority for him at this point in time. Seventy per cent of our sovereign empire is offshore, and we have wonderful opportunities into the future. So it is a priority for the government.

Senator Carr—I am happy to make comments on this issue. This is a matter that I have had considerable interest for a great many years. When we sat in another committee in another period, I drew attention to what I considered to be some serious difficulties. This is a vessel which is now 37 years old. It reaches the end of its effective life in June 2011. It was originally built in Britain as a fishing trawler. It was acquired by CSIRO for fisheries research at a time when CSIRO actually maintained a number of research vessels.

Seven years ago, under pressure from the Howard government, CSIRO rationalised its fleet of research vessels. It was believed at that time that CSIRO approached the Howard government for permission to acquire a new purpose-built research vessel. That approach was rejected. Consequently, CSIRO, in my judgment, was forced to adopt a second-best option. The *Southern Surveyor* was the only vessel that was retained, even though at that time the vessel was already approaching its obsolescence.

The Howard government forced CSIRO into a number of compromises. The vessel CSIRO now relies upon was already old. It was not capable of undertaking all the necessary research functions and further, in my judgment, was not capable of conducting a full range of research activities simultaneously. The vessel was heavily affected by rust, and I did not believe that any amount of repairs was going to change that. Despite that, CSIRO was in fact instructed to proceed with a refit, which it did. The refitted *Southern Surveyor* has been beset by a series of equipment failures and maintenance problems.

In 2006-07, it is my understanding—and I am sure Dr Garrett will correct me if I am wrong here—an internal CSIRO assessment of the vessel's capabilities revealed that the likelihood of a voyage-ending failure of the vessel was considered to be 100 per cent. In short, the Howard government actually foisted upon CSIRO an inadequate vessel and failed to ensure that it had the necessary capacity to undertake the full range of research tasks that CSIRO actually needed.

For those reasons, I am very concerned to improve this situation, and we are working strenuously to do that. The truth of the matter is that the financial position has deteriorated in recent times. The funding has been inadequately indexed in my opinion and the vessel has been operating under increasing financial stress. There have been higher than expected costs for maintenance, which is what you would expect from an old vessel. It does not surprise me that your original estimates, given the level of disrepair of the vessel, would produce those higher costs in such circumstances. Higher fuel prices and higher crewing costs have both

eroded the financial capacity of the vessel. But still the Howard government insisted that CSIRO maintained a series of patch-up solutions.

Senator XENOPHON—That was then; this is now, Minister.

Senator Carr—I am making the point that we have now inherited a very difficult problem after 11 years of conservative government. The Marine National Facility committee that managed CSIRO has essentially made recommendations for a number of years for these problems to be addressed. Now we have been left with a quite difficult situation in a more difficult financial circumstance. No amount of buck-passing will change the fact that there has been this problem for some time. We are moving to address this, and I will be doing all that I can to reverse the damage that has been imposed upon CSIRO as a result of the dithering by the previous government.

Senator MILNE—I would like to ask a question about the IT work that CSIRO is doing. It seems to me that we desperately need a major breakthrough in videoconferencing such that people believe that the other people are in the room, effectively, for it to work properly. I understand that you are working with a series of universities and labs and things around the country. I would be really interested to know whether we have made the breakthroughs in conjunction with behavioural psychologists and so on to actually get to the point where people do not have to fly as much because videoconferencing is real, as opposed to very stilted and inefficient as it has been.

Dr Garrett—I have a couple of comments. First, there obviously is very significant activity in the commercial world, and commercially available systems—and I have experienced some of them—are significantly enhanced over current systems. We ourselves have a business case through the executive team, as we speak, to look at that for the future. They are not cheap. Certainly in terms of travel commitments, stress and the influence on the environment, they are very important options to consider. I believe that the trends in that direction will happen very rapidly. On the work that we are doing—

Senator MILNE—Can I just ask about the business case before you go on. When you say you have a business case, can you explain what you mean by that?

Dr Garrett—That means we have sought suppliers to provide us with options and costing to enhance our existing videoconferencing facilities across CSIRO sites in five major centres. We are looking at that. Obviously the finances associated with that are a key input into that decision. I understand that governments are also looking at some of these new facilities that are available commercially.

In terms of our research activity, through collaboration with Professor Larry Smarr, from the US—in fact, just 10 days or so ago—we launched our own. It is called OptiPortal. We have installed it at the Discovery Centre. I would love the opportunity to take you up there, and we will extend an invitation to you to see how this works. This is pushing back the frontiers of being able to stream large amounts of data in real time. It is part of a national consortium. There are now seven institutions, including ours, that are linking that way and linking into Professor Smarr's operation in San Diego, which was launched about a year ago. Larry was here, and he was very impressed with the progress that we have made. In fact, in a number of areas, he said that we are doing things that nobody else is doing. But this is more at

the research end of the technology, so it is several years ahead of what is available commercially. It is a very important initiative. On the one hand, we are looking at these commercially available facilities; on the other, it is a key research tool that will enhance our international collaborations. Have I answered your question?

Senator MILNE—Yes. It is the research end that I am very interested in, because we need to not only reduce air travel but also give people back some time. It is one way of actually doing both.

Dr Garrett—It is quite extraordinary when you experience this thing and you see the quality that is happening now. It is the way of the future, as we all know.

Senator MILNE—Okay. I will be keen to take you up on that. I would very much like to see that.

Dr Robertson—The question you asked was: have we engaged with social psychologists to help us in this work? I think it is important to point out that the OptiPortal that Dr Garrett referred to has the opportunity to really work between different countries and different states by having people actively work together. To be able to use an OptiPortal in a maximal way is not just a matter of having videoconferences across it but actually being able to conduct work across it. So the research that is going on within CSIRO is actually engaging with social psychologists to look at how people behave and operate at a distance. So there is a lot of research going on there which is very, very active. We would like to be able to show you that work too.

Senator MILNE—I will be keen to come and have a look. You say that we need to better focus on our national efforts on major priorities, and climate change is obviously part of that. You are also saying that you have developed a range of options for our nation's transport fuel future. I am concerned that there is an internal contradiction there. Can you tell me how much funding and how much effort is going into your coal-to-liquids program?

Dr Garrett—I call on my colleague, Dr John Wright, who heads up our Energy Transformed Flagship, to help us respond to this question. If I can just clarify the question while John is getting set up: you are interested in particularly our investment and activity in the biofuels area specifically?

Senator MILNE—No, I want to cut to the chase. I only have five minutes, I am told, so I do not have time to explore this. I want to cut to the chase on coal to liquids; that was the question I was particular asking. How much money are we spending in it? While you are looking that up, I draw your attention, if you have not seen it, to the statement of the Union of Concerned Scientists in the US pointing out that liquid coal, even with the most aggressive CCS possible, will still result in life cycle emissions at least as high as conventional petroleum fuels, and that is with 100 per cent effectiveness in carbon capture and storage. It seems to me that it is not a clean energy option; it is a worse option than traditional oil. I would like to know why we are spending any money on it, given their recommendation, which is that neither the federal nor state governments should subsidise or provide any other form of support for coal to liquids—that is in the US, of course. I would like to know how much we are spending and how you justify it in heading to a net carbon zero economy, in a nutshell.

Dr Wright—We are spending something like \$60 million over four years in the flagship program, which was a new program proposal that we put together a year and a half ago. We have broken that down into a number of areas. In our research area, we are spending 16.4 per cent of that amount, which is about \$9.18 million, in that four-year period in coal to liquids. We have also programs on gas to liquids, about 31 per cent, and we are spending just over 50 per cent in the biofuels package. We are covering all of the options because we believe that that coverage will give us the best mix of what is appropriate for us in the future.

Senator MILNE—How is coal to liquids appropriate for us in the future, since it is not a low-emission technology?

Dr Wright—We believe it can be. The reason we believe that is that we are also doing a huge amount of work for the electricity industry on carbon capture and storage, using coal as a fuel, and it will have to be combined with carbon capture and storage if coal to liquids is going to be a fuel of the future.

Senator MILNE—I understand that, but let us assume 100 per cent effectiveness on carbon capture and storage. It is still either an equivalent or a worse emitter than traditional petrol vehicles, so how can you say that it is part of the future energy mix?

Dr Wright—If we could store 100 per cent of the carbon, it would not be worse than current petroleum.

Senator MILNE—Well, it cannot capture what is going out the tailpipe, so it will be at least equivalent to what we already have, which is one of our major problems.

Dr Wright—This is correct, but it also depends on what the price of oil is going to do. Australia has a huge advantage in its coal reserves, and what we are trying to do is investigate what potential proportion of our transport fuels could come from coal.

Senator MILNE—I can understand as an energy security strategy running cars on coal. That is precisely what happened in Germany during the war. It is what has been going on in South Africa, but it has given us enormous greenhouse gas emissions, and that is the point I am making here. On the one hand we are trying to reduce emissions, and on the other you are investigating an energy security option that does not benefit us in greenhouse gas terms. It may be that we are rich in coal, but we are going to have obligations to reduce greenhouse gases.

Dr Wright—This is true, and this is why we are looking at things such as biofuels and other forms of fuel. We are trying to steer our way through a very difficult array of possibilities. We are trying to reduce emissions as far as we can while still maintaining fuel security.

CHAIR—I am sorry about this, Senator Milne, but I have to call Senator Abetz.

Senator ABETZ—I was wondering whether Dr Garrett or one of the officials at the table could remind the committee as to what was a deliberate decision of the incoming government when it was reprioritising its finances in relation to the *Southern Surveyor*?

Dr Garrett—I am afraid I will have to ask you to repeat the question. I am not entirely clear what you mean.

Senator ABETZ—On coming to government, did the new Labor government cut funding to the *Southern Surveyor*—and correct me if I am wrong—by \$1.5 million?

Dr Garrett—Yes.

Senator ABETZ—So, after this horrendous neglect, Senator Xenophon, of 11 years, one of the very first decisions that Senator Carr's government took was to cut another \$1.5 million off the *Southern Surveyor* to make it even better.

Senator Carr—Let me just put to you, Senator Abetz, that I actually reallocated \$1.5 million from NCRIS to the *Southern Surveyor* and, in addition, the Marine National Facility has been able to generate external revenue of \$650,000. I am not going to dispute—

Senator ABETZ—Look, you have already wasted enough of the committee's time with about two pages of a political attack.

Senator Carr—No, if you want to make statements about the government's performance, I am going to give you the full situation.

CHAIR—Senators, we will not have a conversation across the chamber. Minister, if you could keep your answers brief, that would be useful.

Senator Carr—And factual.

CHAIR—Yes, of course.

Senator CAMERON—If they had not spent \$1 billion on government advertising, they would have—

CHAIR—Senator Carr.

Senator Carr—I have indicated my answer.

Senator ABETZ—Thank you; can we move on. Dr Garrett, you made an important opening statement. Last time around I asked about the financial impact on CSIRO with the retrospective abolition of the \$707 million Commercial Ready program. What actual impact has that had on the finances of CSIRO? As I understand it, you partner with a lot of people who benefit from that funding. Given that it has been cut, it stands to reason that you will not get as much funding from external sources.

Mr Whelan—As I think we discussed last time, it is difficult to quantify. What we can say in general terms is that it is probably one of those factors that have reduced demand, but we need to also take account of changes in the economy. So, for us, we are not able to distinguish between the impacts of those. We are, as I think Dr Garrett indicated earlier, seeing some reduction in demand, but I cannot attribute those to the Commercial Ready program.

Senator ABETZ—Last time around, when we had the budget estimates, you were not necessarily aware that Commercial Ready was going to be axed when you were preparing your budget, taking into account external revenues.

Mr Whelan—That is correct.

Senator ABETZ—I think we agreed that you would have to wait and see as to the impact, but you are not able to put a finger on the extent of it?

Mr Whelan—No. I think the answer I provided to you at the time is that we would have a clearer view by the end of this calendar year.

Senator ABETZ—All right, I will have to be patient. In relation to the reduction in access to capital worldwide, and Australia wide as well, one would imagine there would be also—and you hinted at this—less demand potentially on CSIRO's ability to contract out to the private sector. Have you been able to put a figure or an estimate on that, other than that you would imagine it would have a negative impact?

Dr Garrett—That is work in progress. We are doing a mid-year budget review. We will have a major meeting of our executive management council next week where the financials will be one of the key issues on the agenda. Each of the operating units is looking closely at its expenditure as well as its revenue-generating capacity in a contracting domain. Again, we will have more quantitative information when we complete the mid-year budget review.

Senator ABETZ—Time is very short. Can I ask you take on notice to provide me an update on the wool scourer at Belmont.

Mr Whelan—Yes.

Senator ABETZ—Can I then ask about the Belmont facility in Geelong—do you understand what I am talking about?

Mr Whelan—Yes.

Senator ABETZ—Can you detail how staffing numbers have changed there? Have they actually shrunk? If so, by what number?

Mr Whelan—I cannot give you that information. I will take it on notice. There has been a reduction in staff at that site, yes.

Senator ABETZ—Yes, take that on notice. There was an article in the *Canberra Times*—I do not often refer to it—on 2 August 2008 titled 'Cash-starved CSIRO cuts 50 jobs, shuts food plant'. Are you aware of that article?

Mr Whelan—Not that specific article.

Senator ABETZ—I now have about 120 seconds left. Could I ask you to look at that and take on notice as to which matters in that article reflect fact and which might be an embellishment. Of course, I am not asking you to comment about the minister's responses to some of these things. For example, it states:

Among the latest research casualties is cheese science - an area in which Australia is a world leader, supporting a cheese export industry worth more than \$800 million.

That is of great concern, not only to the scientific community, of course. As Dr Garrett quite rightly pointed out in his opening statement, that has a flow-on consequence right through to the dairy farmer at the gate and to rural families and regional communities. I would be very interested in getting feedback in relation to that.

Dr Garrett—We will provide that for you.

Senator ABETZ—In closing, can I commend the government's decision to appoint John Kerin to the CSIRO board. It is one of those examples where former politicians should not be denied being appointed to boards if they do have a lot to contribute, and John Kerin, if I might

say so, despite his Labor pedigree, clearly fits into that category. For what it is worth, there is bipartisan support for John Kerin's appointment to the board.

Senator Carr—Could I thank Senator Abetz for his support for the appointment of John Kerin to the board of CSIRO. He will strengthen the board. He has a long record of service and a very deep knowledge in regard to agricultural research—

Senator ABETZ—Chair, it was not a question. I paid him a tribute; surely that ought to be enough for the government. I curtailed my questions so we could finish at one.

CHAIR—Minister, please briefly conclude.

Senator Carr—It is very rare that Senator Abetz congratulates the government for anything.

Senator ABETZ—It is hardly likely to make headlines for you, Senator Carr.

Senator Carr—Can I just take this opportunity to thank Dr Garrett for his record of service to the Commonwealth, the CSIRO and the scientific community. I understand that there will be an opportunity for me to say a little more on this matter at a later date. I have already publicly acknowledged his contribution, so I do want to thank him and perhaps have that registered with the committee.

Senator ABETZ—I do not mind that statement.

CHAIR—We wish you well for the future, Dr Garrett, and thank you for coming in for the last time today. I thank the other officers of CSIRO.

Dr Garrett—Thank you, Chair.

CHAIR—The committee will recommence at two o'clock with the Australian Research Council.

Proceedings suspended from 1.01 pm to 2.02 pm

[2.02 pm]

Australian Research Council

CHAIR—We will reopen the meeting here today with the Australian Research Council. Do you have an opening statement?

Prof. Sheil—No.

Senator ABETZ—Can I ask where are we at with Excellence in Research for Australia?

Ms Harvey—We are still in consultation with regard to a range of different measures we are looking at to see whether or not they are feasible. We currently have a pilot of the system for the physical, chemical and earth sciences at the moment, in which institutions were invited, but it was not mandatory, to participate, of which a range of institutions have accepted. We are currently in that pilot stage of them sending data, making sure that the systems can talk to each other, and then we will be able to send some information back.

We have subgroups which are considering which measures are appropriate for each discipline. We have an overall indicators development group made up of a range of different experts. That is the overarching group. We also have two subcommittees that are considering,

in particular, the disciplines around the humanities and the creative arts and what would work as an indicator of excellence for those disciplines.

We have had another expert group put together for the physical, chemical and earth sciences, which is the first cluster that we are going to trial, and they are about to meet again. We have been going through every single discipline that sits under that cluster to say what would work and what would not work and, on receipt of that information, we have been doing some testing with some of the data. We have been looking at what volumes are thresholds that we would need to make it statistically valid.

Senator ABETZ—You say that with absolute confidence so I am sure you are across it all, but I confess I struggle. You mentioned there were such things as clusters and disciplines. How many separate disciplinary—

Ms Harvey—Groupings.

Senator ABETZ—Yes.

Ms Harvey—I could give you a complete overview.

Senator ABETZ—Please do. I am personally very interested in this. If it were to take up time from other senators I would desist. If not, this is great. This is a private tutorial for me.

Prof. Sheil—The proposal is that we will review all the disciplines covered in Australian higher education institutions in a series of eight discipline clusters. We chose those eight discipline clusters to represent the six clusters within which the ARC works already.

Senator ABETZ—Is law, for example, a separate discipline?

Prof. Sheil—No. Law is within the humanities and creative arts cluster.

Senator ABETZ—Law, humanities and creative arts is all seen as being in the one?

Prof. Sheil—That is correct. That is how it is at the moment.

Senator ABETZ—Has all of this been set out in a document somewhere with a flow chart?

Prof. Sheil—It has. It is in the Excellence in Research for Australian consultation document that was released earlier in the year.

Senator ABETZ—I am sure I have seen that.

Senator Carr—It is on the website.

Senator ABETZ—That is very helpful.

Prof. Sheil—There are the six standard ARC discipline clusters within which we operate our normal business and then we added two additional clusters for health and medical research.

Senator ABETZ—In which discipline cluster have we made the most progress?

Prof. Sheil—We started with two discipline clusters to begin with, representing essentially two different areas across the spectrum of research activity. The first is the physical sciences, which covers physics, chemistry and earth sciences. The second one is humanities and

creative arts. Within that cluster we have two separate subgroups working on work for the humanities group and a creative arts group.

Senator ABETZ—We have got discipline clusters, then under each one of those we have subcommittees?

Prof. Sheil—Subgroups working on those particular issues.

Senator ABETZ—How many subgroups do we have?

Prof. Sheil—At the moment we have two working around the humanities and creative arts, and then we have an overall indicators development group sitting above that. We have had separate consultation with the physical scientists.

Senator ABETZ—I do not mean this in any pejorative way, but can you tell me what the feedback is from the discipline clusters as to how this is progressing, because we do get various media reports? I would also be interested in your assessment of which ones you think might be approved and when you think you might have the first one up and running?

Senator Carr—I will add something here and then let the officers fill in the detail in terms of their experience. The approach that the ARC has sought to take here is to find the most difficult area—that is, the humanities and the performing arts—in trying to reach a consensus within the researches in those disciplines. The reason it is difficult is that the definition of research in those areas is open to so many different interpretations. What you are seeing in the press is a debate within the research community, which we welcome, because it allows the range of opinions to be expressed. These were difficulties that were first experienced with the RQF, which the previous government had sought to implement, and of course in any quality assurance regime there are going to be debates about the appropriateness of any particular matrix.

It is made more difficult in the humanities because not all of the different branches of the humanities, social sciences and the performing arts lend themselves easily to the application of metrics. On the other hand, the other area in which it is being trialled is in the sciences, where there is considerable agreement, and you are seeing very little public debate about those questions because there has been so much general agreement.

Senator ABETZ—Who has the lucky task of dealing with the physics area, and who has the difficult task of dealing with the humanities?

Senator Carr—The ARC has the responsibility for both of them.

Senator ABETZ—Do you have separate officers or officials? It would virtually be a full-time job trying to come to grips with this, especially in the humanities area.

Prof. Sheil—We have a range of expertise that we bring to bear to this. In addition to the officers of the ARC in the branch led by Ms Harvey, we have experts from the sector working with us and chairing various subgroups. We can provide you with details of who those experts are.

Senator ABETZ—I would appreciate that, if you could, on notice.

Prof. Sheil—Yes. We can tell you now if you would like.

Senator ABETZ—No. Let us not take the time. I would imagine that it would be a huge list of names.

Prof. Sheil—It is large, 20 or more names. In addition to that, within the ARC we have academic expertise in-house. I am a physical scientist and so I am aware of many of the issues in relation to the physical sciences discipline.

Senator ABETZ—Do you steer clear of the humanities?

Prof. Sheil—No. I have also been the deputy vice-chancellor of research, so I understand a lot of the humanities issues.

Senator ABETZ—Fair enough.

Prof. Sheil—Then we have up to five other executive directors who are academics that come from the sector and who work with the ARC and within the ARC managing programs, but also working very closely with Ms Harvey's team.

Senator ABETZ—When we rank the research departments, will that ultimately end up ranking universities? Do you intend to take it that far?

Senator Carr—It does not quite work that way.

Senator ABETZ—Or departments within universities?

Senator Carr—Fields of study is a better way to look at it.

Senator ABETZ—I accept that.

Senator Carr—In terms of the development of the compacts, which the government is developing as a major policy instrument to drive reform within the university system, we are looking to the ERA as a means of developing an agreed set of indices that will assist us in the verification of university claims as to the strength of their research. There is a whole range of ways in which claims of excellence—which is what we are striving for—will be acknowledged and peer review is clearly part of that. There are citations and all sorts of different methods, but at the end of the day we will need an authoritative form of verification, which I trust the ERA will be able to provide us, and that will be agreed across the sector as to its strength. What we are seeing at the moment is a debate which, as I said, I welcome. We do want to encourage people to engage with this. I think it has been working quite well.

Senator ABETZ—At this stage it would be very easy for me and others to seek to inject a bit of politics into this and refer to all the newspaper articles, and I have a few of them—'Quality reforms may harm research' et cetera. But my view is that it is in Australia's interest to have a quality assurance framework if we can. If we think the former government's approach was not right, so be it. Let's try this approach and see how it operates. I wish those involved in the exercise the wisdom of Solomon and the capacity to deal with these matters. There are no trick questions here. I would like to ask about the final ranking of the list of journals and when a journal is going to be put in an A, B or C category. When is that going to be finalised for those two discipline clusters that you are currently working on? Do you have a realistic time line on that or is it going to be a moving feast until such time as it is settled? If that is the case I accept that, because some of these things cannot be nailed down to a specific time line. Do you have an ambition?

Ms Harvey—I have a time line. We have released the initial lists and we asked for feedback on those. We received quite a lot of feedback, as we expected.

Senator ABETZ—Robust feedback?

Ms Harvey—Robust and constructive. What we are looking at for the two trial clusters—physical chemistry and earth sciences, and the humanities and creative arts—is that we would release the ranked journal list for those before Christmas this year. We are working through all of that feedback now. I hoped to release it slightly earlier, but we did have to go back to some of the people who put submissions in because they did not follow the instructions of validating why they thought something should be changed with regard to a ranking.

Senator ABETZ—Are we doing both of these discipline clusters simultaneously?

Ms Harvey—The expectation is we will assess those two clusters within the calendar year 2009. The submission and the assessment period may not be exactly the same, but it is over the calendar year.

Senator ABETZ—In relation to the journals and the ratings, would it be fair to say that the vast majority of submissions that you have received would be on the humanities side, as opposed to the sciences?

Ms Harvey—No.

Senator ABETZ—Are they on the web?

Prof. Sheil—They are.

Senator ABETZ—Is every submission open?

Prof. Sheil—No. The list is on the web but the submissions are not.

Ms Harvey—We have finished the consultation. We took the list down because we thought it would be misinformation to have left it up while we were considering the different rankings. That was due to a discussion that we had with some of the people involved. At the moment it is not on the web but it will go back up once we release it.

Senator ABETZ—Is that just the list?

Ms Harvey—The preliminary list is down.

Senator ABETZ—None of the submissions are on the web?

Ms Harvey—No.

Senator ABETZ—I suppose we will take you on trust what those submissions said, and you will inform yourselves accordingly. One would assume that if somebody is too upset they will undoubtedly ensure that those submissions somehow get into the media. All the best with that and the work that you are doing. Being of a non-English-speaking background myself, do we have any bias for or against or are we indifferent to non-English-language journals in our consideration of this classification? How do we deal with the non-English journals?

Ms Harvey—We took advice from the four learned academies and some other groups about what should be included in that initial list. We put that list of non-English-speaking journals out for consultation, which particularly included the humanities and the creative arts. We then took advice about which ones should be included on that. We have been having a

look at the issue of making sure that there is no bias in that. Where we are being told that those journals should be on there, they are included.

Senator ABETZ—Without giving the game away, can you indicate to the committee what other issues have been raised in these consultations? For example, there was the English and non-English issue. Are there any other issues that have come up in the consultations which it would be fair to say you did not necessarily have front of mind before the consultations occurred? I do not need a lot of detail on it, but has the consultation process proven fruitful and will it help inform? With all the best will in the world I doubt that anybody or any gathering, even the ARC, would have covered off on all the bases.

Prof. Sheil—The most important thing about the consultation process has been the level of engagement. Had we not had that level of engagement we would have run the risk of developing a system that the academics had not had some ownership of. We expected a high level of engagement and we welcomed that.

Senator ABETZ—Do you know how many submissions?

Ms Harvey—I do not know the exact number of submissions. I think it is about 116, but I know we have about 10,000 lines of feedback in those submissions. It is quite a large template.

Senator ABETZ—Can you tell me how many words?

Ms Harvey—No.

Senator ABETZ—Just joking. Ten thousand lines is significant. Can you take the submissions figure on notice?

Ms Harvey—Yes.

Senator ABETZ—I do not want to hold you to it. Sorry, Professor Sheil, I just wanted to nail that one down before I forgot about it.

Prof. Sheil—The other areas where we had significant feedback were not unexpected to us. You asked a question earlier about whether all the feedback was from the humanities, and the answer was ‘no’. The mathematicians were particularly robust with their feedback, and I expected that. The other area where we have had a lot of feedback, which is a real challenge in this exercise and one that we are taking very seriously, is the question of interdisciplinary research. We are working very hard on that issue and how to particularly capture high-quality interdisciplinary research where it goes beyond the disciplinary clusters that we are working within.

Senator ABETZ—I understand these days you can do a joint Bachelor of Law and Science Degree and things like that.

Prof. Sheil—They have been around for a while.

Senator ABETZ—That just goes to show how long I have been around. I am not sure that the University of Tasmania had such a thing when I was there in the late 1970s.

Senator Carr—This is a project aimed at research programs, not undergraduate programs.

Senator ABETZ—But you would think that lecturers in these areas would also be writing papers et cetera. As a result, what might initially be seen as an interdisciplinary approach may well one day grow and develop into its own discipline. I think those sorts of things should be taken into account and factored in.

Ms Harvey—I would just like to correct the record. We received 114 submissions.

Senator ABETZ—Thank you. I would like to draw Professor Sheil's attention to an article in the *Australian* of Wednesday, 15 October 2008. I do not know if you have it in front of you.

Prof. Sheil—What was the subject matter?

Senator ABETZ—The heading was 'Discovery project success rates lag'.

Prof. Sheil—I am aware of that article.

Senator ABETZ—For my benefit, and I do not want to take sides in this debate at all, do you have any comments you would like to offer in relation to what is asserted in that article?

Prof. Sheil—I am quoted in the article as saying that I believe that we are in a steady state position in terms of funding and we have continued application pressure, which creates pressure on success rates, and that I think it is critical that we maintain a success rate of at least 20 per cent to ensure that we have appropriate buy-in from the applicants and also those involved in the assessment.

Senator ABETZ—I read that we are currently at 20.4 per cent. Of course you quite rightly said that it is up to the government to decide how many of the recommendations of the national innovation review the government wants to adopt. We will get onto that later in the program. As part of the discussion in relation to the ERA, is the National Tertiary Education Union involved in the formal aspects of that or are they just one of the inputs?

Ms Harvey—I would have to check if they actually made a submission with regard to the various consultation processes. We had public consultation. I do know a range of other ones.

Senator Carr—I am not certain it had been appointed to anyone in the department.

Prof. Sheil—No.

Senator Carr—What about the agency?

Prof. Sheil—No.

Senator Carr—Hopefully many of their members have contributed.

Senator ABETZ—Absolutely. The indication in the article in the *Australian* is that on 2 July the NTEU had words and suggestions to offer, as one would expect, which is a good and proper thing.

Senator Carr—I have consulted widely on this directly. I have met with the NTEU. I trust that they have been active in all of the consultations, as I have with vice-chancellors, deputy vice-chancellors responsible for research and a range of other interests associated with the research community.

Senator ABETZ—Modern technology is a wonderful thing, isn't it? Some person who does not have a life is watching this and has just emailed me and said it is important that the ERA equates quality not just in measures of number of publication citations et cetera but also

takes into account high-impact research that is based on solving real world problems that affect the customers of Australian businesses. Do you want to offer a comment as to how the process is going to take that into account, if at all?

Prof. Sheil—There are a number of elements to the initiative, and one of them which is clearly laid out in the consultation draft will be about trying to identify appropriate measures for excellent high-quality applied research. Some of the measures will be around engagement with end-users and will cover off that concern.

Senator ABETZ—I express my thanks for that. Although none the wiser, I am definitely better informed.

Senator EGGLESTON—I wonder if the ARC is aware of the Federal Court judgement over intellectual property rights issued between the University of Western Australia and its former employee, Professor Bruce Gray.

Prof. Sheil—I am aware of the issue but I am not across the detail.

Senator EGGLESTON—Even though you are not across the specific detail of it, in a general way would this particular case have any impact on ARC funded research since this was the research part of the university?

Senator Carr—This judgement could have profound impacts on all of the research community. As I understand it, it is still subject to appeal.

Senator EGGLESTON—I do not think we should talk about the case itself. I am just talking about the implications of it.

Senator Carr—I just wanted to make that clear. I do not want to comment on matters that are before the courts.

Senator EGGLESTON—That is fine.

Senator Carr—But the terms of the legal dispute are matters that I am aware of and they will be matters, depending on the outcome of the appeal, that may require a further policy response from government. But at this point that is not the situation until we have actually had the appeal heard.

Senator EGGLESTON—Is the question in principle a matter of the Commonwealth funding an institution and then an employee of the institution?

Senator Carr—That is the issue that is at the core of the legal proceedings. But in essence it goes to the nature of the contract between the institution and the researcher. That is what is in dispute.

Senator BUSHBY—In relation to the National Competitive Grants Program, I saw recently in the media that the Curtin University of Technology is considering declining money that was allocated to it on the basis that it is effectively insufficient to allow them—

Senator Carr—We look forward to our researchers sending money back and we look forward to the opportunity to discuss that.

Senator BUSHBY—Essentially the allegation is that the grants are being spread too thinly and effectively it is not enabling the quality of research to be undertaken. Would you care to comment on that?

Prof. Sheil—I think to comment on that you need to understand a little bit about our processes. In making allocations in relation to the National Competitive Grant Program in, say, the discovery area where this grant falls, we make 845 separate decisions about the quality and the budget of each grant. If you look at the social, behavioural and economics cluster in which that grant fell, the grants that were most highly ranked in that cluster were awarded somewhere between 93 per cent to 98 per cent of the funding that they asked for. In the middle, they are awarded something like 50 per cent to 60 per cent. As you get towards the lower part of the ranking the grants are awarded less of what they are asked for. But each decision is made by experts in that discipline. They would have made a decision that the grant was still feasible with the money awarded.

Senator BUSHBY—That is one of the criteria that you would consider even if they have ranked it very low?

Prof. Sheil—That is correct.

Senator BUSHBY—Obviously the recipient in this case does not agree. Are there other recipients of awards who have expressed similar concerns?

Prof. Sheil—It is very rare for a recipient to return a grant.

CHAIR—Thank you to the ARC for coming in this afternoon.

[2.31 pm]

CHAIR—We move to the General/Corporate area of the Department of Innovation, Industry, Science and Research.

Senator Carr—I understand Senator Boswell has notified the department that he has some questions he wishes to pursue in regard to IP Australia; is that the case?

Senator BOSWELL—Yes.

Senator Carr—Would it be convenient for the committee if we take those in cross-portfolio? I understand that the particular group of officers have not been called or have not been required.

CHAIR—Certainly, if that is easier.

Senator BOSWELL—The IP Australia fact sheet on the website says, 'IP Australia's role in support of innovation consists of making sure the rights we grant are robust and reliable.' Given that, is it robust and reliable to grant a fraudulent researcher a patent on fraudulent work?

Mr Noonan—I think you are referring to application number 2004309300 from the Seoul National University Industry Foundation?

Senator BOSWELL—Yes.

Mr Noonan—That application is still being investigated by IP Australia. The patent examination team has decided that the application passes the statutory tests for examination

but the patent has not yet been granted. I have asked the Commissioner for Patents to look further at the matter to see if the examination team has correctly applied the statutory tests. In the meantime the application will not be granted or sealed.

Senator BOSWELL—That is some good news. But I do want to point out that this application or this grant patent is to the disgraced Korean researcher Hwang Woo-suk, for embryonic cloning research. I am very pleased that you have not passed it. If it is still under consideration, when will the process be completed and what remains to be done?

Mr Noonan—I should just mention at the outset that the application is from Seoul National University Industry Foundation where Dr Hwang is one of 17 inventors named in the application. The commissioner will complete her review as soon as possible but there are some significant technical issues involved applying the law to the science. The current suspension on the ceiling of the patent can run until early December or longer if necessary to complete that review.

Senator BOSWELL—Does the minister have any discretionary rights to knock back a patent; and, if so, on what grounds?

Mr Noonan—Decisions on whether to grant a patent are made by the commissioner and her delegates. The minister has no power to intervene in those decisions.

Senator BOSWELL—A statement released by IP Australia's Acting Commissioner of Patents, Mr David Johnson on 24 September states:

There is no statutory basis to refuse to grant a patent on the basis that the scientific data in a patent application is a misrepresentation or fraudulently obtained. However, it is a ground for revocation by the Court. In accepting the application in question, IP Australia is not endorsing the research that underpins the application.

How can IP Australia assert that its role is making sure the rights we grant are robust and reliable while not assessing an application for fraud?

