



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT
LEGISLATION COMMITTEE

ESTIMATES

(Budget Estimates)

TUESDAY, 25 MAY 2010

CANBERRA

BY AUTHORITY OF THE SENATE

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**SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT
LEGISLATION COMMITTEE**

Tuesday, 25 May 2010

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

Participating members: Senators Abetz, Adams, Back, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Bushby, Cameron, Cash, Colbeck, Jacinta Collins, Coonan, Cormann, Crossin, Eggleston, Farrell, Feeney, Ferguson, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Furner, Hanson-Young, Humphries, Hurley, Johnston, Joyce, Kroger, Ludlam, Lundy, Ian Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Moore, Nash, Parry, Payne, Polley, Pratt, Ronaldson, Ryan, Scullion, Troeth, Trood, Williams, Wortley and Xenophon

Senators in attendance: Senators Abetz, Back, Boswell, Colbeck, Heffernan, Hutchins, McGauran, Milne, Nash, O'Brien, Siewert, Sterle, Williams and Xenophon

Committee met at 9.02 am

AGRICULTURE, FISHERIES AND FORESTRY PORTFOLIO

Consideration resumed from 24 May

In Attendance

Senator Sherry, Assistant Treasurer

Senator Faulkner, Minister for Defence

Senator Stephens, Parliamentary Secretary for Social Inclusion and Parliamentary Secretary for the Voluntary Sector

Department of Agriculture, Fisheries and Forestry

Executive

Dr Conall O'Connell, Secretary

Dr Rhonda Dickson, Deputy Secretary

Ms Rona Mellor, Deputy Secretary, Biosecurity Services Group

Mr Phillip Glyde, Deputy Secretary/Executive Director, ABARE

Corporate Services/Corporate Finance/Corporate Policy

Ms Anne Hazell, Chief Operating Officer

Mr Steven Foley, Chief Information Officer

Ms Kate McRae, General Manager, Human Resources

Ms Karen Nagle, General Manager, Audit and Evaluation

Ms Alana Foster, General Manager, Levies Revenue Services

Mr Darren Schaeffer, Chief Finance Officer

Ms Vanessa Berry, Deputy Chief Finance Officer

Ms Amy Fox, Deputy Chief Finance Officer

Ms Ann McDonald, Acting Executive Manager, Corporate Policy Division

Ms Elizabeth Bie, General Manager, Ministerial and Parliamentary Branch

Ms Cathrine Stephenson, General Manager, Portfolio Strategy and Coordination Branch

Ms Cindy West, General Manager, Corporate Communications Branch

Climate Change

Mr David Mortimer, Executive Manager, Climate Change Division

Ms Fran Freeman, Executive Manager, Drought Policy Review

Mr John Talbot, General Manager, Forestry Branch

Mr Andrew McDonald, General Manager, Farm Adjustment Branch

Mr Mark Gibbs, General Manager, Climate Change Branch

Australian Bureau of Agricultural and Resource Economics

Mr Paul Morris, Deputy Executive Director

Dr Terry Sheales, Chief Economist

Dr Jammie Penm, Chief Commodity Analyst

Mr Peter Gooday, General Manager, Productivity, Water and Fisheries Branch

Dr Helal Ahammad, General Manager, Climate Change and Environment Branch

Ms Jane Melanie, General Manager, Resources, Energy and Trade Branch

Mr Bruce Bowen, General Manager, Agriculture Branch

Ms Annette Blyton, Acting General Manager, Integrated Research Branch

Bureau of Rural Sciences

Dr Kim Ritman, Acting Executive Director

Dr Gavin Begg, Acting General Manager, Fisheries, Land and Forestry Sciences Branch

Dr John Sims, Acting General Manager, Climate Change, Water and Risk Sciences

Ms Annette Blyton, Acting General Manager, Integrated Research Branch

Sustainable Resource Management

Mr Ian Thompson, Executive Manager, Sustainable Resource Management Division

Mr Roland Pittar, General Manager, Fisheries Branch

Dr Sally Troy, General Manager, Communications and Reporting Branch

Ms Margaret Allan, Acting General Manager, Landcare and Sustainable Agriculture Branch

Ms Bernadette O'Neil, Acting General Manager, Business Systems and Grants Branch

Australian Fisheries Management Authority

Professor Glenn Hurry, Chief Executive Officer

Dr James Findlay, Executive Manager, Fisheries Management

Mr Malcolm Southwell, Acting General Manager, Operations

Mr John Bridge, General Manager, Corporate Governance

Mr Peter Venslovas, Regional Director, Darwin

Mr Mark Farrell, Chief Information Officer

Mr David Perrott, Chief Finance Officer

Australian Pesticides and Veterinary Medicines Authority

Dr Eva Bennet-Jenkins Chief Executive Officer

Dr Raj Bhula, Program Manager, Pesticides

Mr Dan Webb, Corporate Services

Trade and Market Access

Mr Craig Burns, Executive Manager, Trade and Market Access Division

Ms Victoria Anderson, General Manager, North Asia, Europe, Middle East and Africa

Mr Paul Ross, General Manager, Americas, South East Asia, Subcontinent, NZ and the Pacific

Ms Sara Cowan, General Manager, Multilateral Trade Branch

Biosecurity Services Group (includes divisions formerly known as Quarantine and Biosecurity Policy Unit; Australian Quarantine and Inspection Service; Biosecurity Australia; and Product Integrity, Animal and Plant Health)

Ms Karen Schneider, Executive Manager, Animal Division

Dr Mike Nunn, Principal Scientist, Animal Division

Ms Jenny Cupit, General Manager, Biological Quarantine Operations and Marine Pests Branch

Mr Rob Williams, Program Manager, Biological Imports Program, Biological Quarantine Operations and Marine Pests Branch

Ms Lee Cale, Acting General Manager, Animal Quarantine and Export Operations Branch

Dr Bob Biddle, General Manager, Animal Health Programs Branch

Dr Colin Grant, Executive Manager, Plant Division

Dr Bill Roberts, Principal Scientist, Plant Biosecurity

Mr Bill Magee, General Manager, Plant Biosecurity (Grains and Forestry) Branch

Dr Vanessa Findlay, General Manager, Plant Biosecurity (Horticulture) Branch

Ms Louise van Meurs, General Manager, Plant Quarantine and Export Operations Branch

Ms Lois Ransom, Chief Plant Protection Officer, Office of the Chief Plant Protection Officer

Mr Greg Read, Executive Manager, Food Division

Dr Narelle Clegg, General Manager, Residues and Food Safety Branch

Mr Mark Schipp, General Manager, Export Standards Branch

Mr Colin Hunter, General Manager, Food Exports Branch

Mr Dean Merrilees, General Manager, Export Reform Branch

Mr Tim Chapman, Executive Manager, Quarantine Operations Division

Mr Jonathan Benyei, General Manager, Cargo Branch

Ms Louise Clarke, General Manager, Co-regulation and Support Branch

Dr Chris Parker, General Manager, Passengers and Mail Branch

Mr Peter Moore, General Manager, Post Entry Quarantine Arrangements

Ms Jenet Connell, Executive Manager, Regional and Business Services Division

Mr Russell Phillips, Acting Executive Manager, Strategic Projects Division

Ms Nicola Hinder, General Manager, Partnerships Branch

Ms Kirsty Faichney, Acting General Manager, Biosecurity Policy Coordination Branch

Ms Debbie Langford, Acting General Manager, Legislation Branch

Mr Walter Spratt, Deputy Director, Australian Plague Locust Commission

Rural Industries Research and Development Corporation

Mr Norman McAllister, Deputy Chairman

Mr Tony Byrne, Acting Chief Executive Officer

Agricultural Productivity

Mr Allen Grant, Executive Manager, Agricultural Productivity Division

Mr Simon Murnane, General Manager, Livestock Industries and Animal Welfare Branch

Mr Peter Ottesen, General Manager, Crops, Horticulture, Irrigation and Wine Branch

Mr Greg Williamson, General Manager, Innovation, Productivity and Food Security Branch

Mr Richard Souness, General Manager, Food Branch

Mr Matthew Worrell, General Manager, Food Security and R&D Review Taskforce

Australia Wool Innovation

Mr Walter Merriman, Chairman

Mr Stuart McCullough, Chief Executive Officer

Mr Roger Fletcher, Deputy Chair

Dr Meredith Shiel, Director

Wheat Exports Australia

Mr Peter Woods, Chief Executive Officer

Mr Ted Woodley, Chairman

CHAIR (Senator Sterle)—I declare open this public hearing of the Senate Rural and Regional Affairs and Transport Legislation Committee. The committee will continue its consideration of the 2010-11 budget estimates for the Agriculture, Fisheries and Forestry portfolio. The committee is due to report to the Senate on 22 June 2010 and has fixed Wednesday, 21 July 2010 as the date for the return of answers to questions taken on notice. Under standing order 26, the committee must take all evidence in public session. This includes answers to questions on notice. Officers and senators are familiar with the rules of the Senate governing estimates hearings. If you need assistance the secretariat has a copy of the rules.

I particularly draw the attention of witnesses to an order of the Senate of 13 May 2009 specifying the process by which a claim of public interest immunity should be raised and which I now incorporate in *Hansard*.

The extract read as follows—

Public interest immunity claims

That the Senate—

- (a) notes that ministers and officers have continued to refuse to provide information to Senate committees without properly raising claims of public interest immunity as required by past resolutions of the Senate;
- (b) reaffirms the principles of past resolutions of the Senate by this order, to provide ministers and officers with guidance as to the proper process for raising public interest immunity claims and to consolidate those past resolutions of the Senate;
- (c) orders that the following operate as an order of continuing effect:
 - (1) If:
 - (a) a Senate committee, or a senator in the course of proceedings of a committee, requests information or a document from a Commonwealth department or agency; and
 - (b) an officer of the department or agency to whom the request is directed believes that it may not be in the public interest to disclose the information or document to the committee, the officer shall state to the committee the ground on which the officer believes that it may not be in the public interest to disclose the information or document to the committee, and specify the harm to the public interest that could result from the disclosure of the information or document.
 - (2) If, after receiving the officer's statement under paragraph (1), the committee or the senator requests the officer to refer the question of the disclosure of the information or document to a responsible minister, the officer shall refer that question to the minister.
 - (3) If a minister, on a reference by an officer under paragraph (2), concludes that it would not be in the public interest to disclose the information or document to the committee, the minister shall provide

to the committee a statement of the ground for that conclusion, specifying the harm to the public interest that could result from the disclosure of the information or document.

- (4) A minister, in a statement under paragraph (3), shall indicate whether the harm to the public interest that could result from the disclosure of the information or document to the committee could result only from the publication of the information or document by the committee, or could result, equally or in part, from the disclosure of the information or document to the committee as in camera evidence.
- (5) If, after considering a statement by a minister provided under paragraph (3), the committee concludes that the statement does not sufficiently justify the withholding of the information or document from the committee, the committee shall report the matter to the Senate.
- (6) A decision by a committee not to report a matter to the Senate under paragraph (5) does not prevent a senator from raising the matter in the Senate in accordance with other procedures of the Senate.
- (7) A statement that information or a document is not published, or is confidential, or consists of advice to, or internal deliberations of, government, in the absence of specification of the harm to the public interest that could result from the disclosure of the information or document, is not a statement that meets the requirements of paragraph (1) or (4).
- (8) If a minister concludes that a statement under paragraph (3) should more appropriately be made by the head of an agency, by reason of the independence of that agency from ministerial direction or control, the minister shall inform the committee of that conclusion and the reason for that conclusion, and shall refer the matter to the head of the agency, who shall then be required to provide a statement in accordance with paragraph (3).