Mr Noonan—I need to perhaps explain a little bit about the actual application here. The application claims the invention of a new line of stem cells. It is claimed in the application that the new line was produced by somatic cell nuclear transfer. It is generally accepted that the line of stem cells exists and is a new invention, but it is now generally accepted that they were not derived by somatic cell nuclear transfer but by another process called parthenogenesis. The scientific community considers that the research supporting the somatic cell nuclear transfer claim was false. So it is not the cell line that is at issue but how the cell line was produced.

The Patents Act requires IP Australia to be satisfied that there is an invention and that the invention is novel, that it has not been discovered before. The new line of stem cells is such an invention. The Patents Act does not require an inventor to understand the precise mechanism by which their invention works. Many inventions are not fully understood when they are first discovered. This application involves a situation not where the inventor simply has not yet worked out how their invention works but where we have reasonable grounds based on published scientific papers to believe that misrepresentations have been made about how the invention works. The Patents Act does not deal directly with this type of situation and examination. Like you, I am uncomfortable about granting a patent where the applicant has

engaged in behaviour like this. If the act requires the patent to be granted, we will have to advise the minister about what can be done about that. But before we do that I want the commissioner to be sure whether we have applied the act correctly in this case.

Senator BOSWELL—Can the government or an agency of the government oppose the application or seek revocation by the court, and are there any plans to do so? If so, what are they?

Mr Noonan—If the commissioner concludes that the patent must be granted, it will be sealed. Under the Patents Act, the minister or any other person may then apply to the Federal Court to have the patent revoked. The grounds upon which the court can revoke a patent are somewhat broader than the grounds upon which the grant of a patent can be refused in the first place.

Senator BOSWELL—How have other countries treated this patent application? Have they rejected or accepted it in whole or part?

Mr Noonan—We understand that there are similar applications which have been lodged in other countries. These applications are not necessarily identical and will fall to be considered under the laws of those other countries. We are not aware that any of those applications has been finalised.

Senator BOSWELL—Has the patent application been substantially granted in any other country? I think you have answered that.

Mr Noonan—Yes; not as far as we are aware.

Senator BOSWELL—Thank you for that very fulsome answer.

Senator FIELDING—In relation to AusIndustry and the funding of projects—

Mr Paterson—Senator, AusIndustry manages quite a broad suite of programs and different officers will deal with different programs. If you could give us a closer cut in terms of the nature of the programs you want to talk about, we will get the right officers for you.

Senator Carr—Would it be more appropriate to wait until we call AusIndustry to the table? This is cross-portfolio at this point.

Senator FIELDING—When are they being called?

Senator Carr—I do not know. It depends on how many cross-portfolio questions you have got.

CHAIR—We will just check that.

Senator ABETZ—I have about half an hour. It would be helpful from my perspective if we do not deal with General and AusIndustry together. I finished my comments on the CSIRO by saying the government had made a good decision in appointing John Kerin, and now I find myself opening with the general questioning by thanking and congratulating the minister for allowing me to be the beneficiary of the media clips from his department. I am delighted that that has been resolved after a number of estimates and I am appreciative of the minister's decision. I just wanted to put that on the record.

How many permanent staff have been recruited since the budget estimates? Depending on the answer, there might be a few follow-up questions, or I will ask them on notice.

Ms McClusky—I am going to have to take that question on notice. I do not have the staff numbers for the period you have requested.

Senator ABETZ—That is fine. I just noticed in the margin of all my preparations that that was going to be something I was going to put on notice anyway. What discussions has the department or agency had with—and correct me if I am wrong if I use a pejorative term—razor gang mark 2. Some people call it Operation Sunlight. What is the technical term for this review, so that I do not offend anybody in asking my questions?

Mr Paterson—I am not sure what the technical term is either but we know to which you refer.

Senator ABETZ—You know what I am talking about, so what discussions have been held?

Mr Paterson—I cannot give you an indication of the discussions that have been held because they are part of the normal budget cabinet process.

Senator ABETZ—Fair enough. Yes.

Mr Paterson—But we, like other agencies, have been subject to—

Senator ABETZ—You have been approached and consulted.

Mr Paterson—There are measures that have fallen within the portfolio that have been the subject of consideration.

Senator ABETZ—So the issue of cuts and savings has been canvassed?

Mr Paterson—Issues have been raised with us. I cannot go to the details.

Senator ABETZ—I am not asking about details but just whether the topic of cuts and savings has been raised.

Mr Paterson—I cannot go to the detail of the issues that have been raised as part of that general review, but I think it is fair to say that if we both agree that colloquially it is known as the razor gang—

Senator ABETZ—As long as you do not get into trouble with your minister, I am happy.

Mr Paterson—No. As I said, I cannot go into the detail of them, but we have, like other agencies, been subject to the review of some matters.

Senator ABETZ—I have a budget document with me. Am I right that there is a special page that deals with the special accounts that the department and agencies currently hold?

Ms McClusky—I will have a quick look for the page.

Senator ABETZ—Good. So it does exist. I thought it did.

Ms McClusky—There are some details of special accounts on page 15 of the PBS. There are various disclosures. It depends which ones you are referring to.

Senator ABETZ—What I am getting at is in relation to these special accounts, how much is in these accounts and does the department or agency use those accounts and interest accrued on those accounts to fund ongoing operations?

Ms McClusky—The department has a few special accounts. One of the special accounts we have is for the activities of the Australian Building Codes Board; that is the most significant special account the department holds. That is used to fund the activities of the Australian Building Codes Board. We then have some other minor special accounts.

Senator ABETZ—I suppose, Mr Paterson, you are not going to tell me what indication has been given by the colloquially named razor gang about the future of special accounts and any operating surpluses that may have been gathered together over the years.

Ms McClusky—If you wanted to look at all the details of our special accounts, you can refer to page 45 of the PBS. That has the most useful disclosure.

Senator ABETZ—Thank you very much. There is a fair bit of money in there, by anybody's language.

Mr Paterson—Remaining within the portfolio.

Senator ABETZ—Will remain?

Mr Paterson—I said, 'Remaining within the portfolio.' Some of these are comparative numbers on page 45, and not all of those special accounts remain with this portfolio following the AAA changes. The range of rehabilitation, which is the largest of those special accounts, and the Ministerial Council on Energy, are clearly two matters for—

Senator ABETZ—Thank you for drawing that to my attention. I suppose, Mr Paterson, you are not going to divulge to me, are you, as to what is going to happen to those funds and other moneys that might be available? So we will have to wait and see as to what transpires in that area. Can I be given an indication how many reviews are currently being undertaken in the portfolio and in the various agencies or affecting portfolio agencies? Trying to keep a handle on all these reviews is sometimes a bit difficult. Do you have a convenient list?

Mr Paterson—I am not sure we have a convenient list for you. There were four major reviews that were undertaken within the department. Your question asked about the portfolio, but I will talk about the department in the first instance. The four major reviews were the review of the automotive industry chaired by former Premier Bracks; the review of the textile, clothing and footwear industries headed by a panel led by Professor Roy Green; a review of the National Innovation System led by Dr Terry Cutler; and the review of the cooperative research sector program led by Professor Mary O'Kane. Those four reviews have reported to government and they are subject to consideration by government at the present time. There was also a separate officers review of Questacon and that, too, is subject to consideration by government. There are a number of other reviews that have been undertaken within the portfolio which are looking at existing programs that we do as part of our normal reporting within the PBS, but I have sought to differentiate the two given the nature of your question.

Senator ABETZ—Thank you for that. That is very convenient. Would it be possible for you to provide me with a list of those? Are there any other reviews that may have slipped your

mind at this stage, or not? If there are, take it on notice and let us know. If there are not any more, that is fine.

In relation to the government's response to the first four reviews that you mentioned, is there a timetable scheduled? Does 5 November ring a bell for announcing anything in relation to one of these government reviews?

Senator Carr—No, that does not ring a bell.

Senator ABETZ—When do we hope to have the government's response to the Bracks review—prior to the end of the calendar year?

Senator Carr—I would expect so.

Senator ABETZ—And what about Professor O'Kane's report?

Senator Carr—A number of the reviews will be part of the white paper response which we have indicated that we are in the process of preparing.

Senator ABETZ—When do you think that might be ready—by the end of the year?

Senator Carr—The innovation review was delayed. We now have a range of issues to consider in regard to that, so, while I expect that the processes are continuing and that they are underway in terms of preparation of the white paper, we may not be able to publish a white paper until early next year.

Senator ABETZ—Was the delay in the Cutler review because you extended the time for submissions, which was largely based on the decision to abolish the Commercial Ready program?

Senator Carr—No, it was based on the fact that we had so many submissions.

Senator ABETZ—And so many people wanting to submit after the closing date after the Commercial Ready decision was made.

Senator Carr—There was a very large number of submissions. There was a considerably greater number of submissions to this review than there were to the Productivity Commission's review. Those submissions had to be assessed and that is essentially what has occurred. Now we are in a process of considering the recommendations.

Senator ABETZ—Yes. I am aware of that. Professor O'Kane's review—

Senator Carr—That has been part of the same process. All of these reviews have now been released publicly and are available on the website.

Senator ABETZ—Sorry, not the review, the government's response to Professor O'Kane's review.

Senator Carr—It will be considered in the context of the white paper. Obviously, these are matters that are currently before government.

Senator ABETZ—Is that the same with Dr Cutler's review?

Senator Carr—Yes.

Senator ABETZ—And then we have got Professor Green's review.

Senator Carr—That is a separate process.

Senator ABETZ—Yes, it is separate. When do we think that we might have—

Senator Carr—Frankly, given the workload that we are trying to manage at the moment, that will not be until next year.

Senator ABETZ—Until?

Senator Carr—Early next year is my expectation, yes.

Senator ABETZ—In relation to the white paper to which you referred, had you previously announced the delay of that through until early next year?

Senator Carr—No. In earlier comments I had made we had hoped to produce a white paper prior to Christmas; however, the circumstances have now changed. It is our intention to have a white paper ready to roll. This is to be produced in cooperation with myself and the Treasurer, which we have made perfectly clear—

Senator ABETZ—Good luck. I understand that. All I am asking is, has that been previously announced?

Senator Carr—Yes. I have made this clear at a number of forums that I have participated in, so I do not believe this is news.

Senator ABETZ—A forum, but not by way of a press release.

Senator Carr—No, I do not think it was a press release.

Senator ABETZ—Right. So, at forums you have—

Senator Carr—I have made the circumstances very clear.

Senator ABETZ—I will have to go to more of your forums to find out these things. Thank you for that.

Senator Carr—It may have been contained in speeches, as well. I am not certain, but it has been no secret.

Senator ABETZ—Now, let us get into some meaty things. I have got an article here from 25 July 2008 from the *Sydney Morning Herald* that tells me that:

On Tuesday the page for the Innovation Minister, Kim Carr, was changed to remove slabs of personal details and a paragraph detailing that he had been criticised for branch stacking. Hours later a reference to the disastrous 2002 state election in Victoria was cut from the page of—

another senator. Now, can I confirm that the changes—

Senator Carr—Another senator? Who was this senator?

Senator ABETZ—A very good friend and colleague of mine.

Senator Carr—Sorry, I am not familiar with any of this.

Senator ABETZ—All right. On 25 July your Wikipedia entry—

Senator Carr—Wikipedia; we got it clear.

CHAIR—Senator Abetz, does this relate to the estimates process?

Senator ABETZ—Absolutely, because what I want is an assurance that any change that was made was undertaken by electorate staff and not by ministerial or departmental staff.

Senator Carr—I think the Wikipedia—

Senator ABETZ—You can amend your entries. And it is appropriate if they are wrong to make amendments. There is no criticism of that. I just want to make sure that ministerial staff or departmental staff were not involved in it. That is all.

Senator Carr—I am not aware of any ministerial staff or any departmental staff taking any interest whatsoever in Wikipedia. Furthermore, the defamatory rubbish that appears on that site from time to time—

Senator ABETZ—I agree.

Senator Carr—is criticised on all sides of the parliament, and I think it is treated generally with the contempt it deserves.

Mr Paterson—No departmental staff have been involved. Wikipedia is, in fact, blocked by our departmental ICT infrastructure.

Senator ABETZ—Very wise. That is very good.

Mr Paterson—You asked a question earlier in relation to reviews and asked if there were any others. The only one that was identified previously in our PBS that I did not mention is a review of the Science Connections program, which is currently in progress. That is an internal review of the Science Connections program but it is not yet concluded. That was the only other one.

Senator ABETZ—Thank you for that. It is nice to know that even you, Secretary, have difficulty keeping in front of mind all the reviews that are taking place from time to time.

Can I go to the answers provided to questions on notice. The first one is B1-19. I asked a number of questions about travel, accommodation and other expenses and I am referred to the Department of Finance and Deregulation reports, and that tells me about accommodation, not TA. Has the department seen answer PN-41, provided by Prime Minister and Cabinet to similar questions at budget estimates about the Prime Minister's travel? I invite the department to do what PM&C is doing and provide full answers rather than just to that which is paid for by the Department of Finance and Deregulation. As I understand it, there are other expenses associated with travel that the department bears. Just flicking it on and saying, 'Have a look at that which is tabled in the parliament,' does not reflect all the costs. It is not often I do this, but on this occasion I have to give credit to the Prime Minister and Cabinet section for the full answer that they provide in relation to the Prime Minister's travel. I would invite the department to follow that approach, as well.

Mr Paterson—I am aware of the question on notice that you raised. The full details of the costs borne by the department are disclosed in the response to the question on notice. So the only costs that are not responded to in the question on notice are those costs that would be borne by the department of finance, which are regularly published to the parliament.

Senator ABETZ—Sorry?

Mr Paterson—We have responded to the question in detail and we have provided the detail of all of the costs borne by the department.

Senator ABETZ—Right. I invite you to have a look at—I hope I am reading from the right document here—B1-19, 2-3 June 2008, budget estimates hearings. Do you have that in front of you? B1-19.

Mr Paterson—Yes.

Senator ABETZ—Yes. We are given two paragraphs of answers. Do you see that?

Mr Paterson—We responded to the original question. You then put a parliamentary question, No. 729, which sought further details, and there was a response to that question.

Senator ABETZ—When was that tabled?

Mr Paterson—I will get the date for the tabling of that. It was question No. 729. The date it was asked was 2 September. I will just check the date for you on when it has been responded to.

Senator ABETZ—I have got a funny feeling I might not have a response to that as yet. Well, you never know. The department may have been very expeditious in its response.

Mr Paterson—I will check the date. I had understood that we had responded to that question. I will check it and respond later this afternoon.

Senator ABETZ—The fault may well lie with you; it may also well lie with me. But you are telling me that you have provided a full answer because I asked a further question.

Mr Paterson—You did. We continue in that answer to indicate to you that the costs borne by—I am paraphrasing—the Department of Finance and Deregulation will be tabled as part of their normal reporting to the parliament and we provide the detail of the costs provided. It is at page 92 from the Senate on 14 October in response to question 729 as tabled. I am happy for you to see that if you wish.

Senator ABETZ—Yes, if I may. I will not pursue that any further at this stage, but what I will ask you to do when these questions are asked, especially on notice, is to follow the Prime Minister and Cabinet approach, which would make it somewhat easier.

Mr Paterson—I do not know what happens in terms of reporting of the Prime Minister's travel.

Senator ABETZ—Hopefully one of your officials might be able to look at that and see whether that is a convenient way for this department to do business as well. What we are trying to find out is the full cost of all these trips. I will have a further study of this. Talking about trips, can the minister confirm to us that the sole purpose of his trip to Japan was to make a \$35 million green car announcement?

Senator Carr—No, I cannot.

Senator ABETZ—What other purpose was involved?

Senator Carr—I think those details have already been provided.

Senator ABETZ—Can you remind me?

Senator Carr—I do not think I have anything to add to what I have already said to you on that matter.

Senator ABETZ—You have told us that it was more than the green car announcement. What else did you do in Japan? It was not that long ago.

Senator Carr—We had meetings with the senior management of Toyota when we were in Japan.

Senator ABETZ—So we made the announcement and we had a meeting. Were you trying to tell them how to spend the money that Mr Watanabe had some difficulty knowing what to do with?

Senator Carr—I have no intention of going to the detail of the meeting with Mr Watanabe.

Senator ABETZ—Was this visit to Japan a last-minute decision?

Senator Carr—I do not think it was a last-minute decision.

Senator ABETZ—Did it require you to cancel any prearranged appointments in the United States?

Senator Carr—You have already been advised of this by way of questions on notice. The answer is no, as it was in the answer on notice.

Senator ABETZ—Nothing was rearranged?

Senator Carr—You asked me whether any appointments were cancelled. There was a rearrangement. From recollection, there was a delay in one meeting.

Senator ABETZ—Why was there a delay in that meeting because of your visit to Japan?

Senator Carr—We had to reschedule the time of the commencement of that meeting because of the airline travel from Nagoya.

Senator ABETZ—Which is in Japan?

Senator Carr—I understand that is the case.

Senator ABETZ—Previous to your visit to Japan, you were going to be going to the United States not via Japan.

Senator Carr—I do not know about you, Senator, but I find that with overseas travel there are occasions where you are required to make changes to your itinerary. At one point we were intending to go to the United States via Los Angeles, which would have involved a delay in the connecting flights. Instead, we flew directly from Nagoya to Detroit and entered the United States at Detroit airport.

Senator ABETZ—I fully understand that ministerial arrangements have to change from time to time. If you were very pleased with what you were doing with the rearrangements, you would be saying, ‘We made these rearrangements because of ...’ for whatever reason, rather than being so defensive about it. Did you fly on the Prime Minister’s plane to Japan or did you go via commercial airline?

Senator Carr—Commercial airline.

Senator ABETZ—When did the Prime Minister arrive in Japan? Do you know that?

Senator Carr—You would be better to address those questions to another committee.

Senator ABETZ—When were you first notified of the desirability of your presence in Japan? Was that courtesy of the Prime Minister's office?

Senator Carr—Sorry?

Senator ABETZ—When did you first decide to go to Japan for this particular visit?

Senator Carr—I would have to check the date on which it was first decided to go to Japan.

Senator ABETZ—Could you take that on notice for me?

Senator Carr—I have already answered these questions in slightly different form.

Senator ABETZ—That is right.

Senator Carr—If you consult your own records, you will find that these matters are canvassed quite extensively in question No. 513.

Senator ABETZ—That is right. I even have that information with me. As you quite rightly note, the questions are somewhat different.

Senator Carr—Not somewhat. There is minor variation in your questioning.

Senator ABETZ—Yes. I will be a judge of that as well.

Senator Carr—All I am saying to you is that I have nothing further to add to the answers that I have provided to you on question No. 513.

Senator ABETZ—What breathtaking arrogance. You might like to wait for the questions to ascertain whether you have an obligation to tell this committee any further information. When you have written questions you get answers, and they sometimes trigger follow-up questions.

CHAIR—I remind the committee that we are due to finish in five minutes with this section. Perhaps we could get straight to the questions.

Senator ABETZ—I am perfectly entitled to follow up.

Senator Carr—You have asked me a question about when I first considered going to Japan. In your question No. 513 you asked me when the itinerary was first drafted. There is a huge difference in that, I can tell.

Senator ABETZ—I would be interested in an answer. If you cannot give it now—

Senator Carr—I have answered it.

Senator ABETZ—you can take it on notice.

Senator Carr—I will not take that on notice. I have nothing further to add to the answer to question No. 513.

Senator ABETZ—Isn't it a fact that the president of Toyota was scheduled to be in Melbourne just a few weeks later, when the announcement could have been made in Australia?

Senator Carr—That is a matter of opinion on your part.

Senator ABETZ—No. It is a fact, yes or no, as to whether or not the president of Toyota was scheduled to be in Melbourne just a few weeks later. You knew that to be a fact, didn't you?

Senator Carr—I have nothing further to add on that.

Senator ABETZ—You either know it or you do not.

CHAIR—The minister has answered.

Senator ABETZ—No, he has not.

CHAIR—Do you have other questions?

Senator ABETZ—I do. The minister is refusing to tell us whether he knew that the president of the Toyota Automobile Corporation was scheduled to be in Melbourne just a few weeks later, when the announcement could have been perfectly made in Australia.

CHAIR—The minister has answered the question.

Senator ABETZ—He has not. The record will disclose that. Let us move on, because as you quite rightly indicate time is short. I understand Ms Susan Holliday has been appointed to the Built Environment Industry Innovation Council. Has a fee been set for her per day by way of remuneration?

Mr Payne—Yes. A deed was sent to her today.

Senator ABETZ—Undoubtedly we can be advised what her remuneration will be when she is signed up. I have a few other questions that I will put on notice. I notice Professor Green has been appointed to the Innovation Region Centre Interim Advisory Board. Was that position advertised?

Senator CARR—No.

Senator ABETZ—It was not? I have a few more questions to put on notice in relation to that. I would like to ask in relation to the new trade measurement bill, are we ready with the regulations for all that to come on board? Do we foresee any hiccups or problems with this? It is going to be before the parliament very shortly. I was just wondering whether there are any foreseen difficulties. I do not think it will bring down the government, but it does have a lot of interest for business in particular.

Dr Fisk—The answer is that, as far as we are aware and to the best of our knowledge, that is true. It is on track and there are no major impediments.

Senator ABETZ—Are the regulations being drafted as we speak or are we going to wait until the legislation is passed?

Dr Fisk—I will have to take that one on notice. The legislation was scheduled in parliament today, but it was displaced by other business.

Senator ABETZ—That is using the term 'business' loosely. I would like to ask the minister and secretary about departmental consultations in relation to the emissions trading scheme. Has the department done any modelling on the impact of the CPRS on Australian industry generally or on any sector of industry?

Mr Paterson—I think you are aware that the Department of the Treasury has been commissioned to undertake modelling in relation to the CPRS—

Senator ABETZ—All modelling?

Mr Paterson—Yes. We do not have the facility within the department to undertake modelling of that nature.

Senator ABETZ—Are you part of that?

Mr Paterson—We are actively engaged in all of the cross-government considerations in relation to the CPRS.

Senator ABETZ—Without telling me what changes, is the department in its active participation making any suggestions how the draft can be improved to protect the viability of Australian industry?

Mr Paterson—We are active participants in the process of consideration within government and providing advice on the structure and impact of the scheme, but I cannot go into the detail of that advice.

Senator ABETZ—You can, but you won't, and I understand why you won't.

CHAIR—That concludes the general/corporate section of the Department of Innovation, Industry, Science and Research. We will now go on to outcome 1, Industry.

[3.15 pm]

CHAIR—Senator Fielding.

Senator FIELDING—I am interested in AusIndustry and some of the projects that it funds. Are the funding criteria on the website for a lot of the AusIndustry stuff?

Mr Paterson—You raised this earlier. There is a very broad range of programs administered by AusIndustry. The programs differ in nature and in terms of the guidelines and the criteria. It might be more helpful if we can focus on the particular programs that you want us to focus attention on.

Senator FIELDING—There was an advertisement in the paper for the Great Ocean Road that had the Australian government initiative AusIndustry on the logo. Can I just table that? It is out of the *Herald-Sun* from Friday, 8 August 2008.

Mr Sexton—I suspect that is an advertisement relating to one of the projects that we have supported under one of our programs and where they are required under their contractual arrangements to acknowledge the support that is provided by the Commonwealth through AusIndustry. That would be why our logo is there. Without actually seeing it, I suspect that is the reason.

Senator FIELDING—I saw one on 10 August and it seemed to be a similar sort of ad and it did not have the AusIndustry logo. I am trying to find out what funding has been provided. I am from Victoria and I am quite happy for the road to be promoted, but I am just interested to know what the Australian federal government was doing with it.

Mr Sexton—Again, without seeing the advertisement, it may be a project that is being supported under the tourism programs which we now deliver on behalf of the Department of

Resources, Energy and Tourism. They are the owners of those programs, but we continue to deliver them on their behalf.

Senator FIELDING—Is AusIndustry paying for ads in the paper?

Mr Sexton—No, they are not. I assume that ad was taken out by the project proponents and they would have paid for that advertisement.

Mr Paterson—It is not uncommon under contractual terms of grants to acknowledge the source of funding in particular advertising approaches. We have not seen the advertisements you are referring to, but it may well be it is just part of a normal or common requirement for there to be an acknowledgement of the source of funding in relation to particular projects.

Senator FIELDING—There was a similar ad that did not have the logo. I thought there must have been a reason why it was taken off or put on.

Mr Paterson—Once we get to see the advertisements we can examine it. As has already been indicated, this is a program that is the responsibility of the Department of Resources, Energy and Tourism that we administer on their behalf. I am happy for us to examine the issues that have been raised by the two advertisements and respond out of session or on notice.

Senator FIELDING—If you take those on notice, I will table the other advertisement as well.

Senator MILNE—I would like to ask about improving the economic viability and competitive advantage of Australian car manufacturing. In particular, I would like to ask about the announcement today of a deal signed between AGL, Macquarie Capital and Better Place's Mr Agassi to build a network of electric plug-in stations across three Australian cities so that that can service a rollout of electric cars. In the press release it states that they have had talks with the Australian government as well as state governments. Can you give me any indication of what involvement the Department of Innovation or industry generally has had in this?

Mr Paterson—I know nothing about it.

Senator Carr—That puts an end to the line of questioning.

Senator MILNE—I am very pleased to see that innovations are happening all over the country.

Senator Carr—Especially in press releases.

Senator MILNE—I am interested in the move to get an electric car built in Australia and the whole move towards smaller, fuel efficient vehicles. There has been the Bracks review, to which Mr Brumby has responded. Where are we up to in terms of moving to get Australian car manufacturers on track to building smaller, more fuel efficient vehicles and are we driving the development of an Australian-built electric car?

Senator Carr—These matters are currently before government so I am constrained in what I can say. But I can indicate to you that I am firmly of the view that we will see significant improvement in the provision of Australian-made cars that are more fuel efficient,

environmentally more friendly and safer quite quickly. It is my expectation that we will see real change quite quickly, which is long overdue.

Senator MILNE—In Australian car manufacturing?

Senator Carr—Australian made cars. You know my views on this. I hold them quite strongly and so I try to contain my remarks to the point. There is a lot of talk about the Australian fleet. Greening up the Australian car fleet needs to be seen in the context of the need to improve the capacity for Australian-made cars to be developed, and that is our intention.

Senator MILNE—Are these fuel efficient vehicles electric cars or just more efficient engines?

Senator Carr—We have already announced that we are taking steps in terms of the hybrid Camry. We were able to overturn a decision that had been made to produce that vehicle in Thailand. That vehicle will now be produced in Australia. I do not believe that will be the end of that particular story in regard to hybrid production in Australia. There is a range of other options that people are pursuing and there have been a number of people who have approached us about the possibilities of development of various types of vehicle. Recently a COMET grant was provided to a producer of an electric car in Victoria. I have not seen this press release, but that could be it. We are talking to a range of innovators who are interested in developing new technologies.

Fundamentally, the industry will not be transformed unless the major manufacturers are part of any transformation. Our intention is to move the industry quickly, to employ people in high-wage, high skilled jobs, and to encourage the development of indigenous capacity within global supply chains, which will allow us, in my judgement, to ensure the sustainability of the Australian automotive industry.

Senator MILNE—I will be very keen to see that happen. I would like to move on to carbon capture and storage. I am very interested to know what the department is doing in relation to how much it is spending and where either on carbon capture and storage pilot plants or coal to liquid conversion.

Senator ABETZ—Whilst departmental officials are thinking about their answer, I was wondering whether Senator Milne could give us an indication as to the time she thinks she will spend. I have questions on the green car fund as well, but I am more than happy for Senator Milne to have her bracket of questions and then I will go across all the issues as well.

CHAIR—I am proposing that we go to a break at 3.45 pm for 15 minutes. Will that be sufficient time for you?

Senator MILNE—Yes.

Senator ABETZ—That is fine.

Mr Paterson—You have asked about carbon capture and storage and the like. The policy responsibility for those areas of activity is the Department of Resources, Energy and Tourism, which is scheduled to appear before this committee later tonight. It is not our policy area of responsibility. CSIRO gave evidence earlier today in relation to it. There is some work undertaken by one of the CRCs. We have policy responsibility for oversight of the CRCs, but

the CRCs themselves undertake activity. The policy responsibility for engagement in that area of activity is the Department of Resources, Energy and Tourism.

Senator MILNE—I understand there is a lot in research, but I was wanting to know whether you are doing anything in terms of getting it beyond the research stage.

Mr Paterson—The point I am making is that the policy responsibility for the areas of interest that you have identified, and therefore taking those issues forward on behalf of the government, is the Department of Resources, Energy and Tourism.

Senator MILNE—My final question is in respect of the effectiveness of improving the economic viability and competitive advantage of Australian industry: what are you doing to assist the renewable energy sector, particularly the solar industry, wind industry and so on, to overcome their constraints to growth?

Senator Carr—The same answer applies that Mr Paterson has given. We have agencies and CRCs that work in this area and are actively and extensively engaged, but the policy responsibility rests with another department.

Senator MILNE—Thank you.

Mr Paterson—I would like to respond to a question Senator Abetz asked earlier this afternoon. You asked for detail of the number of ongoing employees recruited since the last Senate estimates. The total number is 15—one APS3, four APS4s, one APS5, four APS6s, three EL1s and two EL2s.

Senator ABETZ—Thank you very much. That was going to be a follow-up question. I do have some further questions, but I will put those on notice.

CHAIR—The committee will adjourn for 15 minutes and reconvene still on outcome 1, Industry.

Proceedings suspended from 3.29 pm to 3.44 pm

Mr Paterson—Senator Abetz asked a question earlier in relation to the trade measurement regulations. Work is under way on a discussion paper for industry on the new regulations. That is seen as a first step towards finalising and framing the new regulations and we plan to finalise the new regulations by mid-2009.

Senator ABETZ—What is the implementation date again?

Mr Paterson—It is 2010.

Senator ABETZ—It is well on track.

Mr Paterson—You also asked a question of the ARC in relation to the development groupings and the names of the people. I have the names of all of the people who were involved in each of those groups—

Senator ABETZ—For tabling?

Mr Paterson—and the subgroup, and I table those.

Senator Carr—Senator Milne asked a question before about the policy responsibilities for support for—

CHAIR—I think she may be coming back. No, she is not.

Senator Carr—Just for the sake of completeness. I do not wish to correct the information we have given in regard to the responsibilities for energy policy, but it has been drawn to my attention that the minister actually referred to support for business as well. There is a number of programs that the department operates under ‘clean business’ and also in regard to Enterprise Connect. Measures are being taken in those areas. If she wishes to look at those, she will see the types of programs that are being run by the department.

Senator ABETZ—I will ask this question on notice. Mr Paterson, when I was asking about the minister’s travel, you indicated that I had been provided with an extra answer in relation to question No. 729. Yes, I did in relation to all the staff, but in relation to the minister it was basically a repeat of the initial answer, which only relates to that which the Department of Finance and Deregulation tables and not the costs incurred. As I understand it, the department—

Mr Paterson—In response to the question earlier this afternoon, I indicated that our response was a response for all costs borne by the department.

Senator ABETZ—Do they find their way into the Department of Finance and Deregulation tables?

Mr Paterson—No.

Senator ABETZ—No?

Mr Paterson—We have answered the question, which includes all of the costs borne by the department in respect of that travel; and the other costs that will be borne in respect of that travel by the Department of Finance and Deregulation they will table.

Senator ABETZ—Did the minister only incur costs that will be disclosed in the Department of Finance and Deregulation tabling?

Mr Paterson—I am not aware of any other costs associated with that travel that have not been disclosed in the answer to the question provided to you or in that which will be tabled by the Department of Finance and Deregulation.

Senator ABETZ—Without delaying this too much, B1-19 disclosed no costs at all. As a result, we put a further parliamentary question on notice and, once again, I was not given any costs in relation to the minister; it was just a repeat.

Mr Paterson—I agree. As I understand the response to the question that we have provided to you, all of the costs associated with the minister’s travel are costs that will be borne by the Department of Finance and Deregulation and tabled by them in their return. I am not aware of any other costs in relation to that travel that have not been disclosed in this answer to the question or will be disclosed by the Department of Finance and Deregulation in their normal response. If there is a gap in the question that I am missing of a category of expenses that you believe we have not responded to that will not be in the response from the Department of Finance and Deregulation, I am happy to look at it, but I am not aware of any category of expenses that has not been covered in our response.

Senator ABETZ—If you can check up on that, if whoever has that wonderful task in your department can have a look at what PM&C did to see whether that might alert them to any other expenses, that would be great, but I do not want to delay the committee any further. I understand the minister is departing at 4.30—

Senator Carr—I will be back later in the evening. I have an unavoidable engagement. I will be called away from the committee at 4.30 pm. Senator Sherry will be standing in for me for the duration of that—

Senator ABETZ—That is fine. I will start with the car industry. Is the department or the minister aware of the importance that finance companies play in providing finance to allow purchasers to purchase vehicles? In particular, what I am referring to is, for example, something like GMAC.

Senator Carr—Are you referring to their announcement today?

Senator ABETZ—I will be. Yes.

Senator Carr—We are aware of their importance and, yes, I am aware that they are making an announcement today.

Senator ABETZ—That is that they are pulling out of Australia very shortly, as of 31 December this year.

Senator Carr—I understand that is the case.

Senator ABETZ—I would have thought that will add even greater pressure. We can ask why they are pulling out and why they cannot raise finance, but that might be something that my good friend Dr Henry should be answering.

Senator Carr—I have made public comment on this matter. The automotive industry in this country has had to confront a severe rationing of credit for some time now. The statistics on this are quite startling. Notwithstanding the great difficulties the industry is confronting in terms of securing working capital, I remain optimistic about the capacity for the industry to work its way through these acute difficulties.

Senator ABETZ—The removal of the GMAC out of the financing market will undoubtedly create difficulties, especially for General Motors to continue to be able to market their vehicles.

Senator Carr—There are clearly some issues that are commercial-in-confidence. We are not in a position to comment on the implications of that in regard to any particular company.