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

As agreed, I propose to call on the estimates in the order shown on the printed program at this stage. We will take a break for morning tea at 10.30 am. Other breaks are listed in the program. I now welcome Senator the Hon. Nick Sherry, Assistant Treasurer, representing the Minister for Agriculture, Fisheries and Forestry, Dr Conall O'Connell, Secretary of the Department of Agriculture, Fisheries and Forestry, and officers of the department. Minister, do you or Dr O'Connell wish to make a brief opening statement?

Senator Sherry—I do not, thank you.

CHAIR—We will go straight to questions of the Trade and Market Access officers.

Senator MILNE—I want to ask about the negotiations around the Trans-Pacific Free Trade Agreement, but before I get to those can you tell me if we have any evaluation of the claims that were made about the US-Australia Free Trade Agreement? It has now been in operation for a number of years. I still have not seen an evaluation of the claims that were made against the actual performance and the access that Australians were told they would get to those markets. Has there been an evaluation done and, if so, where is it?

Mr Burns—On that question of evaluation I think probably the best answer there is the fact that the Productivity Commission is currently looking at what Australia has gained from all free trade agreement negotiations completed in the last few years. A draft report, I think, is due out in a couple of months time and then a final down the track from that. Because we knew the Productivity Commission was doing that report we have not initiated any other evaluations, because I think that one is going to look at the whole economy. So on that issue I think it is probably best to wait until the Productivity Commission produces its report. And I might ask Mr Ross to answer the question on the TPP negotiations.

Senator MILNE—Okay. If I can frame that a little more specifically, I am concerned that we are already engaged in Trans-Pacific Free Trade Agreement talks without an evaluation yet of just how effective the other free trade agreements have been—comparing the claims against the actual performance of those. I was concerned on 15 March this year when I saw that Australia’s ambassador to the US, Kim Beazley, said that everything was on the table when it came to this Trans-Pacific Free Trade Agreement. And I understand that there has been at least one meeting in Canberra. Can you tell me how many meetings there have been already with Australian government ministers and/or officials around establishing this Trans-Pacific Free Trade Agreement?

Mr Burns—Just as a general comment before Mr Ross answers, it perhaps is a standard line from us, but the issue of strategy and which negotiations we enter into et cetera, are probably questions better put to the Department of Foreign Affairs and Trade. We input to the negotiations from an agriculture point of view. We do not lead on the total negotiations or the strategy behind which negotiations we do and sequencing et cetera.

Senator MILNE—No, I appreciate that, but nevertheless these free trade agreements are frequently talked up in terms of access to overseas markets for agricultural product and commodities and I would have thought that DAFF would have a considerable input to make. I would like to just know where it is up to and whether DAFF has been involved to date et cetera.

Mr Ross—There has been one round of discussions in Melbourne, as you noted, from 15 to 19 March. The next round of negotiations is proposed for San Francisco from 14 to 18 June.

Senator MILNE—Okay. Given what I have read, this would include the US, Australia, Chile, Peru, Brunei, Singapore, New Zealand and Vietnam.

Mr Ross—Correct.

Senator MILNE—Which is a pretty massive trade area—some \$18 trillion, 470 million people type arrangement. Has anyone done any scoping of the cost benefit of this before we actually embark on it and what is the basis of embarking on it without an evaluation of any of the trade agreements that have been done to date?

Mr Ross—I think, as Mr Burns pointed out, that is probably a question better directed to the Department of Foreign Affairs and Trade.

Senator MILNE—Do you have any concerns as DAFF already about this proposed Trans-Pacific Free Trade Agreement?

Mr Ross—We have our interests to pursue. We are hopeful that this agreement will lead to better market access for Australian agricultural products and build on the existing bilateral free trade agreements we have with the countries that are party to this.

Senator MILNE—Are you aware that Monsanto has already made it clear that the labelling laws for genetically engineered food they want removed as part of this free trade negotiation?

Mr Ross—I am not aware of that particular issue. I am aware that, certainly within the US, there has been a consultation process that has elicited a lot of submissions from various industries there.

Senator MILNE—And what is DAFF's view about Monsanto's push to remove labelling for genetically engineered food?

Mr Ross—I am not sure that is one I can directly answer.

Senator MILNE—Can anyone from the department answer that for me?

Mr Glyde—It is a bit hard for us to form a view on something that we actually were not aware of, as Mr Ross has pointed out. I think also that with entering into these discussions there are lots of different things on the table, lots of things talked about beforehand, but really what it has to be judged on are the outcomes that come from the negotiations.

Senator MILNE—How closely is DAFF going to be following these negotiations? When did you say the next meeting was—in June?

Mr Ross—It is from 14 to 18 June. We will be participating. We participated in the first round of discussions in Melbourne and we intend to participate in the next round.

Senator MILNE—And is DAFF likely to do a cost-benefit analysis internally?

Mr Ross—We will certainly consult with industry to ascertain their interests in the negotiations and we are working with Foreign Affairs and Trade at the moment with regard to those consultations.

Senator MILNE—What does consult with industry mean? How are you going to consult with rural and regional Australia about their views in relation to a Trans-Pacific Free Trade Agreement? What is the process so that people can feed into this?

Mr Ross—Industry associations and individuals are invited to lodge submissions with the Department of Foreign Affairs and Trade. That is part of their normal consultation process. In addition, they undertake hearings around the country. I am not sure where they are up to in terms of their preparations for that, but the normal process they follow is to, as I say, invite submissions and undertake consultations. In addition, we regularly are in contact with industry through the mechanisms we have for general consultation on priorities for them and we will use those opportunities to consult with industry.