Senator ABETZ—I know it is very short notice; this announcement seems to follow very hot on the heels of what we have discovered in recent days, that because of the government's somewhat clumsy approach in relation to bank guarantees, money has fled the non-secured sector, and of course GMAC is just another one of those. I understand there are other companies facing similar circumstances. In the automobile industry sector, that is just going to compound the huge difficulties that they already face.

Senator Carr—You made some assertions about the government's handling of the financial crisis. It is disappointing to the government that the opposition has withdrawn what they said was their bipartisan support for the measures that had been taken in a period that I

think is now outside of this parliament very widely described as a crisis. We have a financial crisis affecting the entire global economy and clearly it has implications for domestic consumers and domestic producers. This is being felt particularly acutely in manufacturing and especially in the automotive sector.

Senator ABETZ—I agree with all that, but that has now been compounded.

Senator Carr—You made some assertions about how the government has responded. I am going to challenge your description of them, because I believe it to be inaccurate. The government has handled this issue decisively and with great effect. That does not mean that there will not be ongoing circumstances demonstrating the depth of the problem.

Senator ABETZ—But there is no doubt that as a result of the particular decision that has been made there has been a flight of capital out of the GMACs of this world and others into the secured banks.

Senator Carr—That is just a mistake in your analysis. It reflects, I am sorry to say, a disappointing level of understanding of the conditions that have been affecting the automotive industry for some considerable time. In your own state, for instance, ACL Bearings has had to deal with this situation. I recall our intervention there was some months ago now. This is a problem in terms of capital rationing, which has occurred for a period since the commencement of this crisis, which I think Mr Costello identified in August last year as the point where these problems were emerging.

Senator ABETZ—For which he was accused of scaremongering to try to win the impending election. I do not think anybody is accusing him of scaremongering anymore, are they?

Senator Carr—This is not a problem that has developed in the last five minutes. For you to make an assertion that the government's handling of the financial crisis is in any way reflected in the decision of GMAC I think is a mistake. It reflects poorly on your understanding of these issues.

Senator CAMERON—It is only a political game for them.

Senator ABETZ—Does GMAC receive its money from the government guaranteed sector?

Senator Carr—That is a matter you will have to take up with the Treasury.

Senator ABETZ—Yes, of course. You know they do not. As a result, they are now facing difficulties in raising funds, of course because of the global situation as well. It is interesting that it has come so soon after the government capping—

Senator CAMERON—Talk about both sides of the street. What is it?

Senator ABETZ—Senator Cameron—

Senator Carr—This is an incredibly serious situation and attempts to make cheap political capital out of a situation of this type I think really is beneath even the Liberal Party.

Senator ABETZ—And that is not cheap political capital?

Senator Carr—GMAC is part of an international company. GMAC Australia is ceasing operations from 31 December as part of an international response by that company—GMAC. They have had a negative B rating from Standard & Poor's. I think you will find that has considerably more to do with their financial situation than the response of this government to this crisis, which was leading the world in terms of government responses since that date.

Senator ABETZ—That may well be correct, that a fair proportion of the decision is based on the international situation, but of course the local decisions that have been made in recent times may well have been influential on the international grouping making a decision in relation to their ongoing operations in Australia. That then has very real consequences for one of Australia's car manufacturers, I would have thought.

Senator Carr—I will read directly from a statement made at 1.30 pm today. This is from GMAC Financial Services:

This is an unprecedented time in global capital and credit markets. These markets remain severely disrupted and access to funding is constrained.

Senator ABETZ—'Constrained'; that is exactly right.

Senator Carr—It continues:

In order to prudently manage our resources during this challenging period, GMAC has evaluated all parts of its business and has had to make some difficult but necessary adjustments.

That is the context in which GMAC have made their decisions. For you to attempt to make cheap political capital out of I think is really beneath contempt.

Senator ABETZ—What they are telling us is that funding is constrained and clearly their capacity to raise funds within Australia is constrained given the bank guarantee that the government has announced. They undoubtedly have global constraints as well and I do not seek to diminish that in any way, shape or form.

Senator CAMERON—Really?

Senator ABETZ—And I did not do so at the beginning. But I thought that the peculiar domestic issues may have been of some interest to the minister. The fact that he so high-handedly dismisses this concern will give no comfort to the workers in the GM factories around Australia. Can I move to the Bracks review? Given the time constraints, I will read some of these questions into the *Hansard*. If you do not have the answer immediately, that is fine; take them on notice. What was the total cost of the review and how many days in total did Mr Bracks work on the review? If it takes too long to look it up—

Senator Carr—No, it will not take too long to look it up. You asked a question. We will try to answer it.

Senator ABETZ—But we have time constraints because you had something more important than your duty to the Senate, which I am willing to accept. Therefore, I do not want time taken up with officials looking up things. I am not suggesting they are deliberately delaying it. Of course it takes time to find these things. I do not need an answer immediately, but if it is available then that is great.

Mr Payne—As at 9 October the total expenditure for the automotive review was \$677,373.

Senator ABETZ—Are you anticipating any further costs?

Mr Payne—There could be some further costs come in, basically receipt of invoices that could still be coming. There could be some small amounts in addition.

Senator ABETZ—You describe them as small amounts. We will ask next time and hopefully the accounts can be closed off. How many days did Mr Bracks work on the review? How much was Mr Bracks paid in total?

Mr Payne—I do not actually have the number of days.

Senator ABETZ—Take that on notice along with how much Mr Bracks was paid and how much each other reviewer was paid. I think the minister and I might be in a heated agreement that there are substantial job losses in the automotive sector. I have described it as haemorrhaging jobs. The minister may or may not agree with that. But what I am wanting to know is: when will the government respond to the Bracks review? We had a previous discussion on that cross-portfolio, but can I ask: has a proposal gone to cabinet as yet?

Senator Carr—I just want to indicate to you that, in terms of our previous discussion, the information I have available to me is that new commercial loan commitments to manufacturing fell 44 per cent in the three months to August compared to the three months to August 2007, which of course is significantly more than the decline in overall commercial lending. From the very first week of taking up this job, I have had to deal with the legacy of your government's response to the automotive industry. It began with the Mitsubishi closure and we have seen since that time a continuing number of announcements which are deeply regrettable. We are in the process of developing the most comprehensive response in terms of the industry plan for the automotive industry that this country has ever seen. It is my belief that that matter will be resolved quite soon.

Senator ABETZ—Has it been to cabinet as yet?

Senator Carr—I am not in a position to discuss what goes to cabinet and what does not go to cabinet; all I can indicate to you is what I have said on the public record. We are highly conscious of the need for urgency and the need to address these fundamental challenges that are facing the industry, and it is our intention as a government to respond in a manner which will stand in sharp contrast to the approach that was taken by the previous government and to do so quickly.

Senator ABETZ—If we have finished with the cheap political comments, I am entitled to know whether or not a proposal has gone to cabinet. What I am not entitled to know is what was contained in the proposal.

Senator Carr—Senator, I have indicated to you that I am not in the habit of discussing what has or has not gone to cabinet. It is our intention to have a response to the Bracks review very soon.

Senator ABETZ—I have no interest in your habits—personal, professional or otherwise.

Senator Carr—You spend a lot of time on my personal affairs then.

Senator ABETZ—What I am interested in is whether or not this proposal, the government response, will be cabinet endorsed.

Senator Carr—I have indicated to you all I can on that question.

Senator ABETZ—Will the government response be cabinet endorsed?

Senator Carr—It is my expectation that the government's response will be dealt with in the usual processes that we undertake on these matters.

Senator ABETZ—Will it be cabinet endorsed?

Senator Carr—I cannot see why we have any difficulty on that score.

Senator ABETZ—It is not for you to decide whether I have difficulties or anything else. I am entitled to ask: will the package be endorsed by cabinet?

Senator Carr—I am sorry, look, I intend that the government will respond very quickly.

Senator ABETZ—We know that, but will it be going to cabinet before the government responds quickly?

Senator Carr—I cannot add any more than that to the process.

Senator ABETZ—Of course you can. It is either a wilful withholding of information from this committee or you do not know. Now which is it?

Senator Carr—You would have to say that it is wilful because I probably have an idea about how we are going to respond to the package. It is not my intention to discuss what goes or what does not go to cabinet, the timetable or any other matters that are dealt with in the government's decision-making processes in regard to cabinet deliberations.

Senator ABETZ—What is the public interest immunity that you rely on, Minister, that does not allow you to tell us about this very important, vital package, which I would encourage the government to get out as a matter of urgency—and having the imprimatur of cabinet I would have thought would have been a very good thing, and I think everybody would welcome it. I cannot see what the reticence is in telling us whether or not it is going to be before cabinet before it is publicly announced. There is no public interest that you could rely on under any interpretation of standing orders.

Senator CAMERON—All you gave the workers was Work Choices.

Senator Carr—I cannot add any more than that.

Senator ABETZ—You can.

Senator BUSHBY—You must.

Senator ABETZ—Madam Chair, what I would invite you to do is take this particular question and non-response by the minister to the Clerk of the Senate for his determination. It clearly is within the province of the minister. I am not asking for the detail of the package. I am not at this stage even asking when it is going to go before cabinet. All I am asking is if it will go before cabinet before it is announced—and their minister says, for some bizarre reason, that that cannot be made known to the public. Is that your position, Minister?

CHAIR (Senator Hurley)—I will seek advice from the clerk. Do you have further question, Senator Abetz?

Senator ABETZ—It will not surprise you to learn that, yes, I do. I note that the Bracks report in its draft report talked about the luxury car tax but then in its final report did not. Was there any communication by the minister's office or the department to Mr Bracks inviting him not to make comment in relation to the luxury car tax impact?

Senator Carr—On 31 March, you issued a press release about the Bracks report, in which you prejudged some matters. You said it was pro-tariff and anti-FTA. That was, of course, a reflection on the review. The fact is that the final report did refer to the luxury car tax. So your presupposition about what is or is not in there would probably be improved if it could be referred to what actually was done in that report.

Senator ABETZ—I stand corrected. It did not make any comment on or recommendation about whether the luxury car tax was good, bad or indifferent in relation to the Australian car industry. In that context, I ask whether or not there was any communication by the minister's office or the department to Bracks or the review committee in relation to the issue of the luxury car tax.

Senator Carr—I am not aware of any conversation with him on the luxury car tax.

Senator ABETZ—What about the department?

Senator CAMERON—The industry is in crisis in the wake of the luxury car tax.

Senator ABETZ—Was there any communication by the department to the Bracks review about the luxury car tax?

Mr Paterson—In the course of the review, it was the department who provided the secretariat for the review. To that extent, there were officers from the secretariat and the department involved.

Senator ABETZ—No; on the specific matter of the luxury car tax.

Mr Paterson—The luxury car tax came up as part of our consideration in some of those discussions. So, to the extent of officers involved in the normal course of their duties, it would have come up.

Senator ABETZ—I accept that.

Mr Paterson—But were we a vessel for communication of something else? No.

Senator ABETZ—Minister, did you receive direct written representations from the local car industry regarding the luxury car tax increase?

Senator Carr—Yes.

Senator ABETZ—Are you willing to divulge to us what the content of that communication was as to whether the increase in the luxury car tax would be of benefit or detriment to the Australian car industry?

Senator Carr—I think it was widely reported that the FCAI had written to me and had expressed a view concerning their hostility to the government's budget measure.

Senator CAMERON—BMW and Audi were screaming that it gave the local car industry an advantage.

Senator ABETZ—Of course, Senator Cameron, as always, comes in right on queue. That was their concern, until there were government sponsored amendments, and we are now finding half-page advertisements encouraging Australians to buy Audis because there is no luxury car tax on them. If only the Holden Statesman could run advertisements like that as well and Australian jobs could be kept in the car manufacturing sector. If there are any more interventions from Senator Cameron, I will welcome them. Going back to the review, I am delighted that the minister is telling us that very soon he will be in a position to respond to the Bracks review, because I believe an urgent and detailed response is needed. All I am doing, I suppose, is encouraging you to expedite that. I trust that it will be a plan that looks forward for about a decade and has a substantial and significant figure attached to it.

Senator Carr—I will look forward to your support for the legislation in the chamber then.

Senator ABETZ—Let us wait and see the fine print. You have promised, Minister, that it will be bigger and better than the Button plan and it is going to be bigger and better than Chifley getting Holden underway.

CHAIR—Senator Abetz, will you get to a question sometime soon?

Senator ABETZ—I am looking forward to that. Was the department consulted about the amendments to the luxury car tax when that legislation went through the Senate as to what impact they might have on the Australian automobile industry?

Mr Paterson—We were not consulted.

Senator ABETZ—I thought as much. That is regrettable. I would assume that, as a result, no modelling has been done, either before or since the legislation went through, as to the impact that that legislation or those amendments might have.

Senator CAMERON—Did you do any modelling for the Murray-Darling's \$10 billion package? Nothing.

CHAIR—Senator Cameron: we are waiting to hear the answer, please.

Mr Paterson—The answer is no.

Senator CAMERON—That is right; the same as the Murray-Darling.

CHAIR—Senator Cameron!

Senator ABETZ—Senator Cameron was not here before and does not realise how much his colleagues criticised the then government over certain things and how they promised to do things differently when in government.

CHAIR—Thank you. I think we have had quite a few statements from various members.

Senator Carr—If you ask the officers a question, you will get a straight answer.

CHAIR—Can we get on with the questioning?

Senator ABETZ—I made that comment in relation to Senator Cameron's continual prattling from the sidelines.

Senator Carr—It was a Treasury matter; it is a matter for the Treasury.

Senator ABETZ—But somebody who was not prattling from the sidelines was one Senator George Campbell.

Senator CAMERON—The hypocrisy—I cannot stand it! I cannot stand the hypocrisy.

CHAIR—Senator Cameron, interjections are disrupting this questioning.

Senator ABETZ—Somebody who was not firing from the sidelines was Senator George Campbell, who was quite critical of the \$35 million granted to Toyota. He said, ‘It looks like a deal that was done hurriedly so the Prime Minister could announce it on his recent trip to Japan’—and he, of course, was highly critical of that. That is now history, but I ask: other than Toyota, has any other Australian automobile components manufacturer or research institution received any advances out of the green car fund?

Mr Paterson—No.

Senator ABETZ—When will others be able to apply for funding?

Senator Carr—These matters are obviously part of our consideration in regard to the Bracks review response.

Senator ABETZ—By then, we will have the full detail as to how and when companies can apply for funding.

Senator Carr—I trust that you will approve of all our measures that we take in regard to the green car fund.

Senator ABETZ—I have never signed a blank cheque in my life, except with my wife, and I do not intend to start doing that with you, Senator Carr; I am sorry to say that our relationship is not quite that close. In relation to the green car fund, are we aware of how much profit Toyota made last year?

Senator Carr—They have got published accounts.

Senator ABETZ—Yes. It was ¥2.3 trillion—and they were in need of this \$35 million grant?

Senator Carr—So I take it that you do not support this particular initiative.

Senator ABETZ—I have been critical in public about it being a very expensive photo opportunity, but what I want to know—

Senator Carr—All I can say to you is that the decision was taken—

Senator ABETZ—You asked me a question and I have answered it. It is now my turn to ask a question.

Senator Carr—I am indicating to you my response to your question.

Senator ABETZ—There was no question.

Senator Carr—There was. You asked whether they needed the support. In December, Toyota had taken the decision to manufacture the hybrid Camry in Thailand. We were able to have that decision overturned and, as a consequence of the initiative that this government has taken—which Toyota acknowledges was critical to that decision—we will now see the

production of hybrid Camrys at Altona. It is a measure, of course, that I obviously believe to be a very good move.

Senator ABETZ—Two days after this was announced, did Toyota say that it would build the next generation plug-in lithium ion Camry, geared towards fleet customers in Japan, the United States and Europe, and see full scale production by 2010? Did Toyota make such an announcement?

Senator Carr—We are not aware of that, no.

Senator ABETZ—You are not aware of it. Can I let you know that they—

Senator Carr—You have made a claim that Toyota made that announcement and you have made a claim in regard to the production date.

Senator ABETZ—Yes. I refer you to the article ‘Toyota to make plug-in hybrid by 2010’ on all those matters that I have just repeated, courtesy of CNET Networks Inc. I just wonder why, in 2010—when old-technology hybrid vehicles start rolling off the production line in Australia—Europe, Japan and the United States are going to be getting the second generation hybrid vehicle coming off their production lines.

Senator Carr—That is an assertion you make.

Senator ABETZ—Are you denying that Toyota is planning to have lithium ion vehicles running off their production lines in 2010 in the United States, Japan and Europe?

Senator Carr—I am not aware of that, no.

Senator ABETZ—You are not aware of that? My goodness! No wonder Toyota was able to con you into this deal! We have bought, at a great price—

Senator Carr—You are citing a document that we do not have.

Senator ABETZ—I would have thought you, Minister, and the department would have kept yourselves up to date with the latest technology before throwing \$35 million at a car maker, so that we get first generation vehicles lumbering off our production lines while at the same time—clearly now, without your knowledge and behind your back—it makes deals in its own country, the United States and Europe to get the second generation vehicles rolling off their production lines.

Senator Carr—We are not aware of the specifics of your claims.

Senator ABETZ—This is embarrassing.

CHAIR—Perhaps the minister can take it on notice when he has had an opportunity to look at the article.

Senator ABETZ—That is a very good idea, because it is embarrassing, I think, just for Australia’s reputation around the world—

Senator Carr—No, it is not embarrassing.

Senator ABETZ—if we as a government are making a grant to Toyota, the most successful automobile company in the world, to produce old-technology vehicles when, in three places—Asia, Europe and the United States—it has already moved on and is doing deals for the next generation. As Senator Carr leaves the committee room, I wish him well in his

cabinet meeting on the Bracks review package and I trust that it all goes well for him—because I am sure that it will go to cabinet.

CHAIR—We welcome Senator Sherry.

Senator Sherry—Thank you, Chair.

Senator ABETZ—Can I ask the department: when were Holden and Ford officially advised that the green car fund was open for business before the advertised starting date of 20 November?

Mr Paterson—There has been no announcement in relation to the opening of that fund.

Senator ABETZ—So Toyota was just given a special deal. How did that happen? Did Toyota approach the government and say, ‘Would you mind opening it earlier for us,’ or did we approach Toyota and say, ‘Look, the Prime Minister is in your country; would you agree to something if we threw \$35 million at you because it would make a good photo opportunity’? How did it happen that Toyota got \$35 million from a fund that was not to open until 20 November?

Mr Paterson—The government made an announcement in relation to the awarding of that money to be brought forward from the green car fund to secure that investment in Australia.

Senator ABETZ—Was Toyota approaching the government, or was the government approaching Toyota?

Mr Paterson—There were conversations between the government and Toyota that preceded that announcement.

Senator ABETZ—I assumed as much, but who initiated the discussion?

Mr Paterson—I will take that on notice.

Senator ABETZ—You are entitled to take it on notice, but I think you might know the answer.

Mr Paterson—If I knew the answer, I would give it to you—and you know that.

Senator ABETZ—In fairness, I accept that. So there are no other proposals for the green car fund currently under consideration.

Mr Paterson—No.

Senator ABETZ—In fairness, the minister might have to take this on notice. There seems to be a view that Australian car manufacturers will struggle to meet the government’s target of 20 per cent greater fuel efficiency by 2010. How do we propose to deal with that, or do we say that such reports are wrong?

Mr Paterson—I do not know the basis upon which that report has been made.

Senator ABETZ—Please take that on notice and, in specific terms, I refer you to an article on page 2 of the *Australian* of 16 June 2008. Was the department involved in any way in the drafting of the amendments to the luxury car tax? I understand that you were not consulted, so I assume that you were not involved in any drafting either.

Mr Paterson—Not that I am aware of.

Senator ABETZ—Because there is a substantial criticism of the government's approach to the green tinkering—but that might be more, I suppose, what Treasury—

Senator Sherry—As you would recall, I was present during questioning when you raised that issue and had it acknowledged—

Senator ABETZ—Yes, I did ask some questions of Treasury last night.

Senator Sherry—by an ATO officer.

Senator ABETZ—Yes. The ATO, of course, told me that increasing the luxury car tax does not change behaviours. If that is their view, one wonders how reducing the luxury car tax for certain vehicles is going to change consumer behaviours. But we will see what happens.

I turn to the issue of job losses in the manufacturing sector. It now seems that, since May, we have had a loss of over 9,000 jobs in the manufacturing sector. I dare say that we are agreed that there has been a substantial decline in manufacturing activity for the past four successive months.

Mr Paterson—I am not sure where you have got your number from.

Senator ABETZ—I am referring to an AiG PricewaterhouseCoopers survey but, if you are not aware of that—

Mr Paterson—I am aware of a number of job losses from the manufacturing sector over a period of 12 months to October 2008, but it does not accord with the number that you have just mentioned.

Senator ABETZ—What number do you have?

Mr Paterson—The number that I have is 7,600 jobs between June 2007 and October 2008. You said 9,000—

Senator ABETZ—Your figure is up to June 2008?

Mr Paterson—No. Our number is from June 2007 to October 2008 and your number was larger and over a much shorter period, so I cannot reconcile those two.

Senator ABETZ—In this AAP report of Friday 3 October at 9.28 am, I am told that recent statistics from the Australian Bureau of Statistics show that 9,200 manufacturing jobs have been lost in Australia since May.

Mr Paterson—We will check that.

Senator ABETZ—Thank you very much. In relation to the four successive months—this is the first dot point under key findings reported in the Australian Industry Group PricewaterhouseCoopers performance of manufacturing index for September 2008—'manufacturing activity fell for a fourth successive month in September'.

Mr Paterson—It is difficult to reconcile because the numbers that I have before me suggest that, if you look at manufacturing jobs nationally, in the year to August 2008, there was an increase of 5,500 manufacturing jobs over that 12-month period to August.

Senator ABETZ—So you would not agree that there has been a total loss of manufacturing jobs in Australia in the past 12 months?

Mr Paterson—Correct. We would say there has been a net increase.

Senator ABETZ—You would argue that there has been a net increase?

Mr Paterson—A net increase to August this year of 5,500.

Senator ABETZ—I am sure the manufacturing sector and all those people who have lost jobs would be delighted with that view of the world!

Mr Paterson—It is not a view of the world.

Senator ABETZ—We have information and I have quoted other information here. Undoubtedly, it is like a lot of statistics: it is how they are put together. But allow me to move on to a specific AusIndustry grant for our home state of Tasmania, Senator Sherry, up in the north east. It is for the Scottsdale area, the adjustment package for the north east of Tasmania, and, in particular, the money for the Musselroe road. Can I have it confirmed that that money has been withdrawn?

Mr Sexton—I think you are referring to the North East Tasmania Innovation and Investment Fund.

Senator ABETZ—That would be the one.

Mr Sexton—That has been announced but has not yet been opened.

Senator ABETZ—No, I am not referring to that. It was the previous government's fund.

Mr Sexton—Are you referring to the Scottsdale Industry and Community Development Fund?

Senator ABETZ—That is the one; thank you. Under that, was there to be a \$4.5 million grant for the Musselroe road?

Mr Sexton—That was a \$10 million program, of which \$6 million was allocated to a merit based granting program and \$4 million was allocated to the upgrade of a road to the Musselroe Bay Resort.

Senator ABETZ—Was it \$4 million and not \$4.5 million?

Mr Sexton—It was \$4 million, which was dependent on matching funding from the Tasmanian government.

Senator ABETZ—Am I correct in saying that the Tasmanian government never came forward with the matching funding?

Mr Sexton—There was no commitment by the Tasmanian government in matching funding, yes.

Senator ABETZ—What has happened to that \$4 million now? Has it gone into consolidated revenue, or is it still available for the Scottsdale community to spend in another way?

Mr Sexton—Of that money, \$2 million has been reallocated to the new North East Tasmania fund, which I have just mentioned, and \$2 million was allocated to ACL Bearing in Tasmania.

Senator ABETZ—ACL Bearing in Tasmania. Senator Sherry, I think both you and I know that that would be in George Town?

Mr Sexton—Launceston.

Senator Sherry—It is in that vicinity.

Senator ABETZ—Sorry—Rocherlea, which is in the City of Launceston and not in the local government area of Dorset. Thank you for that. Can I ask about the Geelong Investment and Innovation Fund? I just want to see whether we can get some of that money for the football club. Both Senator Sherry and I are very disappointed with the result—

Senator Sherry—You and I would be in screaming agreement on that.

Senator ABETZ—We have seen the Tasmanian government waste \$14 million on Hawthorn, so we were wondering whether we could get some federal government funding for Geelong out of this innovation fund. A lot of this Geelong innovation funding money seems to have been disappearing on administrative costs. If we have excess money, it might be better spent on the Geelong Football Club. Who can tell me—you, Mr Jones?—about the Geelong Investment and Innovation Fund? How much money has been allocated to that?

Mr Jones—The Australian government's contribution to the Geelong fund is \$15 million.

Senator ABETZ—How much has been disbursed, to date?

Mr Jones—I would have to take that on notice. I would point out that only four grants from the fund have been announced as yet and very little actual grant money would have been spent so far.

Senator ABETZ—Do you know how much those four grants total?

Mr Jones—The four successful projects from the first round of the fund were announced on 8 June 2008.

Senator ABETZ—For how much, just roughly?

Mr Jones—Those four projects had a total of \$3.3 million in funding.

Senator ABETZ—What is happening with the rest of the money? There has been substantial criticism—we might as well cut to the chase here—about the high administrative costs of this particular fund.

Mr Jones—To answer the first part of your question, the second round of the Geelong fund was announced on 21 August. So that second round opened for applications at that time and will close very shortly.

Mr Paterson—Senator, you asked how much had been spent so far. To 30 September, we had spent \$1.143 million of that \$4 million committed.

Senator ABETZ—How much has been spent on administration thus far?

Mr Paterson—I do not think we have that number. The total administrative costs that were allocated to that project for its five-year life were \$2.64 million.

Senator Sherry—We can take on notice how much has been spent to date.

Mr Paterson—Yes.

Senator ABETZ—I am referring to commentary in the *Geelong Advertiser* of 10 September 2008, where the Geelong Chamber of Commerce says:

We think that's wrong, that \$2.7 million—

they rounded it up—

of the fund will go to the coffers of the Federal Government to administer it when really there shouldn't be an administration costs ...

Just to balance up the equation, Geelong Trades Hall Secretary, Tim Gooden—Senator Cameron is not here to interject; I am just mentioning this to balance up the ledger for him—described the administrative costs as 'appalling'. Can I ask the department: are you satisfied with the level of administrative costs that have been incurred by this fund?

Mr Paterson—Yes, I am.

Senator ABETZ—Do you think it could be improved?

Mr Paterson—If it could be improved, it would be. The approach that we have taken is to deliver these funds in the most efficient way we can. Mr Jones has already indicated that we have called for submissions, and there have been a number of rounds. It may be the view of some members of that community that they would have preferred this to be administered for nothing; but you cannot do anything for nothing. To undertake the tasks of administering a fund of this nature, or any other activity, requires people to administer the program and, as is normally the case, those people are funded from within the program.

Senator ABETZ—That is not an issue. The question is the percentage of the fund that is spent on administration. When you have the reunity ticket with agreement between the Chamber of Commerce and the Trades Hall, I would have thought that, with such an expression of concern, it might be worth having some investigation and consideration to see whether anything could be learnt from this particular fund, at least for future funds, rather than to say, 'We are completely satisfied.'

Mr Paterson—We have learnt from previous funds. The nature of the administration arrangements that apply in relation to this fund have been informed by our experience in running a number of other funds, including two funds in South Australia and funds in Tasmania, so we have learnt from earlier experiences of administering these funds. I think you well know that, for us to be able to obtain funding support out of the Department of Finance and Deregulation, we have to justify every cent of administration costs that we put up. I am perfectly satisfied that the administration arrangements in relation to this fund are appropriate.

Senator ABETZ—It seems as though the department is of the view that it has now learnt all there is to know from the experience it has had with previous funds and there is no use in looking at this Geelong fund to see whether we can improve in the allocation of future funds. With respect, I just think that is a bit defensive—but that is a comment. What is the percentage cost of administration for this particular fund and how does it relate to other funds?

Mr Paterson—We will take that question on notice.

Senator ABETZ—Thanks a lot. I turn to the LPG conversion scheme? It seems as though they are doing pretty well and are selling like hotcakes. In the three months June to September, a total of 30,098 applicants were paid the \$2,000 grant. Is that right?

Mr Sexton—Demand in the program remains very strong, yes.

Senator ABETZ—The figures that I have quoted have been provided by the department, but I do not have a reference for them. To your knowledge, are those figures correct?

Mr Sexton—I believe they are, yes, for that period.

Senator ABETZ—As a result, over \$60 million has been spent. Is that correct?

Mr Sexton—To 21 October?

Senator ABETZ—I only had to 29 September, so you have another month on me; good on you.

Mr Sexton—To 21 October, we have spent \$68.572 million.

Senator ABETZ—How many applicants is that? Would that now be 32,000 or 33,000?

Mr Sexton—That would relate to approximately 35,000 or 36,000.

Senator ABETZ—The budget papers had some indicative figures in them. I think I have been told that, in the first quarter, in rough terms, we have burnt up two-thirds of the actual figure in the budget statements. Is that right?

Mr Sexton—That is correct.

Senator ABETZ—Can you confirm that this will continue to be a completely open-ended scheme and will be demand driven and not dollar limited?

Mr Sexton—It is an entitlement based scheme. On that basis, I would expect applications to be honoured.

Senator ABETZ—Given the budget allocations, if demand keeps up, where will the extra funding that is required be drawn from? Will you be supplemented, or will it come out of—

Mr Sexton—As we said at the last hearing, given that it is an entitlement based scheme, if we need to find additional moneys, I assume the government will find them. I would assume that, for 2008-09, that would probably happen at the additional estimates stage early next calendar year. There would be several mechanisms by which that would occur: new money, or rephasing of moneys from out years to the 2008-09 year.

Senator ABETZ—Let us wait and see. The most important thing is that funding continues. I might say that it was a very popular scheme. If you were to believe, as I do, that it was destined for the axe but then got a reprieve, its ongoing popularity now hopefully will convince the Rudd government to ensure that it will not be axed. Minister, could you take on notice to ask the minister whether or not the government is willing to guarantee its ongoing funding, at least until the next budget?

Senator Sherry—I will take that on notice.

Senator ABETZ—Thank you. Can I ask about the administration of the scheme? I have a funny feeling that you might tell me to go to Centrelink in relation to this. Who actually administers the rebate?

Mr Sexton—The actual receipt and assessment of applications and the payment of moneys are handled through Centrelink, with the assistance of Medicare.

Senator ABETZ—That is what I thought. I have a particular constituent issue in relation to this and, looking at it, I dare say that I have missed my opportunity. According to the rules of the LPG scheme, the rebate is only for vehicles that are used 100 per cent for private purposes.

Mr Sexton—For private use; that is correct.

Senator ABETZ—If a person uses their vehicle for private purposes but is registered as a primary producer, should that have any impact on that person's application? Would Centrelink deal with these sorts of details or would it be AusIndustry?

Mr Edwards—Centrelink deal with that, but I am aware of the rules around primary producers. Primary producers would be excluded if the registration was for primary production. That registration category is available in most states. If you register your car as a primary producer, you get a discount in most states. Certainly, the Victorian scheme states:

All vehicles registered as a primary producer vehicle must be used solely in connection with the operator's business as a primary producer.

That makes it for business use and would exclude it from the program.

Senator ABETZ—Thank you. I was going to ask a few questions on the TCF review, but I think we can delay them. I was going to ask the minister whether he agrees with Professor Green's implicit assertion that the Australian farmers who use mulesing or intensive techniques are unethical, but I note that the minister at the table has already been asked that from an agricultural perspective. If I might say, you gave a very sound answer, Senator Sherry.

Senator Sherry—It was a very succinct answer.

Senator ABETZ—It is rare that I am able to make that comment about your answers, but I was interested to see whether Senator Carr had a different view of life. I will not invite you to take that on notice.

Senator Sherry—Can I just ask why you were going to raise mulesing here with Senator Carr? I am glad it does not have a Latin name.

Senator ABETZ—Because it came up in the textile review that was undertaken by Professor Green. There is some method to my madness, Senator Sherry.

Senator Sherry—I see the linkage. I will take it on notice. If that had been given to Senator Carr in question time, I think he might have found it a bit tough to answer.

Senator ABETZ—I turn to Enterprise Connect. Does the government stand by its commitment that 10 manufacturing and innovation centres will be delivered in the second half of calendar year 2010?

Mr Dean—I expect that the manufacturing centres and probably the clean energy and creative industries centres will not be delivered until early next calendar year.

Senator ABETZ—I thought we were told previously that it would be in the second half of calendar year 2010.

Mr Dean—I am sorry; we are delivering the eight by the end of this calendar year and the other two will be opened early in 2009.

Senator ABETZ—So you will definitely meet your target of having them all up and running.

Mr Dean—Absolutely.

Senator ABETZ—Have any leases been finalised yet?

Mr Dean—Yes.

Senator ABETZ—Is the north-west Tasmanian manufacturing centre, which was promised during the election campaign, part of Enterprise Connect?

Mr Dean—It is.

Senator ABETZ—What is the delivery time frame for this facility?

Mr Dean—It should be opened next month.

Senator ABETZ—In fact, on 5 November. Can you tell Senator Carr that I think my invitation must be lost in the mail somewhere? GPO box 1675 is the address, just in case Senator Carr is interested in not being political about this particular facility. I turn to innovation. On notice, can we have the total cost of the Cutler innovation review and the total provided to Dr Cutler? Does the minister stand by his description that Dr Cutler's recommendations 'can't be done' and are 'unrealistic', and can he tell us whether that assessment is—

Senator Carr—Where did I say that?

Senator ABETZ—Radio National background briefing on 12 September.

Senator Carr—That is what I said, did I?

Senator ABETZ—Yes, that is what I have been advised.

Senator Carr—I would suggest that you go back to your adviser.

Senator ABETZ—You deny saying that; that is fine. So you think it can be done and it is realistic.

Senator Carr—No. I said that the recommendations from the Cutler review are extensive and they cannot all be implemented in the space of one budget or one parliament and that we were looking to develop a 10-year plan. I think you will find that is the context in which those remarks were made.