Senator MILNE—Just in terms of that consultation, how fair is it to ask industry to input to this process before the Productivity Commission has released its report on an evaluation of the effectiveness of previous free trade agreements?

Mr Burns—I think on that, the decision to enter into a negotiation is not one for the department, if you like. Our job is to consult with industry, as Mr Ross said, and we do that through a range of mechanisms, and to then input into the DFAT process to maximise the benefit for our portfolio industries. The decisions on when negotiations commence et cetera is really not one the department takes, but our job, and the job we pursue, is to maximise the benefits for our portfolio industries.

Senator MILNE—Your job is to maximise the benefits, but no-one can tell me what the benefits are and no-one has ever been able to tell me what the benefits are because we still do not have any evaluation of the benefits or the costs associated with the free trade agreements.

You said your job is to consult with the commodity groups or the interest groups and so on. How many of those has DAFF actually been engaged in to date, on this particular issue?

Mr Burns—I would have to take on notice an exact number, but there are several mechanisms by which we do that and some are formal and some are informal. The National Farmers Federation, for example, regularly convenes a trade group that meets and, through a day or sometimes two days, talks through where we are up to with the WTO negotiations, all the FTA negotiations, and then a range of other market access issues. These are fairly intense discussions on where things are up to. DAFF participates in that and so does DFAT. We have other mechanisms, like a meat market access committee, where things like the TPP are on the agenda for that. That is very meat specific. We have the same process with the horticulture industry and other industries. So, through a range of formal mechanisms, we consult with industry, and we have strong informal links with industry, and they are either picking up the phone to us and telling us what they think we should be doing, or vice versa, on a regular basis.

Senator MILNE—Do you advertise in the rural media?

Mr Burns—The process for advertising for submissions for free trade agreements is managed by the Department of Foreign Affairs and Trade. Where they put those advertisements, I would have to take on notice. I know that they are in the national press. Whether they are in the rural media, I could not answer.

Senator MILNE—I would say, from my perspective, there would be very few people out there in rural and regional Australia that know there is negotiation going on at the moment for a free trade agreement of this scale. Thank you for that.

Senator COLBECK—Just while we are dealing with value out of FTAs and also in discussions that you might have with respect to market access, has the department come across any concerns, either locally or internationally, regarding the quality of documentation for Australian exports into international markets and that causing an issue in relation to market access?

Mr Burns—Are you talking there about the quarantine-type documentation, or just documentation for the farmers?

Senator COLBECK—It is quarantine, customs, things of that nature, yes.

Mr Burns—The Trade and Market Access Division has not really had that. We do not deal with the day-to-day certification issues that the biosecurity services group deals with, but I am not aware of any systemic issues that we have had.

Senator COLBECK—It would not be something that you would get asked to raise as an issue when you are dealing with it through your posts, internationally?

Mr Burns—We are more likely to be asked to deal with problems that our exporters would have with the documentation requirements from other countries.

Senator COLBECK—Okay. The circumstance that arose over the weekend, where a shipment of seahorses out of Tasmania was refused because of a mistake in documentation and a four-and-a-half thousand dollar shipment has been seized by the US government because, instead of having the number of seahorses listed on the documentation, the word

'confirmed', which was confirming the number of 326 seahorses, is not something that you are aware of?

Mr Burns—No, I cannot say I have heard about that one, but I am not sure. Perhaps the biosecurity people who are on next might have heard about that one.

Senator COLBECK—We will come to them, don't worry. We will be talking to as many people as we can about it today to share the pain.

Dr O'Connell—I think that might be a CITES permit issue, rather than—

Mr Burns—Yes, it is.

Senator COLBECK—It has been put to me that officials in the US are concerned at quality of documentation, so this poor individual, who has got \$4½ thousand worth of seahorses being seized by the US, is being made an example of. The US is refusing to accept any of our explanations. The Customs officer who made the mistake personally contacted the US to say, 'I've made this mistake,' but this shipment is being regarded as a smuggled shipment of seahorses. They are a CITES permitted animal and it has been put to me from people who are involved in trade that there is an issue with documentation from Australia. Sloppy documentation is the concern. I just want to know whether that is something that is coming back through our circles because, if it is, I am not really concerned about where it gets fixed, but pressure to fix it from as many points as possible needs to be brought to bear.

Mr Ross—If I may add, we are aware of that particular issue. We have an agricultural counsellor located in our embassy in Washington and it has been brought to his attention. As Dr O'Connell mentioned, it is a CITES issue, so we have been, through our counsellor, in contact with the department of environment here and we are working actively to have this resolved.

Senator COLBECK—But my understanding is that the fish have been surrendered. They were surrendered last Friday and, basically, they are going to be donated to zoological schools. The broader issue is quality of documentation. I really want to get a sense of that and, if this guy is being made an example of, or this couple is being made an example of, is it something that we are getting the message on and fixing? My understanding of the documentation was that it was quite explicit that what needed to be written on the documentation was '326'. The official from Customs, who was signing off on the document, wrote 'confirmed', confirming the documentation, and it is a CITES permit. It was Customs that had been involved in this process, too, but is there a problem through the system in getting this documentation right?

Dr O'Connell—It is useful just to emphasise that it is Customs and the Environment portfolio who manages the CITES issue. Documentation around that—

Senator COLBECK—I understand that, Dr O'Connell, but we are talking about documentation generally. This agency obviously has a high profile with respect to that, and we will come to it in biosecurity. I just want to know what feedback, what messages, we are getting through our posts about this sort of stuff and then, if it is a problem, what is being done to manage it.

Mr Burns—Under the issue of have we received feedback about those issues, no, I have not seen any feedback on that, but I am assured that the biosecurity people who are sitting

waiting in the next room are on the phone at the moment, trying to find out a little bit more about that issue.