Senator ABETZ—Undoubtedly, like your luxury car tax comments.

Senator Carr—I do not think I mentioned luxury car tax.

Senator ABETZ—I think my other questions in this area were discussed in the general comment on reviews. Can I move to R&D figures? I note certain criticisms have been made about expenditure on R&D. Mr Paterson, are you aware of the Australian Bureau of Statistics *Research and experimental development: all sector summary* for Australia 2006-07?

Mr Paterson—Yes.

Senator ABETZ—Does that show that gross expenditure on research development by business increased substantially—about three-fold—from 1996 to 2006?

Senator Carr—I am not certain of those particular figures. I can say that—

Senator ABETZ—That was from \$4,235 million to \$12,036 million.

Senator Carr—What was the growth of GDP during that period?

Senator ABETZ—I am asking you whether that represented a 32 per cent increase over that period. I just want to know whether these figures are correct and whether we stand by the Australian Bureau of Statistics.

Senator Carr—I can say to you that—

Senator ABETZ—I do not want another political speech; I want to know whether the facts as outlined by the ABS are acknowledged by the department.

Senator Carr—What we can say is that the gross domestic expenditure on R&D exceeded two per cent of GDP for the first time in 2006-07, which of course is obviously a good result but still well below the OECD average of 2.26 per cent. We are ranked only 11th in the OECD and are well behind countries like Israel, Sweden, Finland, Japan, Korea and the United States. GIRD did grow by \$21 billion at current prices, an increase of 32 per cent, compared with that period, but of course we still have a huge amount of catching up to do. Many countries have achieved consistently higher growth rates than Australia has. China's gross expenditure on R&D rose nine per cent a year—

Senator ABETZ—I just asked about the ABS figures, not for the minister to work himself into a lather.

CHAIR—I think the minister is giving a complete answer.

Senator ABETZ—No, he is not.

Senator Carr—I was asked a question about the growth rate and I am providing—

Senator ABETZ—No, you were not. You were asked whether you accepted the ABS figures, and the answer would be either yes or no.

Senator Carr—You might think it would be yes or no. I am pointing out to you that—

Senator ABETZ—Do you or don't you?

Senator Carr—China's R&D growth rate was nine per cent per annum—

Senator ABETZ—Do you or don't you accept the ABS figures?

Senator Carr—and our growth rate was one per cent.

Senator ABETZ—I know you have your prepared speeches for which you get brownie points if you can deliver them during estimates, but it is not helpful.

CHAIR—Senator Abetz, I think we will get to where we are going faster if you just allow the minister to finish his answers.

Senator Carr—What occurred during the period 1996-97 through to the year 2000 is that business R&D, on chain volume measures, fell for the first time on record. So we can only speculate on how much stronger our R&D performance would have been if the measures taken by the previous government in 1996 had not been taken. What the review of the national innovation system has sought to highlight is how Australia's failure to keep pace with the rest of the world has hurt our productivity and competitiveness. That is why, in the white paper response, we will be paying particular attention to these issues.

Senator ABETZ—Does the ABS also tell us that, over the 10 years to 2006-07, GIRD increased at a two-yearly rate of 28 per cent? That is nearly of hockey stick proportions, isn't it?

Senator Carr—No. What I have indicated to you is—

Senator ABETZ—I have the graph here in front of me.

Senator Carr—If you have the graph, why are you asking me the question?

Senator ABETZ—Because I want to know whether the department is of the view that the ABS somehow has its analysis wrong. Is the department aware of the Australian Bureau of Statistics' *Research and experimental development, all sector summary, Australia 2006-07*?

Mr Paterson—Yes.

Senator ABETZ—Have you had the opportunity of examining it?

Mr Paterson—Yes.

Senator ABETZ—Do you have any reason to doubt the base data that is contained in its summary?

Mr Paterson—No.

Senator ABETZ—Thank you very much. That is all I really need to know on that one. Can I quickly backtrack, Minister? You indicated that you did not say certain things on Radio National. I am a trusting sort of fellow and I am willing to take your word on that but, just to confirm my trust, I am sure that your media monitors would have had that transcribed. Could I invite you to provide the committee with a transcript of that Radio National interview?

Senator Carr—I think you will find it is on the ABC website. I thought there was actually a transcript—

Senator ABETZ—If you have one available, it would be helpful. If not, we will go to the ABC website.

Senator Carr—I thought there had already been one on the ABC website.

Senator ABETZ—Are we currently between chief scientists?

Senator Carr—No.

Senator ABETZ—One has resigned and one is about to start?

Mr Paterson—Correct.

Senator ABETZ—So we are between chief scientists. It is not a trick political question.

Senator Carr—We have announced the appointment of a new Chief Scientist.

Senator ABETZ—That is right. She has not taken up her position as yet, but her predecessor has resigned, retired or left the post. Is that right?

Mr Paterson—Concluded the term of appointment.

Senator ABETZ—All right, ‘concluded the term of the appointment’, and the new one has not taken up her new term of appointment as yet.

Mr Paterson—Correct.

Senator ABETZ—So there is a hiatus period.

Mr Paterson—November 3.

Senator ABETZ—No trick question. I just wanted to make sure that I was right. So there is an Office of the Chief Scientist. Is that represented here today?

Mr Paterson—The questions in relation to the Office of Chief Scientist were scheduled to be considered in the first session this afternoon. I am happy to respond to any questions that you have. They were explicitly mentioned in the first session.

Senator Carr—They are listed on your program, Senator.

Senator ABETZ—Fair enough. Can I then put on notice: what is the budget of the office, how many staff does it have, what band are those staff in and how many applications were there for the position of Chief Scientist? In addition, could it be confirmed that this is a Public Service position? I do not need those questions answered now.

Mr Paterson—The answer to the last question is that it is not a Public Service position—that is, it is not an appointment under the Public Service Act but an appointment under a deed with the Commonwealth.

Senator ABETZ—So it is a separate deed, is it?

Mr Paterson—Yes.

Senator ABETZ—Thank you. That is very interesting.

Mr Paterson—It continues the pattern of previous appointments in relation to the Chief Scientist.

Senator ABETZ—I think, of itself, that might be a good position.

Mr Paterson—The total budget for the office for 2008-09 is \$1.294 million, probably closer to \$1.295 million, excluding the costs associated with the direct employment of the Chief Scientist. At present there are nine allocated staff: one EL2, four EL1s, three APS6s and one APS3.

Senator JOYCE—So that budget pertains to all those people for the year?

Mr Paterson—Correct. It is for the year, with the exception of the appointment of the Chief Scientist, which is separately provided for.

Senator JOYCE—That is on top of that?

Mr Paterson—The question was in relation to the Office of the Chief Scientist, and that is the staffing complement and budget of that office.

Senator ABETZ—In relation to the Chief Scientist, I must say that everything I have read about the lady would indicate that a very well-qualified and capable person has been appointed. She has said:

I'd like to think I'm doing things for Australia. I'll be the Chief Scientist for Australia, not of Australia.

I must say that is a great approach to have. Will access to the Chief Scientist be given to the opposition and, indeed, the minor parties, should they be interested, to discuss things that are in the public domain so that she can be, if you like, an independent operator in her duties for Australia?

Mr Paterson—My understanding is that access to the Chief Scientist would be provided on the same basis as access to other parts of the public sector and agencies of government. The normal protocol that applies in those circumstances is that, if there is an approach from the opposition or from a minor party, those approaches are normally made to the minister responsible for the particular area of activity and it is a matter for the minister to decide in the circumstances.

Senator ABETZ—That is why I was inquiring as to whether it was an Australian Public Service position or not, or whether it was a completely independent position where people could access the Chief Scientist for information or advice from time to time.

Mr Paterson—They are appointed on a deed.

Senator ABETZ—You have clarified the position and I accept that that will be the way, whether we necessarily like it or not. I will finish with a brief bracket of questions on cooperative research centres. I understand that currently there is no application process for new CRCs to start in the 2009-10 year. Is that information correct?

Mr Paterson—I think you are aware—we made reference to this earlier—that there was a review of the CRC program as part of the broader review. It was a separate but integrated review of the CRC program, which is currently before government. A matter that would flow out of that consideration is how that program is dealt with in 2009.

Senator ABETZ—My question was: is it true that there is currently no application process for new CRCs to start in 2009-10? We are in a hiatus period.

Mr Paterson—No new round has been announced at this stage. The CRC community, if I can call it that, is aware of the CRC review and that that is a matter for consideration by government at the present time.

Senator ABETZ—Can we confirm that start-up CRCs that are to start in 2009-10 need to be announced by 30 June 2009? Is that a correct timetable that I have been given?

Mr Paterson—That may be the expectation. Those who apply for the whole of that period clearly need to have some prior announcement. But, if history informs us on this, with new CRCs there is a gap between the announcement of the selection of a CRC and the resolution of the contractual terms and the flow of dollars. So I do not think there is an automatic sort of switch that 'by 30 June, therefore start on 1 July'. The reality is that any selection round will

take a period of time. The resolution of any selected new CRC, for example, will depend on the nature of the CRC and the contractual terms that need to be resolved.

Senator ABETZ—But, as I understand it, if one is to start in 2009-10 or even 2010-11 but there is to be a cut-off date of 30 June 2009, there is no application process as yet and any new application process will be as a result of the national innovation review white paper, as I understand it, which will be announced early next year; therefore, there will be a very tight time constraint on anybody who wants to have an application in by 30 June 2009. Have I misunderstood—

Mr Paterson—I just want to clarify a point. I understood your question to be associated with applicants for new CRCs.

Senator ABETZ—Or for start-up CRCs, yes.

Mr Paterson—So this is not about applications for existing CRCs that may be looking for new money, this is about new start-ups?

Senator ABETZ—Yes.

Mr Paterson—I have answered that question.

Senator ABETZ—So, there are no guidelines at the moment for new CRCs. Is that right? They will have to wait for the national innovation review white paper. Is that right?

Mr Paterson—There are 2006 selection guidelines that are still listed on the website but, as I said earlier, it is a matter for consideration before government at the present time, having been a review of the CRC program, and there is no new funding round announced for 2009 at this stage.

Senator ABETZ—Right. But if somebody was wanting to be proactive, anticipating that the government might actually deliver on one of its science policies and research policies and keep funding going—so they are anticipating funding might come along—they should be preparing their application on the basis of the 2006 guidelines, or will there be substantially different guidelines as a result of the white paper?

Mr Paterson—A proactive person would read the CRC review and anticipate what might come from that. The challenge in these circumstances is that we do not know what the final decisions will be. If we start to provide advice in public hearings that people should follow the 2006 guidelines and then find that there are different guidelines in relation to an announced 2009 funding round, then someone will come back and can say, ‘But you misled us in relation to saying, “Follow the 2006 guidelines”.’ That is why I am being cautious. There is a review; there are published guidelines and, as yet, there is no announced funding round for 2009. The minister indicated earlier his aspiration in terms of being able to announce the outcome of the national innovation system review. The CRC review is part of that program.

Senator ABETZ—The science and research community are telling me there is much dislocation and concern—two words that have been used with me—in relation to the CRC sector and the period that we are in, because it may be with a review, with new guidelines, that we miss out on a whole year for start-up CRCs. That would be unfortunate if that were to occur, so I would invite the minister and the department to try to streamline this as much as

possible. When I talk about streamlining, I do not mean as streamlining was used in the Labor Party policy in relation to Commercial Ready. Is it correct that no applications are going to be called for until the white paper review?

Mr Paterson—I missed that.

Senator ABETZ—There will not be a call for applications for a new round of CRCs until the white paper has been delivered?

Mr Paterson—There will not be a call for a new round of applications until such time as the government has decided on the course of action. I will not say until the white paper; I am saying there will not be an announcement in relation to the round until the government has decided what it wants to do in relation to that CRC review.

Senator ABETZ—Do we have an idea as to when that might be?

Senator Carr—I have already indicated that to you. I see you put a press release out on that topic, so perhaps you should read your own press release.

Senator ABETZ—Are you going to favour us with an answer?

Senator Carr—I have indicated to you that there will be a response to the reviews in the context of the white paper preparation. In regard to the specifics of the CRC review, that will be considered by government in that process.

Senator ABETZ—Mr Paterson I think was quite proper in being very careful to say that any calls for applications for new CRCs will be undertaken when the government is right and ready for it, and that may be after the white paper is provided or, indeed, before.

Senator Carr—I did not speculate either way. I just indicated—

Senator ABETZ—That is right, ‘when the government is ready’. Now, Minister, I am asking—

Senator Carr—When will the government be ready?

Senator ABETZ—It seems that you are saying, that it will be after the white paper.

Senator Carr—No, I did not say that at all. What I said to you is that a response to the CRC review—Professor O’Kane’s review—will be considered in the context of our preparation of the white paper.

Senator ABETZ—You indicate it would be responded to in the white paper when it is released.

Senator Carr—No, I did not. I said ‘in the context of the white paper’.

Senator ABETZ—We can re-read the *Hansard*.

Senator Carr—Perhaps I should try and assist you in this way. I will try to explain this in simple terms. You have the Cutler review, which the government will respond to. You have the O’Kane review, which the government will respond to.

Senator ABETZ—Yes. We know all that.

Senator Carr—We will obviously need to consider those things in tandem. When we announce another round will, of course, be a subject of further conversations within the government.

Senator ABETZ—Do we have a timetable for that?

Senator Carr—It is our intention, of course, to consider these matters over the next little while. I have already indicated publicly our intention, of course, is to respond as soon as we can.

Senator ABETZ—I understand that you might hold me in contempt, but do not forget there are actual CRCs and start-up CRCs waiting for this information. I would have thought a provision of some sort of more definitive assistance to them would be appropriate, because this is this research and scientific community that you championed so long and hard, yet you have presided over huge cuts in a whole host of areas.

Senator Carr—That is not true.

Senator ABETZ—Just ask ANSTO, CSIRO, the Commercial Ready program, and the list goes on. You know that. We have gone over time, Chair, and I thank you for your indulgence.

CHAIR—We will now move to Outcome 3: Science and Research.

Senator ABETZ—Whilst that is happening, I have been advised that your wonderful words in relation to Radio National are, in fact, not able to be obtained from the ABC website or there are technological deficiencies within my office. I was wondering if your office could provide that transcript. That would be most helpful.

Senator Carr—I will take that on notice. The truth is I do not get transcripts for most of the work I do. It may well be we can provide you with a copy of the interview, I just do not know.

Senator ABETZ—That is fine. I believe I was given a verbatim—

Senator Carr—Yes, but it is not the language that I normally use, that is the point.

Senator ABETZ—I believe one of your spin doctors might have written it for you; but, anyway, we will see.

[5.11 pm]

CHAIR—We will now move on to Outcome 3.

Senator ABETZ—Can I turn to national research priorities? I want to know about them and what the current status is, please. I think we have got five national research priorities, is that correct?

Ms Borthwick—Yes.

Senator ABETZ—This is not a trick question. I would imagine if circumstances change, you would update or change these priorities, so can I ask are they being updated or finetuned in any way?

Mr Paterson—One of the terms of reference of the review of national innovation system was to look at national research priorities and to provide advice to government on those. Dr

Cutler's report has provided that advice to government, so that is currently the subject of consideration by government.

Senator ABETZ—That is another aspect that has wound up in there.

Mr Paterson—Yes.

Senator ABETZ—That is fair enough.

Mr Paterson—There has been no change to the pre-existing national research priorities but that is something that is subject to consideration within government as part of that broader consideration of the white paper.

Senator ABETZ—So it would be fair to say that if they were to be updated we would be potentially informed of that in the white paper?

Mr Paterson—That would be my expectation.

Senator ABETZ—Thank you for that. That truncates all that until we get the white paper. Undoubtedly, the February estimates will be the time when we deal with those matters. Can I turn to a charter of academic rights and responsibilities?

Mr Paterson—Yes.

Senator ABETZ—What is the current status of the academic charter of rights and responsibilities?

Senator Carr—Are you talking about the agencies' charters?

Senator ABETZ—The one you announced on 16 January.

Senator Carr—The charter is related to the agencies.

Senator ABETZ—Was that being driven out of your office? Has any departmental assistance been given? Yes?

Senator Carr—There was department assistance but—

Senator ABETZ—Thank you. So from the departmental point of view, can I ask how is it progressing?

Senator Carr—What is the question?

Senator ABETZ—Sorry?

Senator Carr—Our problem is trying to identify what is your question.

Senator ABETZ—What is the current status of this charter, or these charters, in relation to the various agencies? Is it going to be in the form of one charter applying to everybody or will there be specific charters for specific bodies? Let us drill right down then.

Senator Carr—These charters vary from agency to agency. There are common elements in so far as all of the agencies are concerned, but then there are specific elements for each of the agencies. They are in the process of negotiation.

Senator ABETZ—How is it progressing? We have got negotiations underway and I understand the department is part and parcel of undertaking that negotiation with each agency. Is that correct?

Senator Carr—Last time I had a look at this they were pretty close to completion.

Senator ABETZ—Good. So in that case the answer is, ‘The negotiations have gone very well’, which is good. If they are very close to completion, when do we think that we might announce them and will they be announced as a job lot or will it be announced agency by agency?

Senator Carr—I will be taking advice on that.

Senator ABETZ—Undoubtedly from your department?

Senator Carr—I have not made a decision on that yet.

Senator ABETZ—Have some agencies’ charters progressed quicker than others in negotiation?

Senator Carr—They are all pretty much the same.

Senator ABETZ—We were told that there were standard elements in each but that they were also specifically tailored for each agency. Is that correct?

Ms Borthwick—Yes.

Senator ABETZ—So, I am wondering in relation to the dealing of the specifics for each particular agency, have they all gone swimmingly or have some agencies taken a bit longer than others?

Senator Carr—No.

Senator ABETZ—So, they have all been able to respond at exactly the same time?

Senator Carr—All the advice coming to me is that they have gone very smoothly and they are being discussed within each of the agencies in their decision-making processes.

Senator ABETZ—They are all going very smoothly. Are some going more smoothly than others?

Senator Carr—There is no problem with any of them.

Ms Borthwick—All of the charters are close to finalisation and they have progressed to the point where they are all now close to conclusion.

Senator ABETZ—I do not know what the difficulty is. It would stand to reason that when you are dealing with a number that some might be closer to completion than others. That is all.

Ms Borthwick—That is what I am saying. They are all at the same point now. That is what I understand.

Senator ABETZ—Exactly the same point?

Ms Borthwick—Correct. My understanding is we are close to concluding all of them now.

Senator ABETZ—So, no more negotiations are required?

Senator Carr—I am not aware of any difficulties in terms of negotiations. As far as I know it is a question of—

Senator ABETZ—But are any more—

Senator Carr—I will try to answer your question. As far as I am aware it is a question of board schedules and sign-offs within each of the agencies, but no-one has drawn to my attention any difficulties with any of the agencies.

Senator ABETZ—Just because it has not been drawn to your attention does not necessarily mean that there have not been certain difficulties because your departmental officials undoubtedly can handle these things very well without bothering you with the detail. So, all I am seeking to do—

Senator Carr—If there were difficulties I would expect to hear about them, and I have not.

Senator ABETZ—I am willing to accept that they have all run very smoothly, but it stands to reason that some would have run smoother than others. It would be a strange world if every single agency responded in exactly the same way in relation to every aspect. It just would not be the real world. So I do not think my questioning is out of order in any way and I think it is relevant. We are entitled to know whether there have been any difficulties.

Ms Borthwick—I support what Minister Carr has said in that some of the progress has been subject to the timetables of various board meetings, but none of them have come across obstacles which we could not negotiate or resolve, and they are all at the same point now, which is close to conclusion.

Senator ABETZ—That is fine, but it stands to reason that those issues that you had to negotiate to resolve, with some agencies it was easier or quicker to resolve than with other agencies. That is all I am asking, and I would have thought in the real world the very simply answer would be yes, each agency is different and, yes, some agencies were quicker and easier to negotiate with than other agencies. What is the difficulty with telling the Senate that?

CHAIR—I think there is some confusion. If there is a particular point or if you know of some agency, it might be helpful if you would expand on it.

Senator ABETZ—The art of asking questions you can leave to me, thank you.

CHAIR—I am just trying to be helpful because there seems to be some confusion.

Senator Carr—We are going around in circles here.

Senator ABETZ—Only because I am not being given a direct answer.

Mr Paterson—You have got a direct answer from Jessie Borthwick. She has given you a quite explicit, direct answer. There have been no problems. There have been negotiations. They have been resolved amicably and all of the negotiations are at the same state. I am not sure that we can give any straighter answer than that.

Senator ABETZ—As we are getting to the stage where we are at now with all of them, you cannot tell us whether the progress to the stage where they are all at now was smoother with one agency as opposed to another agency? That is all I am seeking to inquire about.

Mr Paterson—I think we have indicated on a number of occasions—

Senator ABETZ—That they were all exactly the same—please!

Mr Paterson—Not exactly the same—

Senator ABETZ—Thank you.

Mr Paterson—But with respect, you are asking whether there were impediments or if there were problems or if there have been challenges in relation to these negotiations and the officer has given advice that the negotiations have proceeded smoothly and they have all reached a conclusion. I do not know what else we can give you.

Senator ABETZ—We are entitled to know how the progress went in relation to each one. I accept that they are now all at the same stage. I have no reason to doubt that in any way, shape or form. I am asking about the progress to the point we are at now as to whether negotiations and discussions, timeliness of responses et cetera was better with one agency as opposed to another agency. That is all I am asking. In the real world it would stand to reason that some agencies were more expeditious or more cooperative than others. But you are saying they were all exactly the same. They were all like identical twins; you could not tell them apart.

Mr Paterson—No, we are not suggesting that to you and we have not suggested that to you. We have indicated—

Senator ABETZ—All right then, tell me the differences.

Mr Paterson—What we have indicated to you is that there were no impediments along the way.

Senator ABETZ—But that is not the question I am asking. I am not asking about impediments, I am asking about the differences.

Mr Paterson—What differences would you like us to examine?

Senator ABETZ—I do not know whether there were any differences—

Mr Paterson—I have tried to indicate—

Senator ABETZ—If you could acknowledge that in the real world there would have been differences in relation to timeliness of responses or the negotiations that had to happen in relation to each agency because I understand each agency, whilst on a standard basis, is treated differently, it stands to reason that there would be a difference in the time line that got us to where we are at now where they are all equal.

Senator Carr—There is no difficulty with these negotiations. Each of the agencies was responsive. Each of the agencies has considered these matters very carefully. We are simply waiting on a final sign-off. I am not aware of anybody indicating any serious difficulties in terms of the processes for the resolution of these questions.

CHAIR—Senator Abetz, if you do not mind, Senator Boswell has been waiting for some time to ask a question. I am happy to let you return.

Senator ABETZ—I would not mind just closing this off. Mr Paterson and officials and, in particular, Minister, I really cannot understand the difficulty in answering the question. I know where we are at today. I accept that at face value they are all basically ready to be signed off. I think that is the stage we are at. Can I compliment you on achieving and arriving at that? But the journey to getting there clearly must have been different for each agency. For that not to be acknowledged is quite frankly mind numbing and I think not fair to this Senate committee.

Mr Paterson—I take exception to suggestions that we are not being fair to this committee. We are answering your question as openly and as honestly as we can. There have been no

problems. We are not going to sit here and single out an agency just for the sake of identifying a problem that did not exist. We say there were no problems in relation to the negotiations. There are no problems. What can we identify for you that we have not identified for you if we do not have a problem?

Senator ABETZ—I am asking: was one agency quicker to respond than another in relation to this charter of rights and responsibilities? Surely some responded quicker than others. Are we willing to concede that?

Ms Borthwick—With regard to the process, the overall speed is from the beginning of the process to now. Some of those, as I indicated earlier, were subject to different timing because of consideration by board meeting dates. That contributed to some of the timing issues.

Senator ABETZ—That would be a timing issue—

Senator Carr—We have canvassed this. This point was made 20 minutes ago.

Senator ABETZ—After your discussion—

CHAIR—Senator Abetz, Senator Boswell really has been waiting for some time. It is a query about whether he can ask a question. It will just take a couple of minutes.

Senator BOSWELL—I am not sure that I have got the right officers. Does the department keep any statistics on the increase or decrease of specific industries?

Mr Paterson—I missed the question.

Senator BOSWELL—I am trying to find out the decrease or increase on specific industries. I am trying to get to the processed fruit and vegetable industry. Has there been an increase or decrease in it?

Mr Paterson—If you are asking about the fruit and vegetable industry, that is the Department of Agriculture, Fisheries and Forestry.

Senator BOSWELL—I understand that but I am talking more about the processing—

Mr Paterson—Food processing is also undertaken—

Senator BOSWELL—Your department does not keep any statistics on, say, Ardmona or Golden Circle?

Mr Paterson—The food industry program is handled by Minister Burke.

Senator ABETZ—Clearly we are not going to get any further. It defies belief that they all progressed in exactly the same manner and in the same way—

Senator Carr—What defies belief is that you would spend so much time going around and around in circles.

Senator ABETZ—It is my entitlement to ask the question.

CHAIR—Can we draw a line? Have you got further questions on this outcome area?

Senator ABETZ—Absolutely I do. The questions I was asking clearly fit into that category, but once again the minister will not be responding so we will move on. Can I ask about the Australian Stem Cell Centre?

Senator Carr—Yes.

Senator ABETZ—Thank you. That is gracious. Can I have confirmed that we will spend \$5.5 million in this financial year on the Australian Stem Cell Centre; is that correct?

Mr Paterson—You asked a question about the \$5.5 million under the Major National Research Facilities program.

Senator ABETZ—Yes. Is that the only funding out of this department for the Stem Cell Centre?

Mr Paterson—No. There is ongoing funding of the Stem Cell Centre jointly funded by a program administered by this department and a program administered by the Australian Research Council. The Stem Cell Centre is funded through to 2011. It was the Centre of Excellence program through to 2011—

Senator ABETZ—What is the total that this department is spending on the Stem Cell Centre this financial year, 2008-09?

Mr Penniford—It is \$5.5 million that we have scheduled to spend with the Australian Stem Cell Centre this current financial year.

Senator ABETZ—That was the figure I first mentioned. In the few minutes remaining perhaps I can have a bit of a tutorial on this, but can you indicate how the department and the Stem Cell Centre interact with administration? Are they completely autonomous?

Mr Chesworth—The relationship between the department and the ARC on the one hand and the Stem Cell Centre on the other is governed by a deed of agreement.

Senator ABETZ—How extensive is that deed of agreement? Are we talking about 10 pages or hundreds?

Mr Chesworth—It is a very extensive document.

Senator ABETZ—A tome, is it?

Mr Chesworth—It is a tome.

Senator ABETZ—In that case I will not bother to ask for a copy of it. To use some loose language, are they relatively autonomous in the way they run themselves or does the department have an active oversight?

Mr Chesworth—There is a regular reporting mechanism based on some key performance indicators that have been put forward by the Stem Cell Centre itself and those reports are made on a quarterly basis.

Senator ABETZ—Did those regular reports highlight some of the difficulties that the centre is now experiencing? Did those reports on a quarterly basis start indicating some of the difficulties that I understand the centre is currently experiencing?

Mr Chesworth—Yes.

Senator ABETZ—I do not mean to be critical of Mr Paterson, but is this another review that is in the department? I understand the minister was getting a review on the Australian Stem Cell Centre by the end of last month.

Mr Chesworth—This is a scheduled review. It had been scheduled to take place in 2008. There was also a review that took place in 2006 and it is my understanding that there is another schedule review due in 2010 as well.

Senator ABETZ—But there is an ongoing review, even if it is a rolling review. So that I understand, would a fair description of it be that it is a rolling review?

Mr Chesworth—The review was a discrete exercise.

Senator ABETZ—Were there any other discrete reviews, Secretary, that I should be made aware of that are currently underway in the department?

Mr Paterson—I did indicate that I would take that on notice. I have clarified the answer in relation to one additional issue earlier today. If there is anything else that I have not brought to your attention—

Senator ABETZ—Like this one. I appreciate you cannot have them all.

Mr Paterson—I did take it on notice earlier.

Senator ABETZ—Yes. I am just indicating that here is another one. Minister, have you received what has been described as a final report?

Senator Carr—Yes.

Senator ABETZ—When will be you responding to it or anticipating that—

Senator Carr—I would like to have a look at the review. It was handed to me yesterday.

Senator ABETZ—That is fair enough. When was the timetable for the review? There was a press report suggesting the end of September. I am not critical of the fact that we are halfway or three-quarters of the way through October. The minister has now received the report and clearly has not had the opportunity to read it.

Senator Carr—It is a commercial-in-confidence report.

Senator ABETZ—I am not critical of that.

Senator Carr—I just think you should be aware of some elements that I need to consider in responding to the review because there are matters that need to be carefully considered. Nearly 100 people were contacted in the preparation of the report by Growing Your Knowledge, which is the company commissioned to undertake the review. There are matters that were presented to the reviewers in confidence and it is a commercial-in-confidence report. I am seeking advice from the officers about these matters and I will make a determination after discussion with them. It is unlikely that I will be able to release the full report, given the confidential nature of those matters. I am considering a question of the executive summary of recommendations. I will be seeking advice on those matters.

Senator ABETZ—All the best with that. Can we be advised as to how much was paid for this review to be undertaken? Has that been announced anywhere as yet?

Mr Pennifold—The cost of that review is under a contract and GST inclusive is \$324,410.

Senator ABETZ—In anybody's language that is not a small sum of money but clearly the ASCC—

Senator Carr—It is substantive.

Senator ABETZ—It does consume a substantial amount of Australian taxpayers' money. Given the problems that the minister described as 'major problems', it is appropriate that this sort of report be obtained. Undoubtedly, for that sum of money—

Senator Carr—You know the public conversation around this issue. I think it would be a fair description to say there are major problems. The board has resigned and the CEO has resigned.

Senator ABETZ—Sorry?

Senator Carr—Both the board and the CEO have resigned. These are not usual circumstances.

Senator ABETZ—When did the board resign?

Senator Carr—That is all in the public record. I do not know the precise dates.

Senator ABETZ—I am not being critical of this. It is an unfortunate situation.

Senator BOSWELL—I just want to come in on this.

Senator ABETZ—Take on notice please when the board resigned and when the CEO resigned.

Senator Carr—This is all on the public record.

Senator ABETZ—I am sure it is but if you can provide me—

Senator BOSWELL—The government has put in \$100 million and this Stem Cell Centre was supposed to be self-sufficient and was supposed to get out there in the market and sell cures and do all sorts of wonderful things. It is \$100 million for Trounson, who I believe sold our government a complete pup. He is headed for Canada or somewhere. We are \$100 million down the chute. The board has resigned. The CEO has resigned. The universities do not want to have any part of it.

Senator Carr—That is not true.

Senator BOSWELL—That is good.

Senator Carr—I do not think that is true.

Senator BOSWELL—Is the government going to put in any more money?

Senator Carr—You and I have a difference of opinion about the value of stem cell research. So we are clear about this, you have been an opponent of this centre from its creation. The previous government established the centre and established the business model and the terms of the deed. I think that is all incontestable. I am of the view that stem cell research is extremely important. However, I want to be satisfied that this is an effective use of public money. We are now evaluating with this report what needs to be done about the present situation. The reviewers have made some recommendations to government. There is a detailed report that is under consideration. I think it would be a fair description to say it is a thorough review. I have no reason to doubt that it is a quality review. There is a scientific panel that has made recommendations as well, and these are matters that we are currently considering in toto.

Senator BOSWELL—Thank you for that. I cannot say that you were not warned because I continually warned you this was exactly the position you would end up with in regard to the Stem Cell Centre and Mr Trounson—I do not think he is a professor; he is a sheep doctor or something.

Senator Carr—That is a bit unfair.

Senator BOSWELL—He is a vet of some description. He is not a doctor.

Senator Carr—He is a professor. I recently met with him in California. I have met with the people that he is now engaged with. I do not believe that your description of him is fair.

Senator BOSWELL—Did you ask him about the rat that he hit with stem cells and it walked?

Senator Carr—I am aware of your claims on these matters.

Senator BOSWELL—My claims were proved and run in the *Australian*. What I said was completely accurate. I am asking you to be very careful with taxpayers' dollars. We have already done \$100 million. Please do not send good money after bad.

Senator Carr—The officers are advising me it is actually \$65 million that has been spent on the centre. I will not concede that it has been 'done', as you put it. However, we are considering these issues very carefully and I thank you for your advice.

Senator BOSWELL—You cannot say you have not been warned.

Mr Paterson—I would like to clarify an observation I made earlier. I indicated that the department blocked access to Wikipedia. I should more accurately have said we have blocked the capacity of anybody in the department to update any Wikipedia entry. They can view a Wikipedia entry but they cannot provide any updates to Wikipedia.

CHAIR—Thank you. I am pleased to hear it.

Mr Chesworth—Could I respond to a question that Senator Abetz asked to be put on notice? The former ASCC board resigned on 5 September.

CHAIR—That concludes that outcome and indeed the innovation, industry, science and research portfolio. Thank you, Minister, Mr Paterson and officers of the department.

[5.45 pm]

RESOURCES, ENERGY AND TOURISM PORTFOLIO

In Attendance

Senator Carr, Minister for Innovation, Industry, Science and Research, and Senator Sherry, Minister for Superannuation and Corporate Law

Department of Resources, Energy and Tourism

Executive

Dr Peter Boxall AO, Secretary

Mr Drew Clarke, Deputy Secretary

Enabling Services

Ms Jo-Ann Rose, Chief Financial Officer

Mr Robert Towner, Acting General Manager, Enabling Services

Resources Division

Mr Bob Pegler, Acting Head of Division, Resources Division

Mr Matthew Paull, Acting General Manager, International, Resources Development and Taxation Branch

Mr Chris Stamford, General Manager, Minerals Branch

Ms Marie Taylor, General Manager, Fuels and Uranium Branch

Mr Martin Squire, Acting General Manager, Offshore Resources Branch

Mr Patrick Davoren, Manager, Radioactive Waste Section, Fuels and Uranium Branch

Global CCS Initiative

Ms Margaret Sewell, General Manager, Global CCS Initiative Project Team

Mr Michael Sheldrick, General Manager, Global CCS Initiative Project Team

Mr John Karas, Manager, Low Emissions Coal Policy

Mr Ian Walker, Acting Manager, Carbon Capture and Storage Legislation

Resources and Energy Policy

Ms Tania Constable, Principal Adviser, Resources and Energy Policy

Energy and Environment Division

Mr Brendan Morling, Head of Division

Mr John Griffiths, General Manager, Energy Security Branch

Mr Gary James, Acting General Manager, Energy Policy Branch

Mr Chris Locke, General Manager, National Energy Market Branch

Mr Geoff Stone, General Manager, Energy Futures Branch

Mr Bruce Wilson, General Manager, Environment Branch

Tourism Division

Ms Jane Madden, Head of Division

Mr Wayne Calder, General Manager, Business Development Group

Ms Helen Cox, General Manager, Market Access Group

Mr Geoff Brown, Acting General Manager, Industry Sustainability Group

Geoscience Australia

Dr James Johnson, Acting Chief Executive Officer

Dr Clinton Foster, Chief, Petroleum and Marine Division

Mr Len Hatch, Acting General Manager, Corporate
Mr John Schneider, Acting Chief, Geospatial and Earth Monitoring Division
Dr Barry Drummond, Group Leader, Geospatial and Earth Monitoring Division
Mr Geoff McMurray, Chief Financial Officer
Mr Glenn Ashe, Chief Information Officer

Tourism Australia

Mr Geoff Buckley, Managing Director
Mr Matt Francis, Government Relations Manager
Mr Grant Le Loux, Executive General Manager, Corporate

National Offshore Petroleum Safety Authority

Mr John Clegg, Chief Executive Officer
Mr Simon Schubach, General Manager, Regulatory
Mr Phil Palmer, General Manager, Business

CHAIR—The committee will now examine the resources, energy and tourism portfolio, commencing with general and corporate questions for the department. For the benefit of officers I advise that the committee has fixed Friday, 12 December 2008, as the date for the return of answers to questions taken on notice. Dr Boxall, do you wish to make an opening statement?

Dr Boxall—No, thank you.

Senator RONALDSON—I just have some general questions in relation to the tourism part of this portfolio.

Senator Carr—Is tourism later in the evening?

Senator RONALDSON—It is general and corporate.

Senator Carr—It is general and corporate.

Senator RONALDSON—What is the issue with asking some general questions? Outcome 1 is tourism, anyway.

Senator Carr—Dr Boxall advises me he is more than happy to take general questions if there are general questions.

Senator RONALDSON—Excellent. What is the total amount of government expenditure on tourism for the year 2008-09?

Ms Rose—Are you asking for the amount out of the department?

Senator RONALDSON—Yes.

Ms Rose—On page 25 of the portfolio budget statements the subtotal for outcome group 1.3, which is the expenditure on tourism for the department for 2008-09, is just over \$18 million.

Senator RONALDSON—Are there any other departments that will be contributing to the loosely defined word of 'tourism'?

Dr Boxall—Tourism Australia. They are a separate agency.

Senator RONALDSON—I appreciate that.

Dr Boxall—They will be here at 7.45 pm.

Ms Rose—Their expenditure is also in the portfolio budget statements on page 99.

Senator RONALDSON—Are there any other departments that are contributing to tourism that are not coming through the department or Tourism Australia?

Ms Rose—Not directly.

Senator RONALDSON—Has the minister sought advice from you as to the likely impact of the international financial crisis on the industry?

Dr Boxall—We have briefed the minister on that.

Senator RONALDSON—What was the general nature of that advice?

Dr Boxall—That goes to the advice that we give the minister. But we have done a briefing on our expectation of the impact on the industry, which can go both ways. For example, the depreciation of the exchange rate assists the industry.

Senator RONALDSON—The Clerk of the Senate has made it quite clear that we are entitled to ask questions on advice that is given to ministers. What we cannot ask is strict policy questions. If you would just give me an overview of the advice that you have given the minister I would be grateful.

CHAIR—I think Dr Boxall was in the process of doing that.

Senator RONALDSON—Good.

Dr Boxall—We have provided a briefing to the minister on the possible impact or an analysis of the impact of the global financial crisis on the tourism industry.

Senator RONALDSON—In that advice have you indicated to him our potential decline in tourist numbers?

Dr Boxall—I cannot answer that question because that goes to the nature of the advice. I was starting to say before that the global financial crisis has some positive and some negative impacts on the tourism industry. We have made an initial stab at that analysis and we have provided that advice to the minister.

Senator RONALDSON—What are the likely negatives?

Dr Boxall—I cannot go into that, because that is asking us to divulge the advice that we have given to the minister, and my understanding is that that is against the standing orders of these committees.

Senator RONALDSON—Minister, will you be making a statement in relation to the likely outcome for the tourism industry now that you have had this advice?

Senator Carr—I think I should correct you. I am here representing the minister.

Senator RONALDSON—Will the government be making a statement to the tourism industry?

Senator Carr—I will take that on notice.

Senator RONALDSON—Given that there has been advice—and there are positives, which is obviously good news—that there are negatives, is it not reasonable for the industry to be aware of the expert advice that the government has been given in relation to this matter?

Senator Carr—I will take that matter on notice and discuss the matter with the minister.

Senator RONALDSON—But I am asking you: do you think it is reasonable given this advice that the industry be advised as soon as possible as to the outcome of that expert advice?

Senator Carr—You have started your question with the preface of ‘given the nature of this advice’. I have not seen this advice. The advice is not to me.

Senator RONALDSON—We have just been told that there are positives and negatives.

Senator Carr—We can approach this any way you like but it will not change.

Senator RONALDSON—The positives will enable industry to respond accordingly. With regard to the negatives, I would have thought that those in the industry who are already under significant pressure were owed by the government the government’s view of the likely impacts so they again can respond accordingly.

Senator Carr—I will take up your concerns with the minister.

Senator RONALDSON—Can I now turn to the Far North Queensland Tourism support package?

Dr Boxall—Madam Chair, this goes to Outcome 1, which is 7.15 pm to 7.45 pm, and Senator Sherry is the minister representing the minister for those questions. These questions are specific to the tourism part of the portfolio.

Senator RONALDSON—You were happy to talk about taxation and passenger movement charges.

Dr Boxall—Those are questions that go to the tourism part of the department. The general corporate is general and corporate.

Senator RONALDSON—Can I just ask, Madam Chair, what is the definition of ‘general’?

CHAIR—I think Dr Boxall is probably in the best position to say.

Dr Boxall—General and corporate tends to be questions about the corporate management of the department, which is why we have the CFO at the table. It is about issues to do with human resource management of the department and general issues that go to the running of the department.

Senator EGGLESTON—Does it include overseas tourist offices located in other countries by Tourism Australia?

Dr Boxall—Tourism Australia is on the agenda at 7.45 pm until 8.15 pm, and the officers from Tourism Australia will be here to answer those questions. If the chair would like to change the agenda we can.

CHAIR—I understand Senator Bushby has some questions on general and corporate.

Senator BUSHBY—I have a few questions that are general, if Senator Ronaldson is happy to give me the call.

Senator RONALDSON—Go on.

Senator BUSHBY—Has the department paid for any entertainment at the request of the minister or his office?

Ms Rose—No.

Senator BUSHBY—How many advisors are employed in the minister's office?

Dr Boxall—How many advisors or departmental liaison officers?

Senator BUSHBY—I am going to get to the departmental liaison officers, but how many advisors?

Dr Boxall—On advisors, we would have to take that on notice. That is the responsibility of the Department of Finance under the ministerial and parliamentary section, but we can check that. Departmental liaison officers are two.

Senator BUSHBY—Are they stationed in the Canberra office?

Dr Boxall—Yes.

Senator BUSHBY—How many overseas trips have been taken by the minister?

Ms Rose—That is a question for the Department of Finance in terms of expenditure.

Senator Carr—These are all reported in the Department of Finance's report. I think it is 1 December, is it not? There is a scheduled reporting date for all of these matters. These are standard reporting requirements across the whole of government. I am not in a position to be able to assist you. I do not have the information. We are happy to take that on notice, but they are recorded and reported on a consistent basis across the whole of government.

Senator BUSHBY—It looks like we are trying to get an answer though.

Ms Rose—I believe that it is six trips.

Senator RONALDSON—Could you table that document for us?

Ms Rose—No. I can advise that the trips were to Japan; Papua New Guinea; East Timor; Saudi Arabia and the US; Japan and Thailand; and China.

Senator BUSHBY—Do you have information on how many staff accompanied the minister?

Ms Rose—Yes.

Senator BUSHBY—How many were there?

Ms Rose—On the Japan trip in March there was one departmental staff representative. To Papua New Guinea there were three. To Timor there was just one. To Saudi Arabia and the States there were two, but I am sure that one went to the Saudi leg and a different officer went to the States. To Japan and Thailand there was only one and to China there was one.

Senator BUSHBY—What were the duties of each of the staff members that accompanied the minister?

Dr Boxall—I think for Timor there was more than one.

Senator BUSHBY—Thank you for correcting that. Do you know what the duties were of the departmental staff who accompanied the minister on those trips?

Dr Boxall—The normal duty for departmental staff is to attend meetings with the minister, assist the minister and liaise with the overseas posts. Indeed, I was the departmental staff member who accompanied the minister to Japan on the first trip. I also accompanied the minister to East Timor, which was a very important visit by the minister to do with discussions surrounding the Timor Gap Joint Authority. I was the staff member who accompanied the minister to the US. Mr Clarke was the staff member who accompanied the minister to Saudi Arabia and also on one or two other trips.

Senator BUSHBY—I was not going to ask who the individuals were, but thank you very much for providing that information. Was the Saudi Arabia trip the trip where the minister was going to go and sort out OPEC and petrol prices?

Dr Boxall—That was the trip where the minister went to Saudi Arabia at the invitation of the Saudi Arabians.

Senator BUSHBY—It was the one where he made some statements before about petrol prices and his views on what he would like to see happen?

Mr Clarke—The Saudi trip was for the Jeddah energy conference, where energy ministers from 30-odd countries were invited at the request of the Saudi government and the UK government for a conference, and it was at the peak of oil prices.

Senator BUSHBY—On each of those overseas trips what class did the departmental officials travel?

Dr Boxall—It depends on the departmental official. If it is the secretary, the travel is first class.

Senator BUSHBY—And below that?

Dr Boxall—Below that, sometimes it is business class. Sometimes it is first class if the officer needs to discuss business with the minister.

Senator BUSHBY—Are you aware of which hotels the minister stayed in on each of those trips?

Dr Boxall—We will have to take that on notice.

Senator Carr—These are all published with the finance reports.

Senator BUSHBY—That does not mean I cannot ask them.

Senator Carr—We are not going to go around and around with what the minister had at the minibar, are we?

Senator RONALDSON—You might not have a choice about that. It is not published where they stayed, as you well know.

Senator Carr—That is what I am saying; they are all published—

Senator RONALDSON—No, I said it is not published where they stay.

Senator Carr—The costs and all the rest of it are.

Senator RONALDSON—The costs might be, but where they stay is not.

Dr Boxall—We can take it on notice.

Senator BUSHBY—I will move on. What media-monitoring arrangements are in place on behalf of the department?

Ms Rose—We have a contract with Media Monitors, which undertakes our monitoring program.

Senator BUSHBY—That is the full extent of the media monitoring within the department?

Ms Rose—Yes.

Senator BUSHBY—What does that cost?

Ms Rose—To date it is \$202,000.

Senator BUSHBY—That is so far this financial year?

Ms Rose—That is the budget for this financial year.

Senator BUSHBY—That is the budget for the full financial year. That is not an actual; it is a budget?

Ms Rose—Yes.

Senator BUSHBY—Is it on track to meet budget?

Ms Rose—Yes.

Senator BUSHBY—Are there any additional monitoring arrangements in place for the minister's office?

Ms Rose—No.

Senator BUSHBY—No. What are the current staff numbers for the whole of the department?

Ms Rose—As at 2 October there are 340.

Senator BUSHBY—How does that compare in a comparison with 12 months ago?

Dr Boxall—Twelve months ago the department did not exist.

Senator BUSHBY—That is a fair point.

Ms Rose—I can give you a comparison at 13 February.

Senator BUSHBY—As at 13 February; that would be a good starting point. We will come back to the 12-month-ago thing in a minute.

Ms Rose—Sorry, I have made an error. There were 362 staff members at 2 October.

Senator BUSHBY—And comparing that with February?

Ms Rose—Three hundred and thirty-three.

Senator BUSHBY—So it has gone up?

Ms Rose—Yes.

Senator BUSHBY—Are you able to break down areas within the department, such as the tourism, the bit that looks at energy, and so on, and do a comparison? How many are there in each of those areas within the department?

Ms Rose—I am not sure I have that easily available. I can come back to you later with that.

Senator BUSHBY—Can you take that on notice?

Ms Rose—Yes.

Senator BUSHBY—Presumably those subareas did exist in other departments prior to this department being put together the way it is. Could you do a comparison with the numbers 12 months ago?

Ms Rose—We will have to seek the assistance of another agency to do that but, yes, we can take that on notice.

Senator BUSHBY—I understand and appreciate that.

Dr Boxall—Just to be clear: you would like us to give the breakdown between the different divisions at this point compared with 12 months ago?

Senator BUSHBY—Yes, that is exactly right. Well said.

Dr Boxall—Thank you.

Senator BUSHBY—That is probably all I have at this point.

Dr Boxall—Madam Chair, I would just like to clarify that two staff members accompanied the minister to East Timor.

Senator BUSHBY—Thank you.

Senator EGGLESTON—Do statistics on the countries of origin, lengths of stay, expenditure of tourists and categories of visa fall within your corporate remit?

Ms Rose—They do not fall within my responsibility. I look after the corporate functions in the department and the financial matters.

Senator EGGLESTON—Would somebody in the department keep those sorts of statistics?

Dr Boxall—We would be able to answer those questions.

Ms Rose—I did not hear the question.

Senator EGGLESTON—It is a question about whether I can ask those questions.

Dr Boxall—Those questions would be better placed at 7.15 pm, when the relevant staff are available.

Senator EGGLESTON—So, they are not within your corporate—

Dr Boxall—They are not general corporate questions. They are outcome 1.3, Tourism questions.

Senator EGGLESTON—What about air service agreements?

Dr Boxall—Outcome 1.3, Tourism questions.

Senator EGGLESTON—Perhaps you could tell us what we can ask.

CHAIR—As there are no more questions, the committee will suspend.

Proceedings suspended from 6.06 pm to 7.16 pm

CHAIR—The committee will commence with outcome 1, output group 1.3, Tourism.

Senator Sherry—Just before we begin I have an answer to a question. Apparently the question relates to the advisers in the minister's office. I am informed that the information was tabled by Ministerial and Parliamentary Services in the finance and administrative committee on Tuesday.

CHAIR—Is that relating to travel?

Senator BUSHBY—How many advisers.

Senator Sherry—How many advisers are in the minister's office.

CHAIR—Thank you.

Senator BUSHBY—Thank you.

Senator RONALDSON—Mr Boxall, have you thought any more about whether you can advise me on the nature of the advice on the impact of the international financial crisis on the tourism industry, or is our answer as we left it before?

Dr Boxall—The answer is as it was before.

Senator RONALDSON—I will now turn to the Far North Queensland tourism support package. I will call it the TSP to save everyone going that through at great length. What are the geographical boundaries of the regions supported by the TSP?

Ms Madden—In making the announcement for the support in Tropical North Queensland the government has not spelt out precisely what these boundaries are. It is generally taken that the support is in Far North Queensland, or Tropical North Queensland, and the location of that is from just below Cairns to 1,000 kilometres north and the hinterland in that area as well.

Senator RONALDSON—Is the Tropical North Queensland Tourism Development Program separate to the FNQ TSP or does it form part of it?

Ms Madden—I am not quite sure what you are referring to.

Senator RONALDSON—We have the Far North Queensland tourism support package. Is that right?

Ms Madden—Yes.

Senator RONALDSON—That was announced by the government.

Ms Madden—That is right. The state government of Queensland announced \$4 million of additional support going beyond additional measures already in place to support tourism in that region. In addition, the federal government announced a matching \$4 million of support to Tropical North Queensland. That is to the Far North Queensland area that I just identified.

Senator RONALDSON—Does the TNQTDP, the Tropical North Queensland Tourism Development Program, fall under the overarching Far North Queensland tourism support package, or am I right off the mark?

Ms Madden—No, it is part of it. You are correct. It is a measure within that \$4 million package.

Senator RONALDSON—Your answer about where it was, I think, was probably an answer to a question that I had not asked, which I am happy to: what were the geographical boundaries of the FNQTSP? You gave me the boundaries for the Tropical North Queensland Tourism Development Program—or are they the same boundaries?

Ms Madden—They are roughly the same boundaries. As I said, the government has not spelt out exact specifications, but it is centring on Cairns, the region to the north of Cairns and the hinterland.

Senator RONALDSON—If there is no geographical boundary, how do people know whether they can or cannot apply for funding under the program? There must be a line on the map somewhere; otherwise I could get the people at Ballarat to lodge an application, albeit the climate is slightly different.

Ms Madden—In all the announcements that the government has made, and in all the consultations that the minister and government have had in relation to this special assistance package of \$4 million, it has been clear that we are talking about tropical or Far North Queensland and the general locality which I described. People of Ballarat would not be eligible to apply.

Senator RONALDSON—I had assumed that. I think they will be bitterly disappointed.

Senator Sherry—With the reference to Ballarat and the climate?

Senator RONALDSON—Beautiful one day and spectacular the next—Ballarat. Is there no intention to draw some rough indicative boundaries of where the package will go? Seriously, there is not a delineation of where tropical areas finish. You must have some idea of where this area is, within 100 kilometres or 150 kilometres, and, if so, could you provide me with that information?

Ms Madden—Yes. I did explain that it extends from just south of Cairns—we are consulting with some tourism businesses that are up to about 100 kilometres south of Cairns, as I said—extending 1,000 kilometres north of Cairns up to the cape and then in the hinterland of Tropical North Queensland. We are also working with a whole range of stakeholders, including Tropical North Queensland, the regional marketing body, and a whole range of other stakeholders. Within their reach, their constituents and stakeholders, we also have another natural boundary that is developing.

Senator RONALDSON—I understand. I presume you are negotiating with those people who are 100 kilometres south of Cairns on the basis that they are within the area?

Ms Madden—Going back to the original justification for this special assistance, it was particularly triggered by the change in flights from Cairns Airport, the decision in particular by Qantas earlier this year. That has been the imperative to which all elements of this package have been framed.

Senator RONALDSON—I understand that. Is it likely that 150 or 200 kilometres south of Cairns will be in the package area, or do you think the people 100 kilometres south are just about at the limit of it?

Ms Madden—As I said, the impact in the Cairns region is the overriding benchmark. We do not and have not publicly announced where the exact boundaries lie. As I stated earlier, it is from just south of Cairns, approximately 100 kilometres, into the hinterland and then going north right up to the cape, approximately 1,000 kilometres.

Senator RONALDSON—We agree that about 100 kilometres south of Cairns is where the likely boundary is going to be; is that right? Ms Cox is nodding her head.

Ms Madden—Yes. That is my answer, yes.

Senator RONALDSON—I am not being difficult, but we do need to know. Those businesses that might have been affected by the matter that you quite rightly referred to would probably want to know whether they are in or out as well. How much of that second tranche of the TSP will be spent on the design and implementation of the TDP?

Ms Madden—\$155,000.

Senator RONALDSON—Have you committed any funding yet under the TDP, or is it only the design and implementation that is being funded?

Ms Madden—The negotiations and discussions are well advanced, but funds have not formally been committed yet.

Senator RONALDSON—Is that for the grants and the design and implementation?

Ms Madden—For both.

Senator RONALDSON—Have you got approximate costs of the design and implementation funding?

Ms Madden—That has been absorbed within the existing departmental resources.

Senator RONALDSON—I thought you said to me that the TDP implementation grant would be funded under the general funding?

Ms Madden—Yes. The Regional Tourism Business Development Program is \$155,000, which is part of the \$4 million funding. Some of the work associated with the design and planning of that program will be met by existing resources by the Tourism Division in consultation with stakeholders.

Senator RONALDSON—Some of that is, but what about the rest? I thought you said some of it has been met. I presume that if some has been met there is some that has not been met, or is the whole \$155,000 going to go in grants?

Ms Cox—The design elements of the program were complementary to work that we had already done in the division, thinking forward for general program design, and the \$155,000 will go to a consultancy that will deliver the program basically through a series of workshops.

Senator RONALDSON—Are there any grants to industry under the TDP?

Ms Cox—No, not under this program.

Senator RONALDSON—Do you know what the reduction in international aviation capacity into the Cairns Airport is forecast to be on 1 January 2009 compared with 1 January 2008?

Ms Cox—About 35 per cent.

Senator RONALDSON—Reduction?

Ms Madden—Yes.

Senator RONALDSON—On that basis, given that domestic aviation capacity into Cairns has increased by six per cent in the past year according to the Tourism Queensland domestic seat capacity report of 6 October, and given that the aim of the FNQTSP was to ‘help the North Queensland tourism industry respond to reductions in airline capacity’, why then was part of the \$640,000 second funding tranche allocated to focusing research on the domestic market?

Ms Madden—Right across Australia the domestic market provides the backbone, the largest proportion, of the tourism market. In Tropical North Queensland this is still the case. It is about helping the industry, which had a very strong dependency on the Japanese market historically, but also to position them better to meet demand from domestic tourists as well as some of the emerging international markets, such as China and India.

Senator RONALDSON—I might not have explained myself. You probably know far more about this than I do. We are going to see dramatic reductions in the international capacity coming into Cairns. I think we agreed on that—35 per cent.

Ms Madden—Yes, in relation to flights by Qantas.

Senator RONALDSON—The question I asked was on international flights, and you said 35 per cent. If that has been clarified and you want to change that answer, let me know.

Ms Madden—No. That is the announcement that Qantas made.

Senator RONALDSON—Given that we have seen the domestic aviation capacity actually increasing, according to Tourism Queensland, I again ask: why would you be spending money on an area where there is clearly an increase occurring anyway when you have a dramatic decline in the international aviation capacity?

Ms Cox—Capacity has increased a little, although the actual numbers are moving around about an average at the moment. There is a lot of activity. It is hard to see where it will end up, say, early next year. From the point of view of the operators in Cairns, there are still empty rooms, empty beds and empty restaurants. The research is not just focused on the domestic market. It will also look at the drivers for consumers in other markets. It is important to also recognise that the domestic market offers the greatest opportunities.

CHAIR—Senator Ronaldson, other senators have questions. Are you near the conclusion or can I come back to you?

Senator RONALDSON—I would like to finish this off. I have got some questions for Tourism Australia. I would like to finish off this part, and then I have some other questions on taxes et cetera. What percentage of that \$640,000 second funding tranche was allocated to the domestic and what was allocated to international?

Ms Cox—We are undertaking some research that will focus on both domestic and international. As we have not completed that process I could not tell you how much would be split between those two markets in terms of the research.

Senator RONALDSON—There has been no money expended as yet?

Ms Cox—Not to date.

Senator RONALDSON—Have you any initial indications about what that split might be?

Ms Cox—We have allocated about \$300,000 to that research project but, as I said, we have not had any response to our request for tenders, so I cannot give you any clarity on that.

Senator RONALDSON—I would like to go back to the 1 January 2008 and 1 January 2009 time frame. Have other aviation ports around Australia had reduced international aviation capacity as well? Can you tell us which ports and what is the reduction? You can take that on notice.

Ms Cox—I would have to take that on notice.

Senator RONALDSON—What advice did Tourism Australia provide regarding the composition of the TSP?

Ms Madden—That would be a question for Tourism Australia, who will be joining you shortly.

Senator RONALDSON—Did Tourism Australia provide you with any advice in relation to the composition?

Ms Madden—In preparing the assistance for the Tropical North Queensland area both Tourism Australia and the department, through the Division of Tourism, have been working closely and collaboratively providing a range of support and advice to the minister.

Senator RONALDSON—I take it that the answer to my question is that Tourism Australia has provided some advice regarding the composition; is that right?

Ms Madden—Tourism Australia has been consulted on the various measures that are being included as part of this package.

Senator RONALDSON—Did they give you some advice on the composition as part of that consultation process?

Ms Madden—Tourism Australia does not advise the department. We work together to provide advice, assistance and support to the minister. Tourism Australia was aware of that measure being planned, yes.

Senator RONALDSON—Were they consulted before or after the first tranche of TSP funding was announced on 8 September?

Ms Madden—Before.

Senator RONALDSON—Before?

Ms Madden—Yes.

Senator EGGLESTON—What analysis or investigations were or have since been conducted or undertaken by the department to determine what impact the increased passenger movement charge will have on tourism in general around Australia?

Ms Madden—The passenger movement charge is a matter for the Treasury. The decisions relating to the levying of that charge are a question for the Treasurer.

Senator RONALDSON—Just on that point: yes, the decision about increases in the charge is in Treasury, but Senator Eggleston asked you whether you had done any investigations in relation to the potential impact on the industry prior to the decision being made by Treasury. We both accept that Treasury makes the decisions about the changes, but did you provide them with any advice in relation to that?

Ms Madden—The answer is no.

Senator EGGLESTON—There has been a proposal to bring in Pacific Island worker visas for the hospitality industry. Do you wish to make any comment on the utility that will provide to the tourist industry for these people to be working in tourist facilities in eastern Australia?

Ms Madden—The Pacific Islander mobility scheme is an initiative being led by the Department of Immigration and Citizenship and the Department of Education, Employment and Workplace Relations. We are not a lead agency involved in that initiative, nor are tourism and hospitality part of the pre-pilot, which I believe was the topic of question and answers earlier today in Senate estimates.

Senator EGGLESTON—I understood that was a question that could be asked of the whole department. I just wonder whether some of these questions might be more appropriate for Tourism Australia in that case. There was one other question I would like to ask you and that is about the Tourism Australia Board, which I understand the Auditor-General has criticised the conduct of in terms of possible conflicts of interest. Does the department have any comments to make about that?

Ms Madden—It is true and it is a matter of public record that the ANAO raised some concerns about some aspects of Tourism Australia's management, including raising some issues relating to the previous board conflicts of interest. Tourism Australia has cooperated fully with the ANAO to pursue, and has already put in place, measures to give effect to all recommendations made by the ANAO.

Senator EGGLESTON—Has the membership of the board been changed in the interim?

Ms Madden—There was a change in board membership. The matter of the Tourism Australia Board was also raised in the previous estimates. In responding to a question on notice we actually gave the committee advice of the minister's announcement of a number of new appointments to the Tourism Australia Board.

Senator EGGLESTON—Do you mean a previous meeting of these estimates or other estimates?

Ms Madden—The last estimates.

Senator EGGLESTON—In other words, we can say that that problem has been dealt with and that there are now no further causes for concern about conflicts of interest in the Tourism Australia Board?

Ms Madden—As I said, Tourism Australia has taken measures to address those recommendations made by the ANAO.

Senator EGGLESTON—I am very pleased to hear that. Tourism is a competitive industry and the board's decisions need to be transparent and any perceived or actual conflicts of interest should be appropriately addressed.

Senator BUSHBY—Was the tourism section of the department consulted as part of the process when the amendments were made to the luxury car tax legislation as to what the definition of 'tourism activity' was?

Ms Madden—Not prior to.

Senator BUSHBY—Not prior to the amendments being presented?

Ms Madden—Not prior to the amendments being presented, no.

Senator BUSHBY—Have you been consulted since?

Ms Madden—As to working through the implications of that decision, we are working with Treasury, which has the lead responsibility for taxation matters, on some of the definitional questions.

Senator BUSHBY—Have you provided advice to Treasury on that since the amendments went through?

Ms Madden—We are working with Treasury on some of the definitional aspects.

Senator BUSHBY—Have you actually provided any advice at this point? I am not asking what the advice was. I am just wondering whether you have provided advice.

Ms Madden—Yes, we have.

Senator BUSHBY—You have?

Ms Madden—Yes.

Senator BUSHBY—In writing or orally?

Ms Madden—There have been a number of meetings in which this matter has been discussed, so it has been mainly through oral information being provided.

Senator RONALDSON—I have some questions about the Australian Tourism Development Program. I understand that funding was reduced at the last budget; is that right?

Ms Madden—Yes, that is correct.

Senator RONALDSON—What is the current level of funding for the ATDP for the year 2008-09?

Ms Madden—It is \$4.5 million this year, 2008-09.

Senator RONALDSON—How much is that a reduction from 2007-08?

Ms Madden—I am just trying to establish whether we have the previous year's figure here. Can I suggest that we provide this on notice?

Senator RONALDSON—Just to double-check, the 2008-09 funding was \$4.5 million in set-up; is that right?

Ms Madden—I will reconfirm that in our question on notice, including the previous year's allocation.

Senator RONALDSON—Has the department made any submissions or provided any advice to the minister regarding the decrease in that funding?

Dr Boxall—Yes. We would have provided advice on those issues as part of the budget briefing during the budget context.

Senator RONALDSON—What was the nature of that advice?

Dr Boxall—We cannot go into the nature of the advice.

Senator RONALDSON—Can I again place on the public record that we have been clearly advised by the Clerk of the Senate that we are entitled to ask those questions but we cannot ask policy questions. I take it you will not answer that?

Senator Sherry—No, and nor should he.

Senator RONALDSON—What analysis or investigations were conducted or undertaken by the department to determine what impact cutting the funding would have on regional tourism?

Ms Madden—What I can advise is that in the 2008-09 budget, as you have noted, the government did announce some saving measures from the Australian Tourism Development Program. I can confirm that the full year's funding for this year, 2008-09, is actually \$6.45 million. Over the next total three years the ATDP is \$14.332 million. There is a redesign underway at present of the ATDP criteria to ensure that the money is spent as effectively and efficiently as possible, and that consideration was perhaps part of the government's consideration in reducing this year's allocation to ATDP. I do not have further—

Senator RONALDSON—I can give you more information. It was apparently produced to focus on projects of greater community benefit. That was the reason given for the change in it. Again, did you do any analysis or any investigation in relation to what impact the cutting of funding for the ATDP would have on regional tourism? Did you or did you not?

Ms Madden—Our advice was limited to the allocation of the budget.

CHAIR—It is 7.45 pm—

Senator RONALDSON—I am in the middle of a series of questions. It would be totally unreasonable—

CHAIR—Yes, but a number of senators, including you, have indicated you have questions for Tourism Australia.

Senator RONALDSON—I do not have much for Tourism Australia. With the greatest respect, that was a nonanswer, as you well know. Did you provide some analysis to see what the impact of cutting that funding would have on regional tourism? I am not asking you what it was. I am tempted to. But I am not asking you what it was, because you would not tell me, but did you do any analysis? It is hardly a trick question.

Ms Madden—As I said, our focus in the Australian Tourism Development Program is on the design and successful delivery of the program and particular grants to projects.

Senator RONALDSON—Who would make those inquiries then?

Ms Madden—Annual funding has been varying quite significantly because a number of projects involve differing time lines with money and funding altering during the course of a contract and money is rephased on a number of occasions causing some fluctuation of funds.

Senator RONALDSON—I assume—

CHAIR—We are really going to have to move on.

Senator RONALDSON—I assume there has been no analysis and investigation—

CHAIR—You do not have the call. That is the end of questioning on outcome 1, output group 1.3. I thank the officers at the table.

[7.46 pm]

Tourism Australia

CHAIR—Could I ask the officers to remain until 8.15 pm in case they are required again.

Senator EGGLESTON—I understand that in real terms the government's resourcing for Tourism Australia has been decreased by \$5.9 million. Presumably the costs of marketing, such as advertisements, will continue to rise. What will Tourism Australia no longer do this year that it did last year to save the \$5.9 million?

Mr Buckley—The actual appropriation for 2008-09 for Tourism Australia is \$135.6 million. That is only \$100,000 less than the appropriation for 2007-08. We are looking at almost like for like in total allocation dollars.

Senator EGGLESTON—Is that in real terms in what it actually buys in the community comparing one year with another in that absolute sense?

Mr Buckley—That is quite complicated because you do have increases in some marketing services costs, but you also have exchange rate differences. Given that something like 45 per cent to 50 per cent of our spend is in foreign exchange, it is a difficult one in which to be specific.

Senator EGGLESTON—Let us ask the same question in a different way. What are you finding you cannot afford to do now that you could afford to do last year because your real dollars do not go so far?

Mr Buckley—We are not seeing those real dollars not go any further. We have used the appropriation in the most efficient and effective way that we can, taking advantage of those exchange rate opportunities. In many cases that has given us additional funding in key markets to allow us to maintain or to grow the marketing spend.

Senator EGGLESTON—What is the value of tourism as an industry to Australia?

Mr Buckley—\$84 billion annually.

Senator EGGLESTON—Where does it rank in terms of export income and general size of an industry?

Mr Buckley—It is almost four per cent GDP and something like 4.6 per cent of employment. That is direct.

Senator EGGLESTON—What percentage of our tourism is business tourism?

Mr Buckley—What percentage of total tourism?

Senator EGGLESTON—Yes.

Mr Buckley—Off the top of my head I cannot say. We struggle to identify business tourism in a neat way within the statistics because of the nature of particularly the incentive market, which is part of business events but gets picked up as an extension of leisure. My memory is that it is between 15 per cent and 20 per cent, but I will check that.

Senator EGGLESTON—Conventions and business meetings are a pretty important aspect of the tourist industry, because they bring in people with a higher spending power, presumably?

Mr Buckley—It is a high-yielding segment of the market, yes.

Senator EGGLESTON—How much funding has been allocated to Business Events Australia for the financial year 2008-09?

Mr Buckley—I think that was covered in a question on notice from the last time. Let me just double-check the numbers for you. The current proposal—and I say ‘current proposal’—is \$5.12 million for Business Events in 2008-09.

Senator EGGLESTON—How many staff work exclusively for Business Events Australia?

Mr Buckley—Again, it is not necessarily a simple process because a lot of the marketing services that go in to support business events get picked up by other business units, but we have a dedicated team for business events located both within Australia and around the world. We have five full-time people in Sydney in our head office, but that does not include individuals who undertake business event activity across the globe. There are another four or five people who actually undertake that role, sometimes not exclusively but mostly full time in business events.