Senator COLBECK—Okay.

Senator MILNE—What I would like to get some clarification on here is who is ultimately responsible. You have just said it is a CITES issue, in terms of a trade in native species et cetera, but Customs, surely, is not divided up into people who deal with CITES issues and people who deal with other issues and so on. How does it all fit together at the border? Who is ultimately responsible? Is it Biosecurity? Are there special Customs people who deal with CITES? What are you saying?

Dr O’Connell—I think these questions would be best put to both Customs and DEWHA, but, essentially, my understanding is Customs operates, for all intents and purposes, there to certify the CITES exports on DEWHA’s behalf, but that is not authoritative. You would need to put that question to them. We have a lot of export certification, obviously, in terms of our biosecurity business, but this particular component is not directly related to our business.

Senator COLBECK—How come the CITES stuff is flicked out of our portfolio to Customs?

Dr O’Connell—Because this is about trade in listed endangered species; it is not about commodities.

Senator COLBECK—I understand that. This is the agricultural portfolio, and I am just trying to think in a logical connection sense. We have talked at estimates, and we do, about plant and animal products, so effectively CITES-impacted species, yet this agency does not play any role in that process. I am just asking the question why. Obviously, it is a government organisation thing and I am not having a crack at anybody about this. I am just asking the question, is there any understanding or sense of why those that have expertise in plant and animal matters are not involved in the final certification process at the border?

Dr O’Connell—In terms of endangered species?

Senator COLBECK—Yes.

Dr O’Connell—These are internationally-listed species, is my understanding.

Senator COLBECK—I understand that.

Dr O’Connell—Then we do not have that role.

Senator COLBECK—I am trying to make out what the connection is, Customs versus Agriculture. There would be some understanding in Biosecurity, for example, of plant and animals, and I understand that Customs has a regulatory role, I have not forgotten that, but then if you are looking at some of the CITES species, we actually deal with those, in a lot of senses, through the expertise within the portfolio.

Mr Burns—One issue, of course, and perhaps this is where you might have been leading, is: where we do have councillors overseas and there is a problem with individual shipments, where it is something where we can provide some assistance to those individuals, we will do that.

Senator COLBECK—Which is obviously the case in this circumstance.

Mr Burns—I am not sure if Customs has still got people overseas or not, but Customs, in the past, has also had people posted overseas who would help with those sort of things as well. If, in this particular case, the US—and we do have somebody in the US, and there is any assistance we could provide to the exporter, then we would do so, but the issue is very much one of Customs rather than us.

Senator MILNE—DEWHA.

Senator COLBECK—Okay. We will have a look at that a little bit later on. Can you give us an update of where things are at with the WTO dispute with New Zealand on apples?

Mr Burns—The draft report of the panel has been released in confidence to the parties and the final report will be released to the parties on Thursday this week, is the scheduled time. There have been some delays around previous deadlines, but our expectation is 27 May for the final report to be released to the parties. Now, that final report is still confidential to the parties. The dispute is still technically ongoing. Our expectation is that the report would become public in early July.

Senator COLBECK—When we get the draft report, we have an opportunity to respond to the issues in the draft report and that response is reflected in the final report that is due this week?

Mr Burns—We would hope so.

Senator HEFFERNAN—Can we see that report in camera?

Mr Burns—I would have to take that one on notice. In a sense, because it is a legal issue, again it is an issue that the Department of Foreign Affairs and Trade manages, from a legal point of view.

Senator HEFFERNAN—I would like to see that report if we could, in its draft form in camera, if it is commercial-in-confidence now.

Senator COLBECK—In responding to the draft report, where do we draw our information from? Do we consult with anybody outside, with industry, or do we have a panel that actually deals with that in-house?

Mr Burns—We have had our lawyers and our technical experts look at that and they have drawn on some information that was required from industry. That has been done on a confidential basis.

Senator COLBECK—They have sent some requests to industry for specific information, which has been then built into the response to the draft?

Mr Burns—That is correct.

Senator COLBECK—Do you have any sense of where the reporting that has been in the media might have emanated from?

Mr Burns—I would not like to comment on that. Most of the original reporting was in New Zealand newspapers.

Senator COLBECK—I think that says enough. What is the process once the final report is provided to the government?

Mr Burns—We will be consulting internally about what the final report says. We will have to consider where we go from there, in terms of whether or not we would appeal et cetera. They are decisions that are yet to be taken. Of course, there is still the avenue open to us to try and reach a bilateral solution with New Zealand, should we choose to do that.

Senator HEFFERNAN—This is the report that says, ‘We are going to bring fire blight in, but it will not get out into the paddocks.’

Mr Burns—No, this is just what the WTO report says.

Senator HEFFERNAN—Yes, but that is what the outcome is. That is what it says: ‘We are going to bring fire blight to Australia, but it is not going to get into our paddocks.’ We are going to appeal it? We ought to go to war on it.

Dr O’Connell—The WTO report—

Senator HEFFERNAN—Bugger the WTO. We do not have fire blight. This import risk analysis says we are going to import fire blight, but magically it is not going to get into the paddocks.

Dr O’Connell—I think what we are talking about is the WTO panel report.

Senator HEFFERNAN—I know we are talking about that, but the foundation upon which it is built is that fact.

Senator BACK—I wonder if Dr O’Connell could actually differentiate for us, when you say it is the report, how does that relate to the concern—Chair, through you, if that is possible—that Senator Heffernan has raised? It is an entirely reasonable concern.

Senator HEFFERNAN—This is for the lawyers now, it is nothing to do with the practical side.

CHAIR—Senator Heffernan, why don’t you just let your colleagues have the call and then I will give you the call when you put your hand up.

Dr O’Connell—What is being discussed by my colleagues is the WTO panel report on the dispute between New Zealand and ourselves. What I was pointing to, as I think Senator Heffernan was referring to, was the import risk analysis undertaken by Biosecurity Australia. Those are related, but two separate reports, just to avoid getting confused.

CHAIR—Senator Colbeck next.

Senator BACK—The substantive concern that Senator Heffernan has raised will be addressed here this morning in the hearing, won’t it?

Dr O’Connell—This is a forum for you to ask questions.

Senator BACK—Chairman, I am just simply flagging that the issue Senator Heffernan has raised is critically important and I trust will be aired this morning.

Senator Sherry—That is what Senator Colbeck is effectively, and very effectively, doing, I thought. It has been raised, and this goes back to my time when we were formerly in government, so it has been raised continuously for the last 20 years in some form or shape.

Senator BACK—To date, we have managed to keep the apple blight out.

Senator COLBECK—There is a fair stack of Senate inquiries on this, and I am sure there are probably likely to be more. If we decide to appeal, what is the process and the time frame?

Mr Burns—The exact dates I would have to take on notice, but we could lay that process out for you, and there are regulated timeframes about how long you have got to appeal and then how long the appeal panel has to consider those requests. We could lay all that out for you on notice.

Senator COLBECK—Are there stop-the-clock provisions within those time frames?

Mr Burns—Yes.

Senator HEFFERNAN—Could I just add something to that. As I understand from the speaker last night, we will be going to an election in August. If there is an election called, where does that leave us in this process, because the whole thing will hit a wall. Did you say we will appeal?

Senator COLBECK—No, I did not say anything. I am asking questions about the process if—

Senator HEFFERNAN—We will have to appeal. The import risk analysis says we are going to bring it in, and we have got pears and they do not have pears. I know it all backwards. What happens to this process if there is an election called?

Mr Burns—If we were in caretaker mode, the caretaker provisions would come into effect and the normal course of events would be that all interested parties would be consulted and would be advised about what is happening.

Senator HEFFERNAN—That is mumbo jumbo. This committee has a lot to do with this stuff on the practical side—not the bureaucratic, lawyer-speak but the real effect on the farmer. Are you trying to tell me that you would think about what we would do? Why do we not have a plan? What are we going to do if we are in election mode now?

Senator Sherry—In terms of whenever the election is and for however long the campaign lasts, but let us assume that it is four or five weeks for the sake of the discussion, we are in caretaker mode. I will take on notice—

Senator HEFFERNAN—But is this in caretaker mode?

CHAIR—Senator Heffernan, why don't you just let the minister finish.

Senator HEFFERNAN—You are right. Sorry, Minister.

Senator Sherry—The normal processes of government continue outside the caretaker mode. When we go into caretaker mode, for however long that may be, whenever that may be, the understood conventions are that no policy decisions are taken without consultation with the opposition of the day. I will take on notice what the minister's attitude to this issue would be during the caretaker convention and I will get a response from the minister.

Senator HEFFERNAN—Thanks for that. My concern is that this committee needs to be consulted during this process. We need access as soon as can to that draft, which will become a final whatever it was they were talking about there earlier.

Senator COLBECK—Final report this Thursday.

Senator HEFFERNAN—We need to dissect that report for human failure, which lawyers are not good at. If all this occurs while we cannot meet because we are in election mode, the whole thing could fall of a cliff. Thanks.

CHAIR—Senator Heffernan, we can meet.

Mr Burns—Senator Colbeck, I have some of those dates you were asking for, if I could just give those.

Senator COLBECK—Sure. That would be helpful.

Mr Burns—As I said, the report would become public in July. By 31 August, we would have to submit a notice that we are going to appeal. The written submissions would have to be submitted to the WTO by 7 September. The expectation is that there would be an oral hearing in Geneva in the period between 5 and 15 October and that the appellate body would release its report at the end of November.

Senator BACK—Did you say that you have a week from the end of August to 7 September?

Mr Burns—We would have to notify by 31 August that we are going to appeal.

Senator BACK—You have to submit it by?

Mr Burns—We would have to submit the written appeal by 7 September. I would expect that a lot of the work that would be necessary would be underway well in advance.

Senator BACK—Now?

Mr Burns—Well in advance.

Senator COLBECK—If you are going to make the decision to appeal, you would have to compile the documentation for the appeal in the lead-up to that, notifying that effective seven days to lodge. Those time frames are set from what date, from this Thursday? Is that the launch date? Or are those dates set from the date it becomes public?

Mr Burns—Those dates are set from the public release of the report.

Senator COLBECK—Okay. You also mentioned the possibility of agreeing a bilateral arrangement with New Zealand. How does that fit into that process?

Mr Burns—The option of trying to reach a mutually-agreed solution with New Zealand has been open to us all the way through this dispute. That remains the case right up until the report is out and, indeed, once we are going through the appeal process as well.

Senator COLBECK—Have we had any discussions in relation to a bilateral resolution?

Mr Burns—There have been discussions throughout this entire process, probably going back many years.

Senator HEFFERNAN—Who will be liable when they actually bring fire blight in and we get it? Who do we sue and who do we sack?

Mr Burns—I am not sure I could answer that.

Senator HEFFERNAN—They do not have a pear industry; we do. They do have a fire blight. Every other episode they have had has failed. The final import risk analysis agreed

that, under the import risk analysis, we would actually import fire blight but, magically, it will not get into the paddock. If it does, who do Australia's apple farmers sue?

CHAIR—You have asked that question, Senator Heffernan and—

Senator HEFFERNAN—This is non-accountable.

CHAIR—an answer came back that you might not like.

Senator HEFFERNAN—Yes, you just wear it.

CHAIR—You asked the question. I would urge you, for the purposes of spending the next 13 and a half hours in the same as room as you, to come to the point. You got an answer. You did not like the answer.