Senator EGGLESTON—Do the Business Events Australia people have key performance indicators that they have to meet? Are they assigned goals and tasks?

Mr Buckley—That is correct.

Senator EGGLESTON—What would they be?

Mr Buckley—It depends on the different business units as to what they might be. In some cases it is outcomes from our marketing, which typically might be indicators from our brand tracking program around the efficacy of our marketing in various markets around the world. They have those numbers to hit. Website hits, which is another call to action, is part of our program. In other areas we do a lot of work in supporting the industries through trade events and we actually measure every trade event in terms of buyer and seller satisfaction. Those are the sorts of KPIs that the teams have.

Senator EGGLESTON—That is very interesting and very good to hear. What processes have been established between the minister’s office and Tourism Australia for the minister to provide Tourism Australia with direction on operational matters, such as tourism campaigns and so on?

Mr Buckley—The minister is very clear that there is as board that actually takes primary responsibility for driving the direction of Tourism Australia. The interaction between minister and board occurs through a statement of expectations from the minister and a statement of intent, which is our response. That is the nature of the interaction.

Senator RONALDSON—The minister is not involved in operational matters at all?

Mr Buckley—He is not.

Senator EGGLESTON—That is interesting. We have just come through the ‘Where the bloody hell are you?’ campaign. You, I believe, have a new Tourism Australian campaign about to be released. Which countries will the new Tourism Australia campaign run in and what is the breakdown of spending between each of the markets, such as Japan, Korea, New Zealand, the United States and the UK?

Mr Buckley—I might take all of the detail on notice and provide you with a breakdown by market. We spend approximately \$40 million in that particular brand campaign process, but we have a number of other parallel projects as well. The markets are primarily in what we call tier 1 markets, which are our major seven key markets—the UK, the United States, Japan, New Zealand, China, Korea and Australia.

Senator EGGLESTON—I gather there was a bit of a fall in Australian tourism over the last few years. I just wondered how tourism research is funded. Do you provide a set and specific allocation of total Tourism Australia funding to research markets and set priorities?

Mr Buckley—We do. Our research gets placed through business units within Tourism Australia. One is Tourism Research Australia, which is a broader based industry research body. It carries out the international visitor survey and the domestic visitor survey and a range of other, if you like, regional survey work that we fund every year. That is an ongoing program also supported by the states and territories. That is a cooperatively funded process. The balance of our research is funded through what we call Insights and Research area. A lot of that is our marketing research, our brand tracking and other market research. We spend approximately \$10 million on research in terms of funding both TRA and also that broader market research program.

Senator EGGLESTON—Given the fact that the ‘Where the bloody hell are you?’ campaign could not be described as a great success, have you allocated extra funding into research to determine what might be required for a more successful campaign?

Mr Buckley—We undertake continuous research. Our brand tracking provides us with a very clear understanding of how Australia’s brand is tracking against our competitors, where consumers are intending to visit, what countries or destinations they have as a preference. We use all of that information as insights into our campaign and campaign development. That has always been the process. You are always looking to get sufficient consumer insights to really be able to trigger not only that motivation but also that next step of actually travelling.

Senator EGGLESTON—Lastly, do we see any group of countries in particular emerging as strong potential sources of tourists for Australia?

Mr Buckley—We are clearly seeing the growth out of Asia, in particular China and India. We are also seeing some growth out of, if you like, middle Europe, Eastern Europe. There is

strong growth at the moment out of France and Spain and we think some opportunity out of South America. It is very early days though in those sorts of markets. Certainly we are seeing double digit-type growth out of China and India, which you might expect. Those BRIC economies are clearly opportunities for the future.

Senator EGGLESTON—That is a changing pattern of origin, is it?

Mr Buckley—It is. We are very much starting to see a shift in, if you like, the balance between our western markets and our eastern markets, and progressively a forecast will tell us we will be more strongly receiving visitation out of that sort of north-south corridor, if you like, of Asia to Australia in the future. At the moment it is around 55 per cent western and 45 per cent eastern, and we see that starting to even out towards more fifty-fifty in the next few years.

Senator EGGLESTON—I did notice that differentiation between eastern and western markets at the Australian Tourism Exchange in Perth in May, and I was quite intrigued by that differentiation. They are obviously quite different markets, I gather.

Mr Buckley—We are seeing the operators within Australia begin to understand and adapt their experiences to target those markets. We run trade events and roadshows and sales forums in China and India. We are seeing more and more of our operators come on those and really work those markets very hard.

Senator RONALDSON—Did you say you were going to take on notice information about which countries and the spend in each country?

Mr Buckley—Yes, the breakdown of the spend for our new destination campaign, I think was the question, and in what markets we will allocate that spend.

Senator RONALDSON—What is the media buy percentage of the campaign? Do you know at this stage?

Mr Buckley—Approximately \$40 million.

Senator RONALDSON—The media buy will be \$40 million, will it? What is the total campaign?

Mr Buckley—I think at this stage we are talking about \$47 million with revenue included, but again let me take that on notice and get you the exact figure. One of the challenges that we have is that that process of spend is very much determined around partnerships and cooperative marketing. Those are still being put in place right now. As we have launched a new campaign we then approach partners and they will often co-fund with us. Our spend actually does shift and change depending on the partnerships being developed. We are in the process of developing those right now.

Senator RONALDSON—Could you provide me with a breakdown of the remaining \$7 million as to where it is going to be spent?

Mr Buckley—Yes.

Senator RONALDSON—I gather Tourism Australia is separated into divisions; is that right? Do you have divisions within the organisation?

Mr Buckley—Business units, yes.

Senator RONALDSON—I am happy for you to take this on notice, but could you provide me with the names of each of those divisions, the staff numbers in each of those divisions and perhaps you could answer this question for me: what are the required outcomes for each of those divisions? If you want to take that on notice that is fine.

Mr Buckley—Yes, I will.

Senator RONALDSON—Whom should I be asking about yields from business event tourists, yourselves or the department when they come back?

Mr Buckley—It comes out of our statistics, if you like.

Senator RONALDSON—What is the current yield from a business event tourist as opposed to a holiday tourist?

Mr Buckley—I do not have the numbers with me. I would need to come back to you with that breakdown.

Senator RONALDSON—Take it on notice.

Mr Buckley—We measure economic value and we also measure spend. But, as I said, the business events area is a difficult one in which to get some good statistics because of the way in which the consumer actually designates themselves as a business event visitor; they do not always do that and so it gets a bit murky.

Senator RONALDSON—Did Senator Eggleston ask you what our share of the global business events tourism market is?

Mr Buckley—Yes. I indicated from memory that it is around about 15 per cent. But that is from memory, so I will take that on notice and come back to you with it.

Senator RONALDSON—What programs are there that you are aware of from the department that would be in place to increase that share?

Mr Buckley—For business events?

Senator RONALDSON—Yes.

Mr Buckley—Primarily we run two major programs within the business events area. The primary one is a trade events process. We have in excess of 10 business event trade events around the world that we facilitate on behalf of the industry, and we bring the buyers to those trade events and the sellers go to those events. That is a very strong program. The second component and major program is around supporting the industry in terms of brand marketing for business events as well. That is the second part of the program. That is mainly about providing the very large number of business events sellers out there with toolkits, information and support. We have a separate business events website that provides a connection. Business events is a bit different from leisure marketing. A lot of it is more B to B, that business-to-business-type marketing rather than consumer-type marketing.

Senator RONALDSON—Are any of those programs under review?

Mr Buckley—The programs are under constant review. We review those strategies and those directions every year and then we keep reviewing them. The market is shifting and changing so fast that that is just the way we operate these days.

Senator RONALDSON—I understand there is a review and there is a review. Of course everything is constantly under review, but is there any specific formal review being undertaken in relation to any of those programs?

Mr Buckley—There is a separate business events strategy process going on within the tourism industry itself, and that is an industry driven strategy review, which we have been part of. Clearly one of the outcomes of that—and that is not yet finalised—would be what role we play with the rest of the industry in terms of trying to market business events. That is one that I am aware of, but that is an industry driven process. I have an answer from our international visitors' survey on business visitors. Seventeen per cent of international visitors stated business as their main purpose for visitation to Australia.

Senator RONALDSON—What has been allocated by the department for promoting business events for tourism in 2008-09?

Mr Buckley—As I said to the previous senator, it is \$5.12 million in 2008-09.

Senator RONALDSON—Did Senator Eggleston also ask you what the spend was in 2006-07?

Mr Buckley—For 2007-08.

Senator RONALDSON—I am sorry, for 2007-08.

Mr Buckley—That was also in the questions on notice.

Senator RONALDSON—Perhaps if you could get me 2006-07 and 2007-08, if you would not mind.

Mr Buckley—I will come back to you with that.

Senator RONALDSON—Is that an increase in funding?

Mr Buckley—A small decrease in funding between last year and this year.

Senator RONALDSON—Is it correct that the ANAO released a performance audit report in August into TA?

Mr Buckley—That is correct.

Senator RONALDSON—Is it fair to say that it was a reasonably critical report?

Mr Buckley—I would not have said that, no.

Senator RONALDSON—Had you said yes, Mr Buckley, I would have been more surprised. We have discussed the new marketing campaign before. Is it fair to say that this new campaign is basically the same throughout the world, but with minor variations to take account of different cultures?

Mr Buckley—It certainly takes the fundamental messaging approach which is focused around the idea of transformation and that an experience in Australia will transform you; that is, revitalise or reinvigorate. We certainly use that concept as the base concept, but it has been tailored to cultural differences between the eastern markets and the western markets.

Senator RONALDSON—Is it more of an awareness campaign?

Mr Buckley—No. Ultimately it is there to drive demand for Australia.

Senator RONALDSON—You do not believe it is an awareness campaign?

Mr Buckley—No. It is about driving demand for Australia. The campaign is not just the ads. There is a very large print component of that. There is a very strong public relations and digital web based process, all of which are aiming to drive interest and people to australia.com, our key website, and then from there to encourage them to visit Australia.

Senator RONALDSON—Is it true that Qantas has been highly critical of the campaign?

Mr Buckley—No, not to my knowledge at all. In fact, I have had—

Senator RONALDSON—Are they going to become involved in it?

Mr Buckley—They have in different components, yes. They have not in the major cooperative marketing programs so far. They have done some tactical work already.

Senator PRATT—Which other industry groups are supporting the campaign?

Senator RONALDSON—Perhaps I could finish my question first and then that is a reasonable question to follow up after that. What is Qantas's view of the campaign?

Mr Buckley—You would have to ask Qantas that question. I have had direct feedback from Rob Gurney to say that they think the campaign is a very good one.

Senator RONALDSON—But they are not going to be involved.

Mr Buckley—It is my understanding, and again this is hearsay from my point of view, so I think you need to speak to Qantas and ask them their opinion, but their conversation with me was that they wanted to focus more tactically at this point in time. They have some seats to fill and they want to take a very tactical approach. That still allows them to work within our campaign and to leverage off that campaign. If they do not work in a direct cooperative market, then they do in alignment, and we share media and other things which allow them to leverage.

Senator RONALDSON—A direct?

Mr Buckley—If they do not get involved in a direct cooperative process then they work in a collaborative sense. We share media, plans and other things which allow them to take advantage.

Senator RONALDSON—Have they been involved in the direct cooperative process in the past?

Mr Buckley—They have, indeed.

Senator RONALDSON—Would it be fair to say very actively involved?

Mr Buckley—Absolutely.

Senator RONALDSON—Is this a major change in Qantas's attitude to Tourism Australia's marketing campaign?

Mr Buckley—I would not say that. I think it is a short-term view by the airlines to respond to what is a really challenging time for them.

Senator PRATT—The international market has changed substantially for travel.

Mr Buckley—They have also rolled out their own major brand campaign around the world, so they have spent a very large amount of money at that brand level.

Senator RONALDSON—To what extent were Qantas involved or consulted in relation to the development of the campaign?

Mr Buckley—Fairly extensively. As we started to get clarity about what the campaign would look like, the shape of it and the concept behind it, we shared that with them. We also shared print executions and other things.

Senator RONALDSON—Was it a usual level of involvement of consultation compared to other major programs?

Mr Buckley—Absolutely.

Senator RONALDSON—You said that there was the same level of consultation, but Qantas has decided to take a very different approach to what they have in the past; is that right?

Mr Buckley—That is correct.

CHAIR—Senator Pratt might like to ask her follow-up question.

Senator PRATT—I understand there is considerable support from the tourism industry for the new campaign and that it is capitalising on the new movie *Australia*. Is that the case?

Mr Buckley—That is correct. We have a very large number of partners which have come on board following through on the campaign. We work with 16 airlines around the world in cooperative marketing at some level, and that will be our intention. We already have a very significant response from Emirates, Singapore Airlines and other major airlines that are looking to partner in that campaign.

Senator PRATT—Unlike Qantas, they probably do need to be able to partner with the local tourism industry. Qantas is able to do those things on its own, noting its brand.

Mr Buckley—Each of the partners will make the call the way they see it, and that is fair enough. What we know we can do is set up a framework and an overarching brand campaign that we know they can leverage off.

Senator RONALDSON—As we said before the Australian National Audit Office released its performance audit in August, which states:

Tourism Australia does not systematically evaluate the effectiveness of its projects and currently is unable to demonstrate what impact these projects have had on the target markets.

Can you tell me what processes have been put in place to evaluate the new campaign?

Mr Buckley—We do have that mechanism and we have brand tracking.

Senator RONALDSON—Is the audit office wrong?

Mr Buckley—I am not going to comment on whether they were right or wrong. I am just saying what we have.

Senator RONALDSON—They said you do not systematically evaluate it. So I presume from that there probably is not, according to them, a system.

Mr Buckley—That is their opinion. I am just explaining what we do. It is up to others to make the call.

Senator RONALDSON—Do you disagree with the audit office in relation to those comments?

Mr Buckley—No. I will tell you what we do and you can make your judgement as to whether that is appropriate or not appropriate.

Senator RONALDSON—They were not actually doing an audit on me.

Mr Buckley—We do measure our advertising campaigns.

Senator RONALDSON—That might have been fairly frightening, too, but it was not on me. Do you agree or disagree with the ANAO that you do not systematically evaluate the effectiveness of your projects?

Mr Buckley—I say again, I know what we do to evaluate our campaigns. The ANAO's opinion is their opinion.

CHAIR—Last question, Senator Ronaldson.

Senator RONALDSON—Have you responded to the ANAO?

Mr Buckley—We have.

Senator RONALDSON—And what did you indicate to them?

Mr Buckley—That we undertook a range of evaluation processes, including brand tracking. Brand tracking is a key part of the evaluation of our current campaigns. It is conducted around the world. We undertake surveys of our consumers in all of our key markets and that allows us to evaluate the intention to travel and awareness. We measure between those who have seen the advertising and those who have not, and in fact we see greater percentages of response from those who have seen the advertising. That, to me, suggests a good evaluation process. The ANAO's opinion is their opinion.

Senator RONALDSON—Are you going to respond to the recommendations of the audit office?

Mr Buckley—We are moving through each of those areas right now and ensuring that we can adequately cover each area.

[8.17 pm]

CHAIR—Thank you to the officers of Tourism Australia. That concludes that section. The tourism group from the department will not be required.

I will now call outcome 1, Resources and Energy.

Senator JOHNSTON—I would like to talk about the current state of clean coal technology. I hope I am in the right area.

Dr Boxall—Yes.

Senator JOHNSTON—Do I have the right people for the Global Institute for Carbon Capture and Storage?

Dr Boxall—Yes.

Senator JOHNSTON—We have had an announcement of \$100 million with respect to that institute. I am interested to know the genesis of the \$100 million.

Mr Clarke—The Prime Minister's announcement was that the Australian government would fund the institute and its programs up to \$100 million per year.

Senator JOHNSTON—Per year?

Mr Clarke—That is the announcement.

Senator JOHNSTON—Is there any formal written specification for the global institute?

Mr Clarke—We are currently going through a process of developing the design, the business model, the governance structure, the programs and the whole design of the institute in consultation with governments, industry and other stakeholders around the world.

Senator JOHNSTON—Ideally, what are the outcomes we anticipate with respect to the institute and our supporting of it with the money?

Mr Clarke—The announcement made by the government was very focused in terms of the prime objective of the institute, and that is to accelerate the commercial deployment of carbon capture and storage technology. The objective is very clear. The optimum means of fulfilling that objective is what we are currently consulting on.

Senator JOHNSTON—Let us just pause there for a moment. When you say carbon capture, what specifically are we talking about?

Mr Clarke—We are talking about the capture of greenhouse gases, mostly CO₂ but not exclusively, from combustion of fossil fuels at electric power stations and other industrial facilities that burn principally coal or gas.

Senator JOHNSTON—Are we talking pre-combustion or post-combustion?

Mr Clarke—We are talking pre-combustion, post-combustion, oxy-firing and all of the technologies.

Senator JOHNSTON—The full gamut?

Mr Clarke—Yes.

Senator JOHNSTON—Did we employ any external consultants to provide advice to us with respect to the formulation of our guidelines and our specifications for this institute?

Mr Clarke—Guidelines is not a term that is appropriate to the scope of the institute, but in terms of scoping the business model, the programs, priorities, structures et cetera, yes, we have engaged Boston Consulting Group to advise us on that exercise.

Senator JOHNSTON—How much did we spend on Boston Consulting Group?

Ms Sewell—We have entered into a contract with Boston Consulting Group.

Senator JOHNSTON—What is the term of the contract?

Ms Sewell—The term of the contract is dependent on the time frame of the process that we are undertaking to do the international consultation that Mr Clarke referred to.

Senator JOHNSTON—I am sorry to have interrupted. I will come back to term. Please forgive me for that and let us go on. You have entered into a contract. It is worth how much?

Ms Sewell—It is worth \$1,515,250.

Senator JOHNSTON—What do we get in terms of the quid pro quo within the contract? By way of consideration, what are we getting for our \$1,500,000?

Ms Sewell—Boston Consulting Group has been contracted to develop a draft business model for the Global CCS Institute, which is a critical part of the Global CCS initiative announced by the Prime Minister. Boston Consulting Group will therefore provide a draft business model for consideration by the government.

Senator JOHNSTON—By when is that model to be provided?

Ms Sewell—As Mr Clarke described, we have been through, and are currently continuing to go through, a very intensive period of consultation with governments, industry and the research community around the world, as well as domestically. That is a truly iterative process and so the outcome of those consultations is being fed back into the Boston Consulting Group process. In terms of ensuring that we have a business model to put in front of an international preparatory meeting that we are proposing to hold in November, you would be aware that—

Senator JOHNSTON—Is that this coming November?

Ms Sewell—This coming November. The Prime Minister has announced this time frame with an intention to launch the Global CCS Institute in January. The international preparatory meeting will bring together representatives of key stakeholder governments from around the world, international company presidents and internationally recognised research organisations. They will consider at that stage what will be a proposed model from Boston Consulting Group. Boston Consulting Group will then take the outcomes of that preparatory meeting back with them and they will finalise their proposed business model for the Australian government to consider.

Mr Clarke—I would like to complete the answer, if I may. You asked me about the engagement of advisers. We have canvassed Boston Consulting Group. There is also a second contract with Minters, the law firm, who are currently working with us on legal structures that might be applied to the institute.

Senator JOHNSTON—I will come back to Minters in a moment. Dr Boxall, how would you feel about tabling the contract with respect to Boston Consulting for the benefit of the committee members?

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

Senator JOHNSTON—Chair, what is the date by which we have to receive responses?

CHAIR—The 12th.

Senator JOHNSTON—12 December?

CHAIR—Yes.

Senator JOHNSTON—Let us go to Minters. I am sure there are a lot of contractual and other legal issues. Have we got them on a retainer?

Mr Sheldrick—We have selected Minters from the legal panel that the department has and we have them on a contract to 24 December to help us with developing a legal structure for the institute.

Senator JOHNSTON—When you say ‘legal structure’ do you mean a legal structure incorporating the contractual obligations between the business model preparer, Boston, and the government amongst other things?

Mr Clarke—No. I may have to clarify the scope of these two top consultancies. We will continue this discussion. There are other service providers involved. Boston have the broadest mandate, which is scope, governance, programs, priorities, et cetera. Minters’ task is narrower. It is to understand the options for the legal form of the institute. What is the institute? Is it a government agency? Is it a company? Is it a joint venture? There is a range of options that Minters are analysing and providing advice to us on, and no decision, of course, has been taken yet about that legal form.

Senator JOHNSTON—That is very helpful. How much are we spending on Minters?

Mr Sheldrick—We have them on daily rates, but with the time available with the two people that we have in the contract, between now and 24 December, I do not have the total actual figure but it is approximately \$130,000.

Senator JOHNSTON—What is the daily rate?

Mr Sheldrick—We have a partner with a daily rate of \$1,950 and the other person is \$1,500 per day. The junior person is five days and the partner is three days.

Senator JOHNSTON—Am I correct in saying that is \$3,400 per day?

Mr Sheldrick—That is \$3,450.

Dr Boxall—For three days a week.

Senator JOHNSTON—Ten thousand dollars a week. The next one is the service provider.

Mr Clarke—In addition to these two firms who are providing that top-line advice, the department has also engaged—through company structures—two technical experts to assist us in the design stage.

Senator JOHNSTON—I take it they are consultants.

Ms Sewell—We have a contract with Dr John Bradshaw who is the chief executive officer of a company called Greenhouse Gas Storage Solutions, and a contract with Dr Peter Cook, who is the chief executive officer of the CO2 cooperative research centre.

Dr Johnson—I know Dr Cook. Is that a personal contract to Dr Cook?

Ms Sewell—No. It is through the CRC. It is for a sum total of \$10,000 and that was essentially to cover the costs of travel and accommodation that he incurred in taking part in some of the international consultations.

Senator JOHNSTON—What was the first one worth?

Ms Sewell—The first one is for a total of \$94,600.

Senator JOHNSTON—Are they on written contracts?

Ms Sewell—Yes.

Senator JOHNSTON—Do they have terms to those contracts? When I say ‘term’, I mean a durational term in a legal sense.

Ms Sewell—Again, because the time frame for this process was essentially unknown when we entered into the contracts, and the international consultations commenced with a very short lead time, we have deliberately sought to be as flexible as possible in the terms of the contract. Dr Bradshaw’s contract was based upon an estimated number of days, therefore with an estimated total amount, and some of these contracts have had to be amended as we go forward, as the time frame has been extended.

Senator JOHNSTON—Dr Bradshaw’s is \$94,600. How did we arrive at that if we have an uncertain duration of the contract? Can you step me through how we got to the \$94,600?

Ms Sewell—That includes Dr Bradshaw’s daily rate, as well as all incidentals associated with travel.

Senator JOHNSTON—Which is?

Ms Sewell—The department was able to negotiate a daily rate for Dr Bradshaw that is less than half his normal consulting rate.

Senator JOHNSTON—I do not know Dr Bradshaw at all. I am sure he is a very worthy and valuable adjunct to the team.

Mr Clarke—I am uncomfortable about putting on the public record the rates for individual consultants.

Senator JOHNSTON—I am uncomfortable about not doing that. When you contract with the government you contract with the taxpayers. I represent, in this instance, the taxpayers.

Mr Clarke—We are happy to say the services that we have contracted Dr Bradshaw to provide and the total value of the contract. It was for a specified product.

Senator Carr—Is it the case it is up to, that it is not a flat rate?

Mr Clarke—Yes, up to.

Senator JOHNSTON—I will try to help you there. I accept that and I do not want to seem to be problematic here. We will not go to the daily rate, but how many days would it be? We can work it out from that, but I would like the formula. We have got the lump sum, but tell me how we got there.

Ms Sewell—In terms of international consultations we have visited a number of countries and so it was essentially an estimate of the number of days we would spend in each country, which was based very roughly around the number of government agencies that we were meeting with.

Senator JOHNSTON—How many countries do you anticipate?

Ms Sewell—I have not got a total. We can certainly give you a list of the countries.

Senator JOHNSTON—I would be obliged if you could take it on notice.

Ms Sewell—Yes. Essentially we have covered over 15 countries as part of the consultative process, as well as a number of international agencies with an interest in carbon capture and storage. Dr Bradshaw's contract was worked out based on the number of those international meetings that he attended, with obviously travel timing factored into that.

Senator JOHNSTON—That is not really materially quite right. We have written contracts for all of the service providers so far. In a minute I will come back to my request that I made of Dr Boxall with respect to the privacy issue that you have raised, but what other service providers do we have for our institute?

Mr Clarke—That is the total of the external contracted advice. The balance of the effort going into this process is resourced from inside the department.

Senator JOHNSTON—I am interested in the terms and conditions. I am interested in the overall remuneration, not necessarily the daily rates. Is it possible to provide the committee with copies of all of the contracts with respect to the institute whilst preserving what you perceive to be the privacy matters pertaining to the individuals concerned, as opposed to the corporations?

Dr Boxall—We will take that on notice.

Senator JOHNSTON—It is up to \$100 million a year, so where are we along that line to this point?

Mr Clarke—Ms Sewell will give you a number of outlays to date, but as has been clear in the questions so far, we are still in the design and establishment stage. The institute is not yet a legal entity that is spending the \$100 million.

Senator JOHNSTON—Are we a line item in the previous budget with respect to the establishment of this, or are we just working on internal resources at the moment?

Ms Sewell—This initiative was announced by the Prime Minister on 19 September, so there is no existing line item for it. We are working on the basis of additional—

Dr Boxall—Anticipated additional estimates.

Senator JOHNSTON—Anticipated additional estimates. How much do we anticipate in additional estimates for our scoping?

Mr Clarke—Let us go back to make sure I understand what you are looking for. At the moment we are funding this design consultation establishment stage. Once the government has made its decision about the design, legal form, et cetera, and the program, we will then be in a position to go to Finance with costings for the actual institute's operating and running costs. At the moment in this establishment phase we are doing that from existing appropriations.

Senator JOHNSTON—How long do you expect that the department will have to carry the scoping stage until we have an acceptance such that we can say, 'This is the beginning of the period that will be funded by the promise'?

Mr Clarke—There are chicken and egg issues here. We have not yet finalised the internal details of the costings of the institute, but given the timeline that we are working to I would expect that we will reach that point in the first half of calendar 2009.

Senator JOHNSTON—Can we be any more specific?

Mr Clarke—Not at this stage.

Senator JOHNSTON—It could be January or it could be June.

Mr Clarke—Indeed. I am unable to be more specific at this stage.

Senator JOHNSTON—When we move down the path of establishing this institute, which I think has potential and merit in some respects, what other departments of the Commonwealth are we engaging, given we have in excess of 15 countries and several international agencies?

Mr Clarke—There is a steering committee, for want of a better word.

Senator JOHNSTON—Interdepartmental steering committee?

Mr Clarke—Yes, indeed. Colleagues from all of the departments that you would expect are engaged in that; Prime Minister and Cabinet, Foreign Affairs, Industry.

Ms Sewell—Department of Climate Change, Finance and Treasury.

Senator JOHNSTON—Is that a total of six?

Ms Sewell—Seven.

Senator JOHNSTON—How often does that interdepartmental steering committee meet?

Mr Clarke—We met a number of times during the process of working up to commissioning Boston to do that head piece of work on the business model.

Senator JOHNSTON—When did we commission Boston?

Ms Sewell—Boston's contract was awarded on 14 August.

Mr Clarke—I am not able to give you the precise answer. It was of the order of once a week in those early stages. It has been less frequent over the last month while the consultations have been occurring.

Senator JOHNSTON—We have several service providers and interdepartmental committee. What else are we doing in respect to getting this going?

Dr Boxall—We have set up a project team in the department headed by Mr Hartwell, with Ms Sewell, Mr Sheldrick and other staff. That is a designated resource to make sure that we have sufficient senior and experienced people to be able to focus on it.

Senator JOHNSTON—Can you tell me how many people?

Ms Sewell—Essentially what we have done is taken my branch, the Low Emissions Coal and CO2 Storage Branch, because so much of the activity that was already underway in Australia is closely interlinked to how we imagine the Global Institute might take some of these issues and work with us. As workloads reduce and increase over the time, we have a number of somewhere between 20 and 22.

Senator JOHNSTON—It is a bit flexible and fluid. What you are saying is that it is within the parameters of an existing department section.

Mr Clarke—We have augmented the domestic Clean Coal Carbon Capture Storage Branch with additional resources, but we have chosen to keep the international and domestic teams working together.

Senator JOHNSTON—I have really only got one more area of questioning and it is about the Carbon Sequestration Leadership Forum, a 22-member body of which we are a founding signature.

Mr Clarke—Yes.

Senator JOHNSTON—Can you describe to me the difference between what we anticipate our Global Institute on Carbon Capture and Storage will be doing in contrast to that forum with respect to carbon capture and storage?

Mr Clarke—Certainly. The relationship between the institute as the centrepiece of this CCS initiative and existing bodies such as CSLF—which is probably the one on the top of the list, but there are others; the International Energy Agency, for example, has a significant program in this area—has been exactly one of the issues on which we have been consulting during this stage. Our analysis and the feedback that we have been getting confirms our view that there is indeed a gap. There is more that can be done that an intergovernmental body such as the CSLF is able to pursue.

Senator JOHNSTON—I am interested to hear a little more about the gap. We have identified the gap. Can you tell me what is the gap?

Mr Clarke—If we go back to the first question that you asked about the primary purpose of this initiative, my answer was in terms of deployment at commercial scale of CCS technology. I am sure you are aware that a number has been put on that by the G8 through a recommendation from the Carbon Sequestration Leadership Forum and the IEA. They suggested that around 20 commercial-scale CCS projects needed to be implemented early in the next decade and in place by 2020. We had the hypothesis, if you like, that achieving that required a larger, more concerted and more business-focused effort than was able to be delivered by bodies such as the CSLF, the IEA or the individual national or indeed regional programs such as the European programs that are in there.

Senator JOHNSTON—What concerned you about their capacity in that regard?

Mr Clarke—Its focus and resources. If you look at what is happening there, those bodies have all done excellent work in things like accelerating the research and development, understanding the regulatory structures and so on. We judged that the issue to move this technology from that R&D stage into commercial deployment needed a different body with a different focus and resources.

CHAIR—Senator Farrell also has questions on the CCS area.

Senator JOHNSTON—Last question?

CHAIR—Last question.

Senator JOHNSTON—You are aware of the legislation that the minister has brought down with respect to CCS storage.

Mr Clarke—Yes.

Senator JOHNSTON—If you compare the risk models of the international bodies with the risk model created in the legislation that is still before the Senate, you see a big difference. Are we going to try to establish our own risk basis, because you might agree that is one of the major commercial drivers? Are we going it alone in line with that legislation, or are we seeking to go with what has been prescribed as viable by those other agencies?

Mr Clarke—One way of interpreting your question would be to question: is there is a single global model for regulating CO2 storage.

Senator JOHNSTON—A commercial global model.

Mr Clarke—Indeed. At this stage we would judge probably not. The circumstances in individual countries in legal regimes that apply in individual countries will be a very significant factor in determining the appropriate regulatory structure in each country. There are issues and lessons that can be shared across countries and we would hope that the institute might contribute to that, but it is not a working assumption that a single ideal can be created to which all countries could subscribe.

Senator JOHNSTON—That is why I am worried that we have committed to a particular risk model in the storage legislation. I think we used the term ‘chicken and egg’ a moment ago.

Mr Clarke—We believe the risk model that is proposed in the government’s legislation fits the Australian circumstances. It is tailored to our legal regime and the circumstances of the Offshore Petroleum Act.

Senator FARRELL—I would like to go back to the global carbon capture storage initiative. Can you tell us what, if any, support we have got internationally for what we are proposing?

Mr Clarke—Certainly. As we have outlined, we have had a team consulting in 15 or 20 countries face-to-face. We have presented this proposal at, in the order of magnitude of eight or 10, international meetings, committees, fora and so on. We have done that at both a government level and an industry level. No-one has told us it is a bad idea. Everyone is saying, ‘Yes, this is a good initiative.’ Inevitably, the question is the design detail. We have not been asking—with one exception that I will come to in a moment—for written statements of support from countries at this stage. Our posture has been, ‘This is what we are thinking. What do you think about it, or what would you like to have in it?’ We have been adopting that posture with governments, industry and groups like CSLF, IEA, et cetera, that we have talked to. The one exception is the UK government, where the Prime Minister has noted on several occasions on the public record that Prime Minister Brown has written back to him expressing explicit support for the UK government for this initiative.

Senator FARRELL—When was that?

Mr Clarke—Prime Minister Rudd stated that at the launch on 19 September.

Senator FARRELL—There are some people who say this initiative is distracting us from support for renewable energies. What do you say about that?

Mr Clarke—I can demonstrate that is not the case, simply by the allocation of resources across the portfolio of clean energy programs in the department.

Senator FARRELL—A related question to that is whether this project will take funds from other renewable energies, such as geothermal, which are progressing quite significantly in South Australia, and solar energy programs?

Mr Clarke—No. There is no flow of funds between the renewable programs and the CCS initiative.

Senator FARRELL—When do you think the money from this program is going to start being spent?

Mr Clarke—Clearly calendar year 2009, but whether it will be at a significant level in the current financial year, 2008-09, will depend a lot on this next stage that we are going through in design and implementation. If we achieve our goal of establishing the institute in some legal form yet to be determined in early calendar year 2009, then I would expect that the institute itself will start expending funds in 2008-09.

Senator FARRELL—My last question is: what does the department say to suggestions that the CCS technology is unproven? Can you give us any information about demonstration or pilot programs?

Mr Clarke—I would not use the word ‘unproven’ at all, and I do not think any of the independent bodies that have commented on it would use that language. What the government has said very clearly in establishing this initiative is that it is a technology not yet deployed at commercial scale. However, it is a technology the elements of which have all been demonstrated in many places around the world, albeit largely at sub-commercial scale. In that sense it is a proven technology. What has not happened is the integration of these elements and the packaging of them together into large commercial-scale operations, and that is the primary focus of the institute.

Senator FARRELL—Can you give us some information about where it is being trialled?