Senator HEFFERNAN—I would have thought that we are entitled ask on behalf of Australia's apple and pear growers. What do they do if the theory and the lawyers get it wrong?

CHAIR—You have asked that three times now, Senator Heffernan. I am not disagreeing with you. I do not know how many times you want to ask the same question but you are just wasting the Senate's time.

Senator HEFFERNAN—I would like to think that these blokes would think about it. I am not asking for a legal opinion. Do we have a contingency plan to deal with it?

Senator COLBECK—In the current circumstance, since the commencement of the WTO dispute, how many meetings have we had with the New Zealanders to consider the option of a negotiated agreement?

Mr Burns—I will take that one on notice, thanks. I do not know the answer.

Senator COLBECK—Is it 10, 20?

Mr Burns—I really do not know. I will have to take that on notice.

Senator COLBECK—There is a bevy of people out the back who might be interested. Have we had discussions?

Mr Burns—We would have to take it on notice. We have side discussions in regular, scheduled meetings on biosecurity issues with New Zealand but, as you said, some of the biosecurity people would probably be able to answer that better than I can. The best thing, I think, is to take it on notice.

Senator HEFFERNAN—Can we have the minutes of those meetings?

Senator COLBECK—Could you give us the dates of those meetings and, if it is possible, we would also like the minutes of those meetings.

Dr O'Connell—We would also have to consult with the Department of Foreign Affairs and Trade, who are obviously engaged in the discussions with New Zealand as well.

Senator HEFFERNAN—We would want to see—

Dr O'Connell—Any government confidentiality issues would obviously also need to be managed in the normal way.

Senator Sherry—I think it is fair to say that this issue is raised in all manner of meetings. I can recall it being raised last year at the Australia and New Zealand economic ministers meeting. On that occasion, I referred them back to the process that was in place.

Senator COLBECK—What I am asking you is quite specific. What I am asking about are specific discussions about a negotiated agreement between Australia and New Zealand. I think it is fair enough that we actually ask that question. We all know that there has been a dispute process that has been going on. I am interested in what discussions about a negotiated agreement have been occurring during that process. I understand it is sensitive and I do not ask the question lightly, but I think it is reasonable that the committee ask for that information.

Senator Sherry—We will take it on notice.

Senator COLBECK—I appreciate that. I just make a point on the conversation we had yesterday about time to get this information back. I think the committee has a pretty reasonable record of treating these sensitive issues properly. If there needs to be a process around how we access the information, then I am sure the committee is happy to agree to that. Have you got anything else on that particular matter?

Senator HEFFERNAN—Me?

Senator COLBECK—Yes. Senator Nash?

Senator HEFFERNAN—On apples?

Senator COLBECK—I am just going to move onto other issues within trade and market access.

Senator HEFFERNAN—Are we going to bumblebees?

Senator COLBECK—I am going to bumblebees.

Senator Sherry—Are we going to do locusts?

Senator COLBECK—We are going to do locusts, yes.

CHAIR—Maybe the opposition might want to have a little huddle out in the back room before estimates start so you can work out your plan, rather than having questions thrown across the room.

Senator Sherry—There are a range of other apple issues that I can see here, Senator Heffernan, when we get to Biosecurity Services Group.

CHAIR—To use Doug Cameron's words, you look like a rabble. Senator Colbeck?

Senator COLBECK—Thank you.

CHAIR—You have not finished?

Senator Sherry—Pigeons?

Senator COLBECK—Can we just move onto progress with the Chinese FTA in relation to agricultural issues.

Ms Anderson—There have been 14 rounds of negotiations to date with China, and we expect the 15th round to be held in Beijing in late June. If there is anything particular, I can do my best, but that is generally the status.

Senator COLBECK—Can you give us some information on the key agricultural gains sought by the Chinese side?

Ms Anderson—‘Sought by the Chinese side’?

Senator COLBECK—What are the key gains that the Chinese are seeking in the negotiations?

Mr Burns—We have not got to a point in those negotiations where the Chinese have said anything to us about a specific interest in terms of market access for agricultural products. As you would know, our tariffs are already low to non-existent for agricultural goods coming into Australia. The Chinese, of course, have raised issues in a general sense, in terms of our SPS arrangements, but not to the point of specific products because the SPS arrangements are not subject to discussion and negotiation under the FTA.

Senator COLBECK—Okay. What are we seeking from the Chinese then?

Mr Burns—Better access. Of course, we have not got to a point where we have got down to a negotiation on individual products. I would not like to flag publicly where our priorities are. Obviously, we have existing trade, where we would want to gain better access for those products, and also the possibility of emerging trade. For some of the products where we do not currently have quarantine access, for example, it is important that we make sure that we get lower tariffs on those, in the expectation that, at some stage, we will break that quarantine barrier into China.

Senator COLBECK—From what you are saying, we have some similar issues in that respect?

Mr Burns—As I have said previously with regard to all of the FTAs, we do not actually negotiate quarantine access as part of the free trade agreements.

Senator COLBECK—I understand that.

Senator HEFFERNAN—Haven’t we learned from the past, especially the side letter with the United States? Are we going to let them dish us up in these trade negotiations for access and let them get away with—for instance, the year before last—putting a 150 per cent tariff on fertiliser for sovereign reasons? Are we going to give some sovereign consideration to our wellbeing, or are we just going to say hunky-dory? We had to wear that. You will agree with that?

Mr Burns—We consult with industry. We have a list of priorities that industry has provided to us, and that is what we pursue in the negotiation.

Senator HEFFERNAN—At the present time, with the United States and the free trade agreement which we have, we have to cop, in that free trade arrangement, the \$200-a-head subsidy regime through their cattle system. We have to wear that. We do not have a subsidy, but we turn a blind eye to that for equal trading terms. The same thing is going to happen with China, and the best example of that to date is the 150 per cent tariff on fertiliser. I might as well talk to the wall.