Mr Clarke—Certainly. I could give you a primary reference. As recently as this week, the International Energy Agency launched a new publication that canvasses quite comprehensively the state of carbon capture and storage technology. It is called *CO2 capture and storage: a key carbon abatement option* published just this week. In that, you can read about the pilot and demonstration projects in a dozen or more countries around the world, including several in Australia. There are three near-commercial-scale storage projects in operation around the world: Europe, North Africa and Canada, and the fourth largest is in Australia—the Otway project in Victoria. In terms of capture, industrial capture of CO2 has been applied in many industrial locations around the world. CSIRO is testing post-combustion capture technologies right now in China. There are numerous examples of where the technology has been demonstrated at that pilot or demonstration scale.

CHAIR—Senator Ludlam.

Senator LUDLAM—How much is the Australian government contributing to this initiative overall? You may have mentioned this figure in your opening remarks.

Mr Clarke—The Prime Minister’s announcement was that the Australian government would fund the initiative at the rate of up to \$100 million per year.

Senator LUDLAM—Is that going forward into the future for a specified period of time?

Mr Clarke—That program does not yet appear in the budget statements because we have not yet gone through the formal budget process, so I am unable to advise you on the longevity of that program at this time.

Senator LUDLAM—So it was just a policy announcement. You did mention before, in response to Senator Farrell's questions, that you were not seeking formal endorsement from other countries, but has there been any indication of financial support from other governments?

Mr Clarke—We are not seeking formal endorsement at this stage. There will very likely come a time when our request to governments, industry and stakeholders will change, but that would be in the implementation stage rather than in the consultation design stage. The question about financial contributions from governments, industry and other bodies is exactly one of the questions that we are exploring during this consultation and design stage. What is the business model of the institute? One of the key points, though, is that, by announcing essentially the underwriting of this initiative by the Australian government, we have removed the obstacle of financial contribution to participation by other bodies. What we have been saying to governments and industry is that of course we would welcome funding. The goal of testing the commercial deployment of CCS requires a large amount of funding. Funding for the institute would be very welcome. The real funding, of course, is the 20-plus demonstration projects. That is where the big dollars are needed and that is where very large-scale probably public-private partnerships will be needed.

Senator LUDLAM—Perhaps we will go there next. I recognise these are probably aspirational targets, as you are just unpacking this project, but your target was for—correct me if I am wrong—20 commercial-scale projects by 2020?

Mr Clarke—The number of 20 projects of a commercial scale by 2020 is the goal that was adopted by the G8 on the advice of the CSLF and IEA. We have been very careful in our consultations not to presume ownership of that goal. That is a G8 statement. We think it is a good statement. We think it is taken on good advice from the CSLF and the IEA. We are keying off it, would be the way that I would describe it. It is a point of reference for the scale and urgency of the task.

Senator LUDLAM—What would you qualify as commercial scale? Is that a 1,000 megawatt plant? 500 megawatt?

Mr Clarke—At this stage we have used two metrics. In the case of power stations—noting that is not the totality of it, but it is the largest part—we have said 250 megawatts and 1 million tonnes per year of CO₂ to be stored.

Senator LUDLAM—Two hundred and fifty megawatts times 20—

Mr Clarke—Of generation.

Senator LUDLAM—Or thereabouts?

Mr Clarke—Yes.

Senator LUDLAM—Times 20. What proportion of global energy generation would you be sequestering at that scale?

Mr Clarke—I do not know that I can answer that question in a literal sense.

Senator LUDLAM—Just orders of magnitude. Twenty 250-megawatt power stations, given expected energy demand—

Mr Clarke—A very small number. That is demonstration scale, quite clearly. At that level it is not, of itself, making an enormous contribution to the global abatement task.

Senator LUDLAM—I would put it to you that it is not making any contribution at all.

Mr Clarke—The tonnes are the tonnes.

Senator LUDLAM—It is vastly less than one per cent, though.

Mr Clarke—I cannot do that arithmetic off the top of my head. It is a demonstration scale activity, though. I acknowledge that.

Senator LUDLAM—I was confused by the use of the term ‘commercial scale’.

Mr Clarke—Commercial scale refers to the individual plants, the individual projects. It is clear that, if the technology is to be successfully commercialised, industry needs confidence to invest in these things and needs to understand the economics and operation of this technology. The advice that the G8 took was that 20 by 2020 is an appropriate short-term goal to achieve that. Does your question go to what contribution CCS can make to the global abatement task?

Senator LUDLAM—I suppose that is where I was going—by 2020, which is not so far away.

Mr Clarke—2020 is the date on which the expert agencies are saying that commercialisation could commence at a very large scale. If you look at the projected scenarios of groups like the IEA, the IPCC and indeed others doing this kind of modelling, the CCS contribution curve takes off at around 2020. It really only starts to become measurable post 2020. In this week’s IEA publication that I talked about, their low-emission scenarios suggest that CCS needs to contribute about one-fifth, or 20 per cent, of the necessary emission reductions to reduce global greenhouse gas emissions by 50 per cent by 2050 at reasonable cost. Their analysis is that CCS is an essential technology to achieve deep emission cuts.

Senator LUDLAM—But in terms of emission cuts between now and 2020 we are not really expecting anything to be on the radar.

Mr Clarke—It is demonstration work through that period.

Senator LUDLAM—I will leave it there.

CHAIR—Are there any other questions in this outcome area?

Senator JOHNSTON—I want to talk about energy. I have a couple of quick questions on the ETS.

CHAIR—Okay. We will give you some time.

Senator JOHNSTON—Has the department done any modelling with respect to brown coal generated energy and the effect upon that generation by the emissions trading scheme?

Mr Wilson—No, the department has not done any modelling on that issue.

Senator JOHNSTON—Does the department do any modelling at all?

Mr Wilson—The department does modelling on a lot of issues. Are you specifically referring to the Carbon Pollution Reduction Scheme?

Senator JOHNSTON—Yes.

Mr Wilson—We have not done any modelling on the Carbon Pollution Reduction Scheme.

Senator JOHNSTON—The Victorian electricity industry have indicated that they perceive that half the power stations in Victoria will close within five years as they are too old to be upgraded. Does the department have a view on that statement?

Mr Clarke—The government is in the green paper process, as you know. There are over a thousand submissions that have been made in that process. We read those in our sector with great interest and we provide our advice to our minister on what industry is saying. We cannot, for the usual reasons, canvass that advice in this forum.

Senator JOHNSTON—You have seen the submission and you have provided advice on it?

Mr Clarke—Yes, we have seen the submissions, and we are also talking to the electricity supply industry about their issues.

Senator JOHNSTON—Has there been any modelling done by your department with respect to the effect of the emissions trading scheme on gas generated electricity?

Mr Clarke—No, as Mr Wilson has said, we are not in the modelling business for the CPRS.

Senator JOHNSTON—That is all I want to ask on emissions trading. Does anyone else have any questions on this area?

CHAIR—Senator Ludlam has questions on radioactive waste.

Senator LUDLAM—These are specifically to Mr Patrick Davoren. I would just like to lead off with a couple of questions. I am interested in the budget and the staffing arrangements for the business unit—or section or however I should describe it—charged with progressing the national radioactive waste dump project.

Mr Davoren—There are two elements to our budget. There are departmental funds which currently support four staff. We also have administered funds in the budget this year. There was a redistribution of \$3.8 million into the years 2008-09 and 2009-10, so we have a budget in 2008-09 of roughly \$4 million and in 2009-10 of \$2.9 million. The major item in that budget would be conducting an EIS into a selected site. Of course, the government has these matters under consideration. At this stage we are unsure of whether we will have a site within the current financial year.

Senator LUDLAM—Understood. But, at this stage, the money budgeted for the EIS is for the 2009-10 financial year?

Mr Davoren—Yes. There were delays under the previous government. I think it is fair to say that we expected to have done an EIS on a preferred site previously.

Senator LUDLAM—Can you tell me: what is the mission statement, or however you would put it, for your section?

Mr Davoren—The section has a number of responsibilities. We are to progress arrangements for the establishment of a radioactive waste management facility—that was under the previous government. That matter is under review. We also have responsibility for administering the former British nuclear test sites in South Australia and managing the process for their eventual return to their traditional owners. We are also involved in work relating to the former Rum Jungle uranium mines in the Northern Territory.

Senator LUDLAM—Okay. All of those activities come within the funds and staffing allocation that you just identified?

Mr Davoren—Yes.

Senator LUDLAM—You are aware obviously that the current government's policy is to repeal the Commonwealth Radioactive Waste Management Act 2005. Can you tell us why that has not happened yet?

Dr Boxall—It is under consideration by the government.

Senator LUDLAM—It is under consideration—the repeal?

Dr Boxall—Yes.

Senator LUDLAM—Has the delay in the repeal of the act been due to drafting of replacement legislation?

Dr Boxall—No. The government is considering the matter and will make an announcement when it is ready.

Senator LUDLAM—Okay. Can you tell us what process of consultation this is involving?

Ms Taylor—What the government has put on the table is a commitment to repeal the act, but it has also said that it will only do so in the context of taking forward a comprehensive strategy for dealing with the radioactive waste management issue. As you would be aware, we have engaged a consultant, Parsons Brinckerhoff, to provide site investigations in respect of four sites in the Northern Territory. We have actually received a draft report, but we are intending to impose an independent peer review for that report to ensure it is as robust as possible. Until all those steps are taken, the government will not be in a position to respond in terms of a full comprehensive strategy.

Senator LUDLAM—Okay, I understand. So it appears that the PB report that the government commissioned was further review work of the four sites that had been proposed by the Howard government?

Ms Taylor—There is further work identified in terms of peer review of that report, yes.

Senator LUDLAM—I am sorry; that was not quite the question I asked. You had commissioned PB to undertake a study into the four sites that had been proposed by the Howard government?

Ms Taylor—That is correct.

Senator LUDLAM—A draft report of that has been submitted to you?

Ms Taylor—That is correct.

Senator LUDLAM—You have moved that onto peer review. Who are the peers? Who is doing the review?

Ms Taylor—We are just in the final stages of negotiating our contract with the final consultant. It would not be appropriate for me to identify who that consultant is at this point in time until those contract arrangements are settled.

Senator LUDLAM—Okay. Can you tell us when you would be expecting that peer review process to get underway?

Ms Taylor—Very shortly.

Senator LUDLAM—Days or weeks? Hours?

Ms Taylor—In the next few weeks.

Senator LUDLAM—In the next few weeks that will be underway? Is it essentially the case that you are working to identify the site for the national radioactive waste dump, whereupon you will announce that site to the public? Is that correct?

Ms Taylor—That is a matter of government policy and government consideration.

Senator LUDLAM—But you are the folk who are working on it full time. Is that what is occurring?

Senator Carr—Senator, the officers have indicated that that is a matter of government policy. It is not reasonable to press them in that manner.

Senator LUDLAM—Sorry, Minister, I did not realise I was pressing them. The government's policy is, as I am sure you know, that the process would be scientific, transparent, accountable and fair and allow access to appeal mechanisms. There does not appear to be a great deal of that. I cannot speak for the science, having not seen the report, but there is nothing greatly transparent or consultative about this so far that I can identify.

Senator Carr—All I can say to you is that the minister has stated very clearly that the government is not intending to take decisions on the radioactive waste facility without appropriate consultation, including with the relevant state and territory governments and with the Indigenous and local communities. He has made very clear the commitment to repeal the existing legislation, but he does not wish to take piecemeal actions or decisions on the radioactive waste management in the absence of a total package to solve the problem. I think you are aware, Senator, that this is an issue that has been with us now since former Senator Cook moved a very large body of soil from the old CSIRO site in Melbourne and that we have had all over this country ad hoc processes to deal with radioactive waste. The government's intention is to resolve this matter, but it will not do so in a piecemeal manner.

Senator LUDLAM—I certainly was not accusing the process of being piecemeal. Perhaps we should just move on. Would you be in a position to table the draft report that has been provided to you by Parsons Brinckerhoff?

Ms Taylor—Whilst the report is in draft form it would not be appropriate for us to table that.

Senator LUDLAM—When are you expecting a final report, or would that be completed subject to the peer review?

Ms Taylor—Subject to the peer review.

Senator LUDLAM—Okay. Can you tell us how much the consultants were paid to produce that work for the government?

Ms Taylor—The value of the Parsons Brinckerhoff contract was \$1.933 million.

Senator LUDLAM—Thank you. Are you able to table the instructions by which you directed PB to undertake that work?

Mr Davoren—Senator, I think the content of that contract actually appeared on the website of the former Department of Education, Science and Training two years ago. There is no secret about what the work involved. It involved extensive biophysical and socioeconomic characterisation of the four sites.

Senator LUDLAM—I suppose I can assume that that work is of a fairly technical, scientific or geotechnical nature. Can you tell us in terms of consultation, has anybody from the department met with traditional owners at Muckaty Station in the Northern Territory in the last six months or so; is that consultation process underway?

Mr Davoren—There have certainly been meetings with the Muckaty people when work commenced at Muckaty Station late last year, and that was the last formal contact with Muckaty traditional owners.

Senator LUDLAM—Could I assume that that is the case for the traditional owners of the other three sites that would have been named in that report?

Mr Davoren—There were consultations with the traditional owners of all those sites through the relevant land councils, and they took place several years ago. There was an offer made to the Central Land Council to consult further if this was required, but we have had no further communication from the CLC on that matter.

Senator LUDLAM—When was the last time there was communication with the CLC?

Mr Davoren—I think it was early last year.

Senator LUDLAM—In 2007?

Mr Davoren—Yes, 2007.

Senator LUDLAM—Okay, so there is no consultation currently occurring with the traditional owners or their representatives in calendar year 2008?

Mr Davoren—There has been no new information to pass on to them.

Senator LUDLAM—Have you received communications from them, either the traditional owners or their representative body?

Mr Davoren—I think there has been some communication with the Northern Land Council over the last 12 months but the consultations occurred mainly in 2005 when the former government announced how it was going to proceed. There were subsequent communications and consultations but very little in the last year.

Senator LUDLAM—Okay, I suppose I am more interested in the current government's approach. I know certainly that the minister has received a lot of communication regarding the highly contested nature of the Muckaty site at least, on the grounds of lack of consultation, and you have just confirmed that there has not been a great deal of communication this year. Is the department privy to those communications with the minister?

Mr Davoren—Which communications?

Senator LUDLAM—Communications from—I will give you the names in particular. There is a number of family groups, I am sure you would be aware, responsible for landscape under the Muckaty Land Trust—in particular, the Ngapa, the Millway, the Ngarrka, Wantagu and the Yapa Yapa family groups. I have probably mangled the pronunciation. Are you aware of representations within those groups?

Mr Davoren—Yes, we have prepared draft responses to some of those representations, Senator.

Senator LUDLAM—Can you identify for us, perhaps on notice—we will not put you through doing that now—those communications? I am not asking you to table the communications themselves, but the dates and the order in which they were received and transmitted.

Ms Taylor—We would have to take that on notice.

Senator LUDLAM—I understand that, but are you prepared to table that information?

Dr Boxall—No, we are taking it on notice.

Senator LUDLAM—As in you are prepared to do that or—

Dr Boxall—No, we are taking the question on notice and the minister will give you a response through Senator Carr.

Senator LUDLAM—All right; thanks for that. In an estimates hearing on 30 May 2007, Mr Davoren, you testified that the Ngapa traditional owners would receive phased payments that would commence upon acceptance of a nomination of a portion of lands held under the Muckaty Land Trust. Can you tell us how much was budgeted for these payments?

Mr Davoren—Yes, the agreement that was reached with them was a cash amount of \$11 million and \$1 million in educational and training scholarships. Of the \$11 million, \$9 million would be going to the main estate clan, which is the Ngapa, and \$2 million would be going to the estate clans who had ownership of the access road, and those clans of the Millway and the Ngapa, again. The phased payment involved a payment of \$200,000 upon acceptance of a nomination. The nomination of the Ngapa site was accepted by Minister Bishop in September of last year and the payment following that was made early this year.

Senator LUDLAM—Okay, so these are part payments that are just made on an ongoing basis?

Mr Davoren—They are tied to milestones in progressing the facility. Of course, as the project is under review, there have been no further payments.

Senator LUDLAM—Okay; I understand. Who administers those funds once they are paid?

Mr Davoren—The funds go to the Northern Land Council who represents the traditional owners in matters concerning the land. I understand that \$200,000 went to the Ngapa clan and was distributed within that clan. The agreement with the Muckaty people is that further payments, if they are made, would go into a charitable trust to be administered by Muckaty traditional owners.

Senator LUDLAM—Can you tell us what your current expectation is for the time line of the return of Australian obligated spent fuel from France and the UK?

Mr Davoren—I think you have asked a question on this, Senator, and got an answer, and I think you also got an answer this morning from Dr Ron Cameron.

Senator LUDLAM—I am asking you, Mr Davoren.

Mr Davoren—Well, I think you have already got that information.

Dr Boxall—We do not have anything further to add.

Mr Davoren—I have nothing further to add to what has been said.

Senator LUDLAM—Chair, I am sorry; I just asked the witness a direct question. I do not—

CHAIR—I think he answered it. He referred you to—

Senator LUDLAM—He referred me to something that someone may have said earlier this morning. I was just wondering—

CHAIR—It was a bit more than someone may have said. It is another answer to a question at estimates and he says he is aware of the question, he is aware of the answer and he is saying he has nothing further to add. That is a reasonable response, I think.

Senator LUDLAM—I am not attempting to waste the time of the committee or the witness, but there is highly variable information out there as to when Australia is obligated to receive the reprocessed fuel from France.

Senator Carr—The officer has given you a response. You asked the relevant officer this morning, and the relevant officer gave you an answer. This officer says that he has nothing further to add.

Senator LUDLAM—Is the department working on a particular time line whereby this dump needs to be up and running?

Mr Davoren—The government is considering the matter. We must await the government's decision. Obviously we would like to have a facility available as soon as possible but the matter is in the hands of the government.

Senator LUDLAM—I suppose those decisions are, but are you not operating on a purely open-ended basis? Do you have a target time frame by which this facility is up and running?

Dr Boxall—We do not have a target that is independent of the government.

Senator LUDLAM—Okay. That does not answer the question, though.

Dr Boxall—It does answer the question.

Senator Carr—Yes it does; very directly.

Senator LUDLAM—Al right. I will leave it there. Thanks, Chair.

Senator JOHNSTON—Very briefly, do we have data with respect to royalty revenues in the states?

Ms Taylor—Yes, we do have some information.

Senator JOHNSTON—I think it is a bit of an old chestnut for me. Do we know what it is costing us in Western Australia and Queensland for no mining of uranium—an estimate?

Ms Taylor—No, I do not actually have—

Senator JOHNSTON—I mean costing Queensland and Western Australia?

Ms Taylor—I do not have the royalty information with me, but of course the WA government has now changed its policy in respect of uranium in Western Australia.

Senator JOHNSTON—We would only be estimating, and we might be making comparisons with South Australia and the Northern Territory.

Ms Taylor—We do not have an estimate.

Senator JOHNSTON—No. So we do not sort of have a notional expectation or a valuation with respect to those states?

Ms Taylor—No.

Senator JOHNSTON—Okay. That is good. I take it that on that basis we would not have any estimation of capital investment foregone?

Ms Taylor—No, Senator.

Senator JOHNSTON—Okay.

Ms Taylor—We do have an estimate of the value of uranium reserves in Western Australia, for example.

Senator JOHNSTON—I would like to know that figure.

Ms Taylor—Using a spot price of around US\$64.50 and an exchange rate of 85c, WA's recoverable uranium reserves were estimated at almost \$17 billion.

Senator JOHNSTON—And they are JORC reserves—

Ms Taylor—I believe so, yes.

Senator JOHNSTON—from probably two deposits?

Ms Taylor—There are more than two deposits. There are probably quite a number of deposits but quite a number of prospective deposits in Western Australia.

Senator JOHNSTON—Okay, so if it is not JORC; they are inferred and prospective?

Ms Taylor—I would have to take that on notice.

Senator JOHNSTON—That is fine. I do not want to delay you with technicalities. Do you have the figure for Queensland? I think it is actually more important that you have the figure for Queensland.

Ms Taylor—I do not have Queensland.

Senator JOHNSTON—Do we reconcile what safeguards there are in place with respect to the export of uranium to China?

Ms Taylor—That would be a matter for ASNO

Senator JOHNSTON—For who?

Ms Taylor—For ASNO, the safeguards office.

Senator JOHNSTON—You are quite right. Thank you, Ms Taylor.

CHAIR—I think Senator Eggleston's questions require going back to the emissions trading system.

Senator EGGLESTON—I want to ask some questions about emissions trading if there is still anybody here who can answer them.

Dr Boxall—Certainly.

Senator EGGLESTON—There have been a number of reports from the *West Australian*, the *Australian* and the *Australian Financial Review* about the cost of emissions trading schemes to the resource industry. The *West Australian* reported:

Chevron Australia's managing director Roy Krzywosinski—
it is obviously a Polish name—

also warned that the ETS would threaten the viability of the US giant's proposed Gorgon and Wheatstone operations in WA's North-West, which would be likely to cost more than \$40 billion combined.

He said the ETS was likely to add between \$100 million and \$200 million in annual operating costs for each of the Gorgon and Wheatstone projects ...

Likewise, it has been said by Woodside that the ETS would compromise the viability of their North West Shelf operation and mean that they would be unlikely to go ahead with other developments such as the Browse Basin on the northern Western Australian coastline. Obviously these are very concerning comments. How valid does the department feel these kinds of comments are?

Mr Wilson—We are aware of those comments and other comments by business. We have looked at the submissions that they have provided under the green paper process and we have provided advice to the minister. It is not appropriate that we give that advice or canvass our view on that issue here. The only other thing I would note is that the government has yet to finalise the design of the emissions trading scheme, so consideration of what the impacts may be must be in some way speculative.

Senator EGGLESTON—I understand that answer. But at least you are taking note of and giving consideration to the views of these resource companies in this matter.

Dr Boxall—Yes.

Mr Wilson—We are considering issues to do with all industries covered by the portfolio.

Senator Carr—And that is happening right across the government.

Senator EGGLESTON—Thank you, Senator Carr. I appreciate that. That is really all I had to ask about that. I am deeply concerned about the comments that have been made by a

wide variety of resource companies in Western Australia. Senator Johnston mentioned flow-through shares, and since he has raised that issue I might ask a couple of questions on it. Flow-through shares have been a feature of the Canadian approach to dealing with mineral exploration in particular for a long time. It is said that the flow-through share system has enhanced exploration and prospecting in Canada and delivered better returns to the companies involved. Are you able to give us any comment on the Canadian flow-through share system?

Mr Pegler—We are aware of the claims, as you are. We do not have details, though, in terms of the hard and fast figures that are claimed out of Canada.

Senator EGGLESTON—So you have not actually studied it or sought information about the Canadian model of flow-through shares? The introduction of a flow-through share system in Australia is an issue that has been around for quite a number of years.

Mr Pegler—In consideration of flow-through share schemes, we are and have looked at the Canadian model, along with other models, and all of those feed into the policy mix.

Senator EGGLESTON—What other models are there? I was only aware of the Canadian model.

Mr Pegler—There are a couple of models. The industry has put forward a model. We have considered other options ourselves. So there are two or three different proposals.

Senator EGGLESTON—You are talking about other models being proposed within Australia but not necessarily operating in other countries.

Mr Pegler—Yes.

Senator EGGLESTON—That has clarified that. The government made an election commitment to implement a flow-through share initiative. That initiative of course was not accommodated in the 2008-09 budget. Minister, perhaps you could assist me by giving me some advice as to when the government plans to meet its promise to support a flow-through share scheme so as to encourage resource excavation initiatives.

Senator Carr—A flow-through share scheme, particularly for smaller operators in the minerals, oil and gas industries, is currently being considered by the Treasurer's taxation review. The review panel has been asked to accelerate consideration of this initiative given its particular status as an election commitment.

Senator EGGLESTON—Are you referring to the Henry review?

Senator Carr—Yes. The minister is working with industry on the design of the scheme and, I understand, will obviously consider that in the context of the response to the Henry review.

Senator EGGLESTON—So it is under active consideration.

Senator Carr—That is what I am advised.

Senator JOHNSTON—Without disclosing any advice in terms of cabinet advice or ministerial advice, has the government given consideration to including the exploration for geosequestration sites within such a scheme?

Senator Carr—I do not have any information on that particular matter. I will have to take that on notice.

Senator JOHNSTON—I would be obliged if you would, even if it is just an idea.

CHAIR—We have about 1½ minutes left for any further questions.

Senator EGGLESTON—This is a 90-second question. The Australian Bureau of Statistics shows that Australia's mineral exploration rose 38.2 per cent in 2006-07 to a record \$1.7 billion. What are the projected figures for each of the years from 2008-09 to 2012-13? Could that be taken on notice if you cannot produce it?

Mr Pegler—I do not believe we have those figures readily available.

Senator EGGLESTON—I suppose any such figures might have to be revised in any case in view of the global financial crisis we seem to be going through.

Mr Pegler—We would have to take that on notice, but I am not sure that we can produce those figures because I am not sure they do that analysis in advance.

Dr Boxall—GA can give you figures for 2007-08, but we do not have projections.

Senator EGGLESTON—If those figures can be provided that would be appreciated.

Dr Boxall—GA is on at 10.30 pm, so they could give you the figures then.

Senator EGGLESTON—We will ask them then. I will ask one small additional question of the minister: what will the Rudd government be doing to encourage further mineral exploration in Australia? What plans do you have?

Senator Carr—I will let my secretary answer that.

Dr Boxall—Senator, these issues will be considered as part of the budget context. As you are aware, the government had an election committee on the flow through shares and also on frontier exploration. These issues will be considered in the budget context as well as any other issues that might come up.

Senator EGGLESTON—Is it fair to say that such measures are under consideration?

Dr Boxall—It is fair to say that the election commitments are under consideration in the budget context and any other issues that are relevant will be considered also.

Senator EGGLESTON—Thank you.

CHAIR—Thank you to the officers here for outcome 1. We are actually scheduled for a break for 15 minutes, so we will break until 9.45 pm and then return with National Offshore Petroleum Safety Authority.

Proceedings suspended from 9.30 pm to 9.45 pm

National Offshore Petroleum Safety Authority

CHAIR—The committee will resume proceedings with the National Offshore Petroleum Safety Authority.

Senator JOHNSTON—Mr Clegg, are you the NOPSA man? Were you in fact one of the two NOPSA people who prepared and participated in the events following 3 June on Varanus Island, I think it was?

Mr Clegg—Excuse me?

Senator JOHNSTON—Were you one of the people who attended Varanus Island on 4 June?

Mr Clegg—No, I did not attend the Varanus Island, Senator.

Senator JOHNSTON—Do we have anybody here who was there?

Mr Clegg—No.

Senator JOHNSTON—All right, that is fine. It is not material because I think you know the terms of the report and you know everything about it, I take it, as to what happened? Do I take that as a yes, do I? We will see how we go anyway. NOPSA is a regulator, isn't it?

Mr Clegg—We are a regulator, yes.

Senator JOHNSTON—You are a regulator with respect to the industry in terms of safety, are you not? You establish the safety cases for these offshore platforms?

Mr Clegg—We are the regulator for offshore health and safety in Commonwealth waters and in designated waters where we have been conferred powers.

Senator JOHNSTON—Does that mean that you have a service contract? When you say 'deferred powers', what does that mean?

Mr Clegg—We have conferred powers on the offshore platforms in WA designated waters.

Senator JOHNSTON—By the department of industry and resources from that state?

Mr Clegg—That was brought into effect by amendment to legislation in March this year.

Senator JOHNSTON—But I note the report says—

Mr Clegg—Sorry, Senator, that was March last year.

Senator JOHNSTON—2007?

Mr Clegg—Yes.

Senator JOHNSTON—That is fine. So you are a regulator and I note that you received a request to provide investigation services under the Western Australian Department of Industry and Resources direction to investigate the Varanus Island pipe rupture and fire on 3 June. You say in the report the request was 'made in accordance with the service contract'.

Mr Clegg—Yes.

Senator JOHNSTON—When was the service contract entered into?

Mr Clegg—The beginning of January 2005.

Senator JOHNSTON—2005?

Mr Clegg—2005.

Senator JOHNSTON—That was very shortly after you began operating, was it not?

Mr Clegg—Yes, it was.

Senator JOHNSTON—Who established the terms of reference for your investigation?

Mr Clegg—They were agreed between DoIR and NOPSA.

Senator JOHNSTON—Right, and over what period were they agreed?

Mr Schubach—The terms of reference were finally settled, if my memory serves me correctly, on 9 July. If I may refer to the document, I will just confirm that date for you.

Senator JOHNSTON—Absolutely.

Mr Schubach—Up to that time both parties, the WA Department of Industry and Resources and NOPSA, were in discussions in relation to finalising the terms of reference. As you see from attachment 1, the terms of reference are dated 9 July.

Senator JOHNSTON—So six days after the event—

Mr Schubach—Excuse me, with respect, Senator, the event was on 3 June.

Senator JOHNSTON—Yes, correct me, when were the terms agreed?

Mr Schubach—On 9 July.

Senator JOHNSTON—On 9 July, goodness, right. So some 34 or 35 days later?

Mr Schubach—Approximately that period.

Senator JOHNSTON—Yes. Notwithstanding, you attended the day after, so we post facto determined the terms of reference upon what you would report?

Senator Carr—I am not certain you can draw that conclusion.

Senator JOHNSTON—Well, you have outlined that you attended, you interviewed, you did all of the work and then having done all of that, you agreed with the department what you would report on, because the documents was signed some 34 days later.

Mr Schubach—May I respond to this?

Senator JOHNSTON—Yes.

Mr Schubach—This was in the context of an investigation occurring. As you know from the report, there were representatives of both parties present on Varanus Island on 4 June. If I could just clarify a small matter there, Senator? You raised the issue of the services contract. In the context of powers, could I just please confirm that the NOPSA arrangement with DoIR is the provision of occupational health and safety advice. There are no powers conferred on us with respect to occupational health and safety regulation on Varanus Island. The matter of the regulation of occupational health and safety on Varanus Island is one for the WA Department of Industry and Resources. I just wanted to clarify the conferral powers.

Senator JOHNSTON—I am obliged to you for that, because I am just getting a handle on this if you will excuse the colloquialism. The department is also responsible for what we would, in the old days, if you will excuse me for using this expression, call the machinery safety aspect of the onsite plant?

Mr Schubach—The Department of Industry and Resources regulates on Varanus Island; that is under a WA act.

Senator JOHNSTON—Yes. That is exactly as I anticipated. I just am obliged to you for the occupational health and safety clarification. It is not your bailiwick?

Mr Schubach—In relation to regulation on this island, no.

Senator JOHNSTON—Thank you very much.

Mr Clegg—The law that applies on the island is the WA Petroleum Pipelines Act 1969.

Senator JOHNSTON—Yes.

Mr Clegg—That requires a licence and a condition of the licence is to have a safety case.

Senator EGGLESTON—To have a what?

Mr Clegg—Safety case.

Senator EGGLESTON—Does that mean some sort of cladding on the pipeline?

Senator JOHNSTON—No, it is a system of safety—

Mr Clegg—Senator, I am happy to respond if you would like clarification on what constitutes a safety case.

Senator JOHNSTON—I asked my first question as to your being a regulator, but in this instance NOPSA is not in fact a regulator on Varanus Island?

Mr Clegg—No, NOPSA is not the regulator on Varanus Island.

Senator JOHNSTON—Thank you. If I might say so, I did not pick that up necessarily in the document. I have not read it as closely as I should have, obviously, but that helps me greatly. On 9 July, through negotiation between the state department and you, the terms of reference—namely, the facts and events relevant to the incident, the likely causes, et cetera—were set out. Was there any intervention by anybody else in that negotiation between the departments?

Mr Clegg—No, there was not, Senator.

Senator JOHNSTON—So the terms of reference were simply between NOPSA and DoIR?

Mr Clegg—Yes.

Senator JOHNSTON—Was there any disputation between the parties as to the terms of reference?

Mr Clegg—Not to my recollection.

Senator JOHNSTON—Did you participate in the negotiations?

Mr Clegg—No, I did not personally, but—

Mr Schubach—I participated in the negotiations and, as John is our CEO, I communicate with our CEO on such matters.

Senator JOHNSTON—Mr Schubach, let us cut to the chase. Why on earth, if you are not the regulator and the state department is, would you exclude from your inquiry actions or omissions by any regulator? Why would you agree to terms like that?

Mr Schubach—Because the agreed focus was on the facts of the incident and the potential causes of the event.

Senator JOHNSTON—Is not one of the causes the fact that for 15 years no-one noticed that no-one had checked the pipe? Isn't that the issue? Haven't we let the state department

completely and utterly off the hook here? They have not done their job. That is why we have regulators. Isn't that the case?

Mr Clegg—That is a matter of opinion, Senator.

Senator JOHNSTON—I think it is bleeding obvious, if you will excuse the expression.

Senator Carr—Senator, you have put a view. I do not think it is fair on these officers—

Senator JOHNSTON—The minister has not read the report, obviously.

Senator Carr—But I can listen to the conversation across this table and you are asking the officers for an opinion.

Senator JOHNSTON—Minister, for your benefit—and I am surprised you have not read this, because it is very important nationally—

Senator Carr—Yes, I am sure that is true.

Senator JOHNSTON—the report states:

The external corrosion problem was not detected and addressed at this location, although the available evidence indicates that the corrosion progressively affected the pipe over a period of 15 years or more until the pipeline failed.

Now, come on!

Senator PRATT—This is a time for questions, Senator Johnston.

Senator JOHNSTON—Why did we exclude the conduct of the state regulator, Mr Schubach?

Mr Schubach—Our role is to provide health and safety advice to the WA Department of Industry and Resources.

Senator JOHNSTON—And you have no statutory obligation with respect to conducting an inquiry into anything on this island, do you?

Mr Schubach—That is correct.

Senator JOHNSTON—Why did you do it?

Mr Clegg—Under the services contract we provide advice on assessment, audit and investigation.

Senator JOHNSTON—Is it not material to the investigation that no regulatory oversight has been conducted on these pipes for 15 years?

Senator PRATT—They can only do what they are contracted to do, Senator Johnston.

Senator JOHNSTON—You agreed the terms of this inquiry. Is it reasonable that you would exclude the conduct of the regulator who has not oversighted or done its job for 15 years in this investigation?

Mr Clegg—If such a review is required, then it can be done at any occasion later. It was important on this occasion to focus on the causes of the incident.

Senator JOHNSTON—Isn't that one of the causes?

Mr Clegg—The responsibility for health and safety on the facility is the responsibility, primarily, of the operator, absolutely in law.

Senator JOHNSTON—Why do we have regulators?

Mr Clegg—To provide a check and balance.

Senator JOHNSTON—Well there is none of that.

Senator Carr—Senator, you are now seeking—

Senator PRATT—I have got some proper questions.

Senator JOHNSTON—They are proper questions.

Senator Carr—Senator Johnston, I do not think it is fair for you to be putting those propositions to these officers. These are your views, you are entitled to put those views, but they are not questions to be put to these officers.

Senator JOHNSTON—Every question that I have asked has had a question mark after it. One of the causes of this catastrophe was no proper regulation. Question.

CHAIR—Excuse me, what is the question, Senator Johnston?

Senator JOHNSTON—One of the causes of this catastrophe at Varanus Island on 3 June this year was no proper regulation by the state department for 15 years.

Mr Schubach—Senator, are you asking an opinion? I am sorry, with all due respect, I do not hear a question. If you could please clarify it, I would be very happy to—

Senator JOHNSTON—If they had done their job, wouldn't they be expected to have found that there was no sacrificial anode, anti-electrolysis or anticorrosive devices and that the pipeline was being corroded by carbon dioxide? They would have checked the thickness of the pipe over the course of 15 years. Surely that is reasonable. But you have excluded all that by agreeing these terms of reference. Isn't that the case?

Mr Schubach—May I say that the matters that you described are matters for the operator or licensee who is the party who has the responsibility to secure the health, safety and welfare on this island.

Senator JOHNSTON—And when they do not do it, who is supposed to catch them?

Mr Schubach—The regulator has a role to challenge the operator's risk management arrangements.

Senator JOHNSTON—Thank you.

Mr Schubach—May I say, the main causal factors are those identified in the report and in the executive summary as:

1. Ineffective anti-corrosion coating at the beach crossing section ...
2. Ineffective cathodic protection of the wet-dry transition zone ...
3. Ineffective inspection and monitoring ...

Senator JOHNSTON—Thank you. The report states:

An application for renewal of the licence—

that is the pipeline licence held jointly by Apache North West and two other entities covering the Varanus Island facility—

was submitted to DoIR—

the state department—

by Apache in December 2005...

At the time of writing your report, that application had not yet been accepted; is that correct?

Mr Clegg—Yes.

Senator JOHNSTON—So that the previous licence had expired but not been renewed save for operations continued pursuant to the terms of the then expired 2005 licence?

Mr Clegg—My understanding is that the existing licence continues to run.

Senator JOHNSTON—Yes.

Senator EGGLESTON—Can I ask who issues the licence?

Mr Clegg—DoIR.

Mr Schubach—The WA Department of Industry and Resources is the regulator on Varanus Island under the WA Petroleum Pipelines Act of 1969.

Senator EGGLESTON—Do you have any role in the issue of that licence?

Mr Schubach—If advice is sought of us then in relation to the services contract that the senator has referred to, we would provide advice with respect to that.

Senator EGGLESTON—Thank you.

Senator JOHNSTON—I take it each licence contains specific conditions for the operation of the plant, equipment, extraction and work on Varanus Island?

Mr Schubach—That is correct, an example of which is the requirement to have a safety case.

Senator JOHNSTON—And so this island was still functioning on the May 1985 terms and conditions?

Mr Clegg—Correct.

Senator JOHNSTON—Do you know why it would take that venerable state department, the Department of Industry and Resources, from December 2005 until today to process the application?

Mr Clegg—I cannot answer for the department.

Senator JOHNSTON—You are involved in the north-west as NOPSAs.

Mr Clegg—Yes.

Senator JOHNSTON—One of the things you check first of all is licensing?

Mr Schubach—Excuse me, Senator, may I comment? In relation to licensing, the regimes that we directly administer do not have licensing provisions with respect to health and safety matters. The regimes are those that my CEO referred to earlier, under the Offshore Petroleum Act 2006.

Senator JOHNSTON—You are quite right and I accept that. Let me be clearer—and I apologise to you—I am talking about the pipeline licences. This is PL12 in fact, and I am sure you are aware of that.

Mr Schubach—Yes.

Senator JOHNSTON—Is it normal, in your experience, since 2005 that it would take three years for the processing of an application for a pipeline licence?

Mr Clegg—We have nothing whatsoever to do with licensing.

Senator JOHNSTON—I am not asking you that.

Mr Clegg—So it is not a question I can answer.

Senator JOHNSTON—You cannot answer that?

Mr Clegg—It is a matter for DoIR.

Senator JOHNSTON—Notwithstanding that you have spent virtually half a page talking about the status of the licences in the report?

Mr Schubach—That is the important context of the regulatory framework that applies for which DoIR is the regulator.

Senator JOHNSTON—Gentlemen, I will take your word for it. You make another observation. You say, ‘The regulations require that a person must not undertake construction activities relating to a pipeline unless the WA Minister has consented to the construction and a pipeline licensee must not operate a pipeline under the licence unless the WA Minister has granted consent to operate the pipeline.’

Mr Schubach—That is right, that is on page 9 under the Petroleum (Submerged Lands) Act 1967 description.

Senator JOHNSTON—That is right. Had the minister given such consent?

Mr Clegg—That is not an issue for us, Senator, that is for DoIR.

Senator JOHNSTON—So that is the part of the state regulator’s responsibility?

Mr Clegg—Yes.

Senator JOHNSTON—Five of those pipelines were licensed under the regulations, notwithstanding they had expired in some circumstances?

Mr Clegg—No, they have not expired.

Senator JOHNSTON—Excuse me, they had exceeded the statutory 21 years and continued pursuant to the statutory provisions in that event?

Mr Schubach—Excuse me, may I just seek a clarification from the senator? PL12, I think, is the pipeline licence you were referring to in terms of the licence that had expired or had continued in force from its earlier date; correct?

Senator JOHNSTON—Yes.

Mr Schubach—If I can just clarify: that is a pipeline licence issued under the Petroleum Pipelines Act 1969, the WA act.

Senator JOHNSTON—Yes.

Mr Schubach—The material you were reading on page 9 actually refers to a different piece of legislation.

Senator JOHNSTON—The WA Petroleum (Submerged Lands) Act 1982?

Mr Schubach—Correct.

Senator JOHNSTON—So that is a different pipeline altogether?

Mr Schubach—It is a different act.

Senator JOHNSTON—I am sorry; are we talking about subsurface and surface?

Mr Schubach—PL12 is a WA licence that applies essentially to the production facilities and associated pipelines on Varanus Island, and, although it is referred to as a pipeline licence, it includes the production plant.

Senator JOHNSTON—Thank you for that clarification. You then make an interesting comment. You say, ‘The Apache 12-inch infield gas pipeline from Campbell and Sinbad offshore facilities to onshore Varanus Island is not licensed under this legislation. The reason for this is not known to the investigators.’

Mr Schubach—Correct.

Senator JOHNSTON—It should have been licensed?

Mr Schubach—That is a matter for DoIR, if I may use that abbreviation.

Senator JOHNSTON—Yes, you certainly may. I understand what you are saying there.

CHAIR—Senator Johnston, Senator Pratt has a few questions.

Senator PRATT—I have certainly got questions.

Senator JOHNSTON—Sure. Senator Pratt, please go on while I just gather my thoughts.

Senator PRATT—Thank you. We have had some mention of the safety case already this evening. I would like you, please, to explain how a safety case regime works and specifically how this regime applied in relation to Apache’s operations on Varanus.

Mr Clegg—Under the WA Petroleum Pipelines Act 1969, a licence is required, and a condition of the licence is that there be a safety case. So that is as relates to Varanus Island. When conferral of powers came down to NOPSA in designated coastal waters in March last year, that brought into force the requirement for a safety case, and NOPSA became the regulator on those platforms. Now, a safety case is a sophisticated, comprehensive and integrated document that sets down the arrangements for health and safety on that facility. It requires the operator to identify the hazards, assess the risks and put in place control measures. It also requires a safety management system to be described in detail and a full detailed description of the facilities as well. So that is a safety case. There is a requirement then to submit that safety case to the regulator, to NOPSA, for an acceptance decision, and the job of the regulator is to critically examine the claims made by the operator in that safety case. Then the regulator makes a decision whether or not to accept. Once accepted, there is a requirement in law for the operator to comply with all the provisions of that safety case. Because of the integrated nature of that hub activity—14 offshore platforms and 31 pipelines

providing product to the island, two gas plants on the island and a tank farm—there is a single safety case, which we call a hub safety case. NOPSA accepted the offshore portion of that safety case and DoIR accepted the onshore portion.

Mr Schubach—Excuse me, Senator. May I build on my CEO's remarks?

Senator PRATT—Yes, thank you.

Mr Schubach—Could I please just clarify that there are two jurisdictions operating here.

Senator PRATT—Yes, I understand that.

Mr Schubach—In one jurisdiction—that is, the offshore jurisdiction, in which we are the regulators under the Offshore Petroleum Act at the Commonwealth level and the WA Petroleum (Submerged Lands) Act in designated coastal waters—there is a very clear set of details of the type that my CEO has described with respect to safety cases and safety case provisions. Separately, on Varanus Island, it is through the licensing mechanism that my CEO described earlier.

Senator PRATT—Thank you. I have got further questions, but if you—

Senator JOHNSTON—If I can just ask a question on that to get to some others, do you have to approve the safety case on Varanus Island?

Mr Clegg—No, Senator. We accept or otherwise—

Senator JOHNSTON—Sorry, accept.

Mr Clegg—Yes. We accepted the safety case for the area for which we had been conferred powers, and that is on the 14 offshore platforms, and DoIR accepted the safety case for the onshore island facility.

Senator PRATT—But it was an integrated safety case?

Mr Clegg—Yes. So it was a single safety case. If you look at the files, there is an acceptance letter from NOPSA and an acceptance letter from DoIR referring to the same document, and those acceptances occurred towards the end of—was it last year?

Mr Schubach—Yes.

Senator JOHNSTON—October and December—

Mr Clegg—Yes.

Senator JOHNSTON—according to page 10, and if I can just recite this, because I am a little bit confused about this, it says, 'The current safety case was accepted in October and December by NOPSA and the department.' Was that DoIR?

Mr Clegg—Yes.

Senator JOHNSTON—It continues, 'respectively, each according to the jurisdictions outlined in this paragraph.' So did NOPSA accept any safety case with respect to Varanus Island?

Mr Schubach—No.

Senator JOHNSTON—Thank you.

Mr Schubach—There are two jurisdictions. If I may—

Senator JOHNSTON—Yes, please.

Mr Schubach—Just in support of earlier comments—

Senator JOHNSTON—That is in line with what you earlier said?

Mr Schubach—Yes, that is all.

Senator JOHNSTON—I am with you.

Mr Schubach—There are 14 platforms that are sitting in, if I may use the abbreviation, P(SL)A waters, otherwise it just becomes unworkable, and they are the health and safety matters with respect to those platforms, subject to the P(SL)A. We are the regulator for those platforms. There are pipelines that have just been described by John that come into the two gas plants that operate on Varanus Island. That whole network is integrated, but there are jurisdictional differences of the types that we have already outlined, and that is what the top paragraph of page 10 describes.

Senator JOHNSTON—I am clear on that. If I can just go on for a minute just to clarify what is happening here, effective March 2008 the licensee—in this case Apache—of pipelines was to have a pipeline management plan in force. Now, that is none of your responsibility?

Mr Schubach—Sorry, please keep in your mind the separation that although the gas plant, which is full of vessels and pumps and compressors, does not look like a pipeline, it is subject to a pipeline licence under the WA Petroleum Pipelines Act.

Senator JOHNSTON—A state act?

Mr Schubach—A state act.

Senator JOHNSTON—That is good, because I am looking at Commonwealth responsibility here.

Mr Schubach—Yes, I am coming to that. Separately, under Commonwealth jurisdiction directly under the OPA or where powers are conferred under the state P(SL)A there are pipeline regulations that apply to genuine licensed pipelines.

Senator JOHNSTON—Commonwealth or state regulations?

Mr Schubach—Those regulations are made under the state act—

Senator JOHNSTON—Right.

Mr Schubach—a portion of which we administer with respect to health and safety matters. All other matters reside with the designated authority.

Senator JOHNSTON—Which is?

Mr Schubach—DoIR. My apologies for that terminology.

Senator JOHNSTON—No, I am with you on that. I hope we all are. So the pipeline management plan must contain information pertaining to the matters described in part 4 of division 2 of the WA Petroleum (Submerged Lands) (Pipelines) Regulations 2007. That is virtually what you have just said.

Mr Schubach—Thank you, Senator.

Senator JOHNSTON—The pipeline plan must be accepted by the WA minister. A pipeline safety management plan, defined as the components of a pipeline management plan that provide for the safety and health of persons at or near the pipeline, must be assessed and accepted by NOPSA.

Mr Schubach—Correct.

Senator JOHNSTON—And that is on Varanus Island?

Mr Schubach—No.

Senator JOHNSTON—Okay.

Mr Schubach—Senator, please, if I may restate.

Senator Carr—You have said it three times.

Mr Schubach—My apologies.

Senator JOHNSTON—Okay. But it is just the way this reads.

Mr Schubach—No.

Senator JOHNSTON—Okay. You say, ‘No’. That is right. So if we are talking about anything off Varanus Island on the platforms that you have talked about then, yes, but not on Varanus Island. The WA minister may not accept a pipeline management plan without NOPSA where NOPSA has jurisdiction.

Mr Clegg—No. There are health and safety elements embedded within that pipeline management plan, and they are called the pipeline safety management plan. Although you just see one, there are some aspects, as I say, that refer to the health and safety of people. So it is for NOPSA to review those and then to advise DoIR on their acceptability or not, and then DoIR makes the overall decision.

Senator JOHNSTON—So it is a harmonisation mechanism?

Mr Clegg—Effectively, yes.

Senator JOHNSTON—But it is not a regulatory mechanism?

Mr Clegg—Yes.

Senator JOHNSTON—On Varanus Island?

Mr Schubach—Not on Varanus Island.

Mr Clegg—No.

Mr Schubach—These pipeline management plans—

Senator JOHNSTON—I am starting to get this.

Mr Schubach—Sorry, Senator.

Senator JOHNSTON—Okay.

Mr Schubach—These pipeline management plans to which you refer are creatures, if you will excuse the language, of the P(SL)A framework. What applies on Varanus Island is the Petroleum Pipelines Act.

Senator JOHNSTON—Yes. But what we have been doing is having you accept, in line with the broader framework, the pipeline safety management plan?

Mr Clegg—Yes.

Senator JOHNSTON—Thank you. And you told the minister that the pipeline safety management plan of March 2008 was acceptable?

Mr Clegg—Yes.

Senator JOHNSTON—Well what did it have in it?

Mr Clegg—The pipeline safety management plan contains the risk management system, which identifies the risks, the control measures, the standards to be used, and the monitoring and audit system. It is those elements, and we look at those elements as they may apply to the health and safety of people.

Senator JOHNSTON—Yes. They look good.

Mr Clegg—So not the overall integrity of the pipe.

Senator JOHNSTON—No. That is the point I am making. They look great. The plan looked great.

Mr Clegg—Yes.

Senator JOHNSTON—Whose responsibility was it to make sure that the plan looked great and the onground work pursuant to the plan was carried out on Varanus Island?

Mr Schubach—The PMP is not relevant to Varanus Island.

Mr Clegg—Sorry, we should have said the PMP is for that portion of the pipeline up to the low-water mark.

Senator JOHNSTON—The low-water mark.

Mr Clegg—Essentially, the PMPs apply to subsurface pipelines.

Senator JOHNSTON—Okay. But what about—

Mr Clegg—Not above water.

Senator JOHNSTON—the pipeline safety management plan?

Mr Clegg—Yes, the same.

Senator JOHNSTON—The same?

Mr Clegg—Because they are all part of the one plan.

Senator JOHNSTON—Are you saying that the minister would not grant a licence or be satisfied with a safety case until you had accepted everything below the high-water mark as being acceptable?

Mr Clegg—Only in terms of the health and safety and as the pipe comes up to the low-water mark.

Senator JOHNSTON—PSMP?

Mr Schubach—Yes.

Senator JOHNSTON—And PMP?

Mr Schubach—Yes.

Mr Clegg—PSMP is a subset of the PMP.

Senator JOHNSTON—Yes, that is right. I am just clarifying this because I am still a little bit hazy. Everything above the high water mark is not NOPSA's regulatory responsibility?

Mr Clegg—Nothing above the low-water mark.

Senator JOHNSTON—Sorry, the low-water mark. Thank you. That is correct.

Mr Clegg—Correct.

Senator JOHNSTON—So the state minister in March 2008 accepted the PMP-PSMP for everything above the low-water mark?

Mr Schubach—No, above the low-water mark, with respect, Senator, the PMP does not apply. The PMP applies only below the low-water mark and arises out of the jurisdiction of the Petroleum (Submerged Lands) Act. So the offshore portion above that is essentially Varanus Island, if I may say, the bit of land to which the Petroleum Pipelines Act applies and is the subject of PL12.

Senator JOHNSTON—Just tell me again, what do they have above the low-water mark in terms of safety or that is equivalent to a safety case?

Mr Schubach—A safety case. There is a safety case, which is a licence condition of PL12, which is a licence issued under the WA Petroleum Pipelines Act.

Senator JOHNSTON—And all you had to do was say that that was acceptable?

Mr Schubach—No, with respect, minister, our comments with respect to acceptability and the sentences in here go to the matters under the P(SL)A.

Senator JOHNSTON—Below the low-water mark?

Mr Schubach—That is right. All that material about PMP—

Senator JOHNSTON—So the safety plan—

Mr Schubach—is all below the low-water mark.

Senator JOHNSTON—The safety plan above the low-water mark on Varanus Island was approved by whom when? Was there one?

Mr Clegg—The safety case was accepted—

Senator JOHNSTON—Safety case, sorry.

Mr Clegg—by DoIR.

Senator JOHNSTON—By DoIR?

Mr Clegg—Yes.

Senator JOHNSTON—When?

Mr Clegg—The end of last year.

Senator JOHNSTON—2007?

Mr Schubach—Correct.

Senator JOHNSTON—So that is the statement: the current safety case was accepted in October and December 2007 by NOPSA and DoIR respectively?

Mr Schubach—Correct.

Mr Clegg—Correct.

Senator JOHNSTON—Thank you. Does the state minister have to sign off on the safety case at all?

Mr Clegg—It is not for us to comment, but I believe that the minister has delegated powers to DoIR to sign the safety case.

Senator JOHNSTON—Okay. That is helpful. I take it the safety case that DoIR has accepted dealt with precisely the issues that you have in your inquiry: that is, the thickness of the pipes, the rate of—

Mr Clegg—No. The safety case is a high-level document that describes the arrangements but not in fine detail.

Senator JOHNSTON—So what regulatory matters or statutory obligations are there upon the licensee with respect to surveillance of corrosion and wear in pipes on Varanus Island?

Mr Clegg—The pipeline management plan and the safety case will call up the standards that the licensee will use, and those standards are referenced, I believe, in the—

Senator JOHNSTON—Yes, they are on page 10, I think.

Mr Clegg—investigation report.

Senator JOHNSTON—Okay.

Mr Clegg—Once those standards are included in the PMP or in the safety case then the licensee is obliged to follow the requirements of those standards.

Senator JOHNSTON—Now, I take it, given the pipe continues out of the water and up over the beach, the standards are pretty similar?

Mr Clegg—Sorry, as I have just been corrected, that is only in our legislation. Sorry, I am getting confused.

Mr Schubach—My apologies. If I may just correct those remarks, the issue in relation to the requirement to comply with the matters set out in an accepted safety case is related to the jurisdictions that we administer—in other words, the offshore portions.

Mr Clegg—That is right.

Senator JOHNSTON—So the standards you have got here are all your standards?

Mr Schubach—No, they are Australian standards. They are issued by Standards Australia.

Mr Clegg—Sorry, Senator, I should clarify my mistake. In the part of the safety case that NOPSA signed off then there is a requirement for the operator to comply with standards that are laid down but not in the part that applies onshore on Varanus Island.

Senator JOHNSTON—So are we saying that the standards of compliance that are Commonwealth responsibilities are different from the standards that are state responsibilities yet we are talking about a continuous pipeline?

Mr Schubach—No. What we are saying is that there are two different jurisdictions here and they have different detailed provisions.

Senator JOHNSTON—Do we have a mark on the pipe as to where the standards begin and end?

Mr Clegg—The low-water mark.

Mr Schubach—That is the jurisdiction.

Senator JOHNSTON—Is there a mark on the pipe at the low-water mark that we determined so we know that if it happens on that side they are in trouble but if it happens on this side, well, it is obviously not our problem? We do not?

Mr Clegg—No.

Senator JOHNSTON—All right. Well, I will give someone else a turn because I think I have clarified that.

Senator PRATT—Thank you. I would like to know, Mr Clegg, if you are satisfied with NOPSA's performance with respect to its role before the Varanus Island incident and its role in investigating the incident.

Mr Clegg—Yes, I am satisfied. In the time that we have been providing advice to DoIR we have been applying our own core processes and systems of advice, assessment and instruction as we would within our own legislation on our own facilities. On Varanus, we have undertaken an average of two inspections each year, and we have a rolling program of reviewing various parts of the plant according to the risk to people.

Mr Schubach—May I just build on that?

Senator PRATT—Yes, thank you.

Mr Schubach—As part of the offshore legislation, NOPSA is subject to review every three years. That is set out in the OPA. A review was initiated by the minister as per the legislation, actually at the time that the P(SL)A of 1967 still applied, under section 150Z, and a group of experts were engaged. There were three independent regulators: one was an international regulator, another was an Australian consultant and the third was a representative of an international oil company. They reviewed in detail NOPSA's operational performance. I will just read from the report. they concluded:

NOPSA has made good progress in building a safety regulatory regime and authority of world class calibre ...

Senator JOHNSTON—In its jurisdiction?

Mr Schubach—In the jurisdiction that I referred to, the Offshore Petroleum Act of 2006, and those state P(SL)As where we have been conferred powers.

Senator PRATT—It must be a challenging task for a public agency to compete with the private sector for the kinds of skills that you need to do this. What kinds of skills do you have

within the organisation, where do you recruit from, and how do you maintain the skill set for this kind of work?

Mr Clegg—We have a robust recruitment system and we recruit internationally roughly every six months. Applicants need to have four main characteristics: they need to be technical specialists in their field; they need to be, or have been, middle or senior managers in a high-hazard industry, preferably in offshore petroleum; they need to have good influencing skills and also, preferably, have been regulators. We can bolt on those regulator skills, but it can take some time to do that. So those are the four skill sets that we seek. Yes, they are in very short supply, but NOPSA is levied on the industry, and we can pay the salaries that are needed to attract the right people.

Senator PRATT—It sounds like a good model. How do you go recruiting staff in terms of attracting them? The levy enables you to compete at market rates in that regard?

Mr Clegg—Yes, it does. They do not come in at market rates. The sort of people that I am looking for are looking generally for a lifestyle change. They tend to be more senior people who do not want to travel the world with the petroleum industry too much any more. Of course, Perth is normally a much finer posting for somebody in the offshore oil and gas industry than other places such as Nigeria. We are quite attractive, so I do not have to quite pay—

Senator PRATT—I know what a great place Perth is.

Mr Schubach—So do we.

Senator EGGLESTON—You are Perth based?

Mr Clegg—Yes, we are. I have my main office in Perth and a small office in Melbourne, which regulates in the Bass Strait and the Otway Basin. I have one team there. I have three inspection teams in Perth that do the North West Shelf and up in the Timor Sea. What I do is cover, between my 24 inspectors and my 14 team leaders, who are also so qualified—and so are Simon and I, so 28—

Mr Schubach—We actually have 26 inspectors, 4 team leaders and then a regulatory general manager and the CEO on the regulator side.

Mr Clegg—We ensure that between those people we cover off most of the technical specialties in the industry. I have two pipeline engineers, two commercial divers, two electrical specialists—and I can go on and on.

Mr Schubach—Mechanical process safety and those sorts of areas are particularly important. Our CEO has borne in mind the challenges of the functions that we have set out under the legislation, because we have a responsibility to promote health and safety as well as secure compliance. So that recruitment policy and that balance are crucial to an effective regime.

Mr Clegg—Most of my engineers have more than 20 years experience in the industry and as regulators.

Senator PRATT—That is a challenging job. So thank you.

CHAIR—Thank you. Are there any further questions? Thank you very much for coming in and taking us through that complicated system.

Mr Clegg—Thank you, it was a pleasure.

[10.31 pm]

Geoscience Australia

CHAIR—Welcome to Geoscience Australia. Are there any questions?

Senator JOHNSTON—Thank you, Chair. Mr Johnson, what are we doing about assisting, from a government perspective, the finding and cataloguing of geosequestration sites in Australia to assist with the future CCS aspirations of the government?

Dr James Johnson—I will call on my colleague Dr Foster.

Dr Foster—Senator, your question goes back to perhaps 1999, when Geoscience Australia in the Australian Petroleum CRC started working on assessing the potential of Australian basins for CCS, and it continued in that role in the Australian Petroleum CRC until 2003. We then joined the CO2CRC, where we provided regional studies for the CO2CRC. We have completed a number of what we might call regional studies and assessments across the basins for the capacity of those basins. The CO2CRC has gone on to do more detailed studies, which are available to the CO2CRC partners, and we continue as an agency to be quite active in this field, with 16 staff working in the area.

Senator JOHNSTON—Very good. How far am I permitted to go before I get into areas of commercial confidentiality with respect to the partners? Can I identify the basins?

Dr Foster—The geodisc basins have been identified in publications.

Senator JOHNSTON—Publicly?

Dr Foster—Yes.

Senator JOHNSTON—And how many of them did you say there were?

Dr Foster—I can give you the actual number.

Senator JOHNSTON—If you want to take anything on notice as I ask, please feel free to say that, because it is getting very late.

Dr Foster—More than 100 localities and 48 basins across Australia were identified and analysed.

Senator JOHNSTON—When you say 'analysed', how do you mean 'analysed'?

Dr Foster—We looked at their storage capacity and injectivity. This is all on a very regional scale, I stress.

Senator JOHNSTON—Desktop studies?

Dr Foster—Yes, in so far as putting together all the current and known information at the time: seismic information, drill cores et cetera.

Senator JOHNSTON—So if you had a known gas field you would correlate the information from what exploratory work and geophysical knowledge you had from the data?

Dr Foster—Yes.

Senator JOHNSTON—Very good. I am sorry, how many basins?

Dr Foster—There are 100 localities in 48 basins, this is the geodisc project. Sixty-five of those hundred localities proved to have some potential, viable storage areas.

Senator JOHNSTON—Yes. How do you threshold that? Please take me through that; I am interested.

Dr Foster—First of all, as you know, Senator, you need to be below 800 metres in thickness so that the CO₂ becomes a supercritical fluid. You would also need to have the porosity, literally the holes in the rock. So the first point is, are they deeper than 800 metres; do they have sealing capacity; is there a reservoir, is there a seal—and a series of parameters like that?

Senator JOHNSTON—A structural integrity?

Dr Foster—Structural integrity, yes.

Senator JOHNSTON—All right. But for these 100 sites in the various basins?

Dr Foster—Sixty-five, yes, go on.

Senator JOHNSTON—Excuse me, the 65 better sites you have identified. What proportion of those are actual drill data where you have got the actual below 800 metres sample in your drill tray?

Dr Foster—I would say all of those sites had drill material at least some reference point.

Senator JOHNSTON—So the correlation is very, very high, almost 100 per cent, between actual drill data and your 65 sites?

Dr Foster—Let me stress again that these are regional studies. These are not site specific to say, ‘The point is here.’ So the issue is, does the basin at a particular area have the capacity, does it have those attributes that we talked about—seal, structural integrity and so on. The real issue about when you are getting down to CCS in terms of injecting it is actually quite detailed and would require more detailed study.

Senator JOHNSTON—All right. So we have 65 more prospective sites?

Dr Foster—Yes.

Senator JOHNSTON—Can you tell me, and I hate to ask you this, what is the distribution, state by state? Obviously some states are going to have a little bit more carbon than others that they want to inject.

Dr Foster—Senator, I think perhaps it is best to take that on notice where we could provide you with a list of those forms.

Senator JOHNSTON—All right.

Senator PRATT—It sounds like you want to put everything you have got left on notice, Senator Johnston.

Senator JOHNSTON—There are just a few more things that I want to get to; just bear with me.

Senator EGGLESTON—Can I ask about the technology you use? Obviously you use drilling, but what about satellite technology: are you using sensors to map water resources, detect minerals and track events?

Dr Foster—Senator, to determine the structure of the basin, the primary tool would be seismic data, either 2D seismic or 3D seismic. And, as you would recall, this is simply a technique of imaging the layers in the earth, very much like an ultrasound. We are ultrasounding the earth to determine those particular layers. That would give us an idea of the basin's shape, its thickness, the number of layers in it. Drill hole material would tell us the type of rock that is there; whether or not it has got a cap rock, in other words a sealing rock which would be the top of the lid of the container, if I can put it that way; whether or not the reservoir rock has the appropriate porosity and permeability, simply the holes connected through the rock, so in other words the container rock. They are some primary tools that we would be using. There are other geophysical attributes you would look at with rock.

Senator EGGLESTON—I was actually thinking a little beyond geosequestration to a broader field of activities you might engage in. Obviously you must have a wide range of tools because I think you have a wide range of subjects you investigate. This committee, as it happens, has been doing an inquiry into Australia's space industry. I wondered what your views were about the adequacy of the satellite coverage of Australia in terms of your own use of satellite based sensors to produce data for your agency's work.

Dr Foster—I can confine my remarks to the use of satellite data for the detection of seeps using synthetic aperture radar and we have done that work, and that as far as the petroleum division has used that information. My colleague and acting CEO could comment more on other uses in terms of minerals and other attributes.

Dr James Johnson—In the minerals world we use a number of geophysical methods, some airborne, some satellite borne, for example Landsat or other spectral imaging types of work, which basically give information about the mineralogy or the minerals one can observe at the surface. Then by various other methods such as the seismic that Dr Foster explained, we can start to extrapolate that into the third dimension.

Senator EGGLESTON—Would you have a need or could you use satellite technology more widely?

Dr James Johnson—From the perspective of mineral exploration, it is almost a case of you can never have too much data. But, as with many things, you do the best job you can with the data available. My colleague Dr Schneider is more familiar with the various, different satellite methods, perhaps less so the application to mineral exploration. He might be able to speak more to the issue of satellite data coverage of Australia if that is what you are interested in.

Senator EGGLESTON—I am interested in whether you feel you could usefully use more satellite based technology to enhance your work and whether or not the fact that you do not do that is a budget issue to some degree? Or are you constrained from using satellite technology?

Dr James Johnson—I will take that one on notice, thank you, Senator.

Senator JOHNSTON—If I can just come back to Dr Foster: with respect to your 65 sites, you say you have published those?

Dr Foster—There have been publications addressing some of those. I cannot say that every site has been published, but lists have been published.

Senator JOHNSTON—Is your agency interested in putting out some sort of map that says, 'Here are the prospective sites,' so that obviously we can see how strategically and beneficially located these 65 sites are to the obvious generators of the carbon that we would want to put in there?

Dr Foster—I think on the onshore in conjunction with states we will be putting out information along those lines.

Senator JOHNSTON—Do we know when? I would be very interested to see the information.

Dr Foster—All right. Again, I can just look at the currency of these maps and perhaps when I submit the list of basins that have been looked at, I will look at the currency of those maps as well.

Senator JOHNSTON—All right. Have you got a current working knowledge of how we are going down at the Otway Basin?

Dr Foster—Yes.

Senator JOHNSTON—Good. How many tonnes have we successfully put into Otway, roughly, not to today or last week but roughly how far along the 100,000 I think we are doing, have we got?

Dr Foster—About 20,000 I think has been injected successfully.

Senator JOHNSTON—Good. And have we had any readings across the 300 metre span of detection that we are—

Dr Foster—Waiting for the breakthrough, Senator. I will be waiting to be informed of that myself when that breakthrough happens. As you know, there is some spike put in the input gas and we are waiting for that to break through.

Senator JOHNSTON—So there is nothing as yet?

Dr Foster—Not that I am aware of, Senator.

Senator JOHNSTON—And we started in May, did we not? Correct me; I have forgotten what the time scale is.

Dr Foster—I do not remember the precise date myself. I should know that. It is 300 metres too.

Senator JOHNSTON—All right. Are you watching the international progression of geosequestration? I am aware of a couple of interesting projects. We have got that one in Germany—the name escapes me—which has just started, which is transporting the liquid carbon over some 300 kilometres to a site. Are you actively surveying what is going on out there in terms of these things and can you tell me about it?

Dr Foster—I cannot tell you about that one in detail. Again, I would be happy to provide you with that information.

Senator JOHNSTON—I would be very much obliged. Also, there is the Archer Daniels site, I think in Illinois, which is a carbon sequestration project from an ethanol plant. They are injecting that right next to the town's water supply, which I think would be a good model, if it works well; otherwise if it does not.

Dr Foster—Yes.

Senator JOHNSTON—You do not know about those two projects?

Dr Foster—I know about the first one in Germany that just recently opened, trucking the CO₂. The other plant in Illinois I am not familiar with.

Senator JOHNSTON—Thank you, Chair; I have no further questions for Geoscience Australia.

CHAIR—There being no further questions, I thank Geoscience Australia for remaining so late this evening, and you, Minister. Thank you also to the secretariat and the committee, particularly Senators Eggleston and Pratt who have been here all day, and to Hansard and broadcasting who have also been here all day. The committee is adjourned.

Committee adjourned at 10.46 pm