Senator COLBECK—In the lead-up to each of these discussions—and you have said, Ms Anderson, there is another one due in June—is there a round of consultation with industry that

leads up to each of those? What is the process that is occurring with industry representatives in relation to each of these consultations, 15 up to now?

Ms Anderson—It depends what is on the schedule to be discussed at the negotiation. Obviously, as Mr Burns mentioned, with regard to other FTAs, there is the submission process that DFAT coordinate, and they seek updates to those submissions quite regularly. There is quite a regular informal flow of information to DFAT and our department as well when industry wish to update the sorts of issues they want us to cover and the sorts of outcomes they would like the government to seek. That is ongoing. Obviously, if we are aware that particular issues are going to be discussed in market access, if particular products might be under discussion, we would discuss those issues with those industries prior to that negotiation, to make sure we have the most up-to-date and relevant views to present at those discussions. In saying all of that, the discussions to date with China have been quite general in nature rather than specific.

Senator COLBECK—Effectively, we are still very much at the broad-principle-setting stage with China? When the announcement was made that we were going to move ahead with it, there was an acceptance that it was going to be a slow process, and that is effectively what it is.

Mr Burns—It is interesting. I am not sure where I read it, but I read a media article that suggested that the negotiations were moving slowly because we did not have an end date set. Of course, a lot of people at the beginning of this process said that this would be a good negotiation because we were not bound by a deadline, which some have argued was an issue with the US FTA. My own view is that not setting a hard deadline is probably of benefit.

Senator HEFFERNAN—I agree with that.

Senator COLBECK—With a lot of these negotiations, at the outset there is significant resistance to including trade in agriculture as part of the process. I think that has been a feature of a lot of our bilaterals. Is that a feature that we are seeing as part of these negotiations?

Mr Burns—I think it is fair to say that, for a range of our trading partners including China, they are reluctant to be ambitious in terms of agriculture. They see agriculture as an area of acute political sensitivity and their preference would probably be not to have agriculture as part of the negotiations, but they know that, in negotiating with Australia, agriculture has to be on the table.

Senator HEFFERNAN—What is the labour disadvantage between Australia and China?

Mr Burns—I am not sure.

Senator HEFFERNAN—There is a 26 to one labour disadvantage to the United States. What is it to Australia?

Mr Glyde—We will have to take that one on notice.

Senator HEFFERNAN—I thought you would have known that. This highlights why you would want to be a bit sensitive about agriculture. These blokes get paid a peanut a month out in the back country in China. We do not want our farmers to live like that. The United States have a 26 to 1 labour disadvantage.

Senator Sherry—We have indicated we will take the question on notice.

Senator HEFFERNAN—Could we have the labour ratio with us and China?

Senator Sherry—Just with China?

Senator HEFFERNAN—You know what I am talking about. Thanks.

Senator COLBECK—Where are we at with the Japanese FTA?

Ms Anderson—We have had 11 rounds to date. The 12th is scheduled for sometime in September this year. Agriculture remains, obviously, very difficult in that negotiation, as you can imagine.

Senator COLBECK—Problematic, yes.

Ms Anderson—Again, discussions on agriculture there have been quite general in nature. We have discussed each side's views about Japan's sensitivities on agriculture and Australia's requests, obviously, to improve its market access on a range of agricultural products.

Senator COLBECK—My recollection of Japan, in particular, is that food security is a significant issue. Where do we place that particular issue in respect of our discussions? We are a significant exporter, I know, so access to international markets is a bit of a deal, but this issue of food security seems to be quite a prevailing issue in the overall scheme of negotiations. Do we have any parameters within which we make any considerations about that in our side of the arguments?

Ms Anderson—Yes. Japan has indicated to us that food security issues and food supply issues are quite important to them in the particular context of the FTA. We have undertaken to look at that and the ways in which we can assist that situation. Of course, we also make the point that the best way for Japan to improve their food supply is to low their tariff barriers at the border and to free up that trade. That is an argument we make quite clearly and they have so far resisted that argument. Generally, it is obviously quite front and centre for them in terms of how the FTA is perceived domestically as well. An advantage for them is supply from a big agricultural supplier.

Senator COLBECK—I think we are slightly at cross-purposes. Do we look at any issues relating to our food security and how we consider that as part of our negotiations?

Mr Burns—Consistent with our philosophy that food security is enhanced by allowing food to move to where it is needed and wanted, our solution to that is for open markets across the board, both as a benefit to Japan and in terms of any interests that our consumers might have in access to a broader range of products.

Senator NASH—Can I just ask a question on that. I understand what you are saying, but, if a decision is made to the detriment of a domestic industry, do you take into consideration potential security of supply—if we have to move to import?

Mr Burns—I am not sure what you mean by 'detriment of a domestic industry'.

Senator NASH—I am just talking hypothetically. If trading circumstances change and that means that a current agricultural-producing industry ceases to be viable down the track—just picking up what you said about giving customers choice, or something along those lines—and

if, potentially, an industry is going to disappear and we are going to be reliant on imports, do you take into consideration then the lack of security of domestic supply?

Mr Burns—I think, as a general comment, we do not have any tariffs on Australian agricultural goods higher than five per cent. The extent to which any movement in tariffs would have an impact on industry would not be as significant as the movements in the exchange rate that we have seen over the last two years.

Senator NASH—Okay. Sorry, Senator Colbeck.

Senator HEFFERNAN—Could I just ask one final question on the China free trade agreement? If China continues to maintain a non-market currency, will we consider that on the disadvantage side of any negotiations with China? It goes to the question of labour disadvantage as well.

Dr O’Connell—I think that goes to the overall strategy on the negotiations, which you would need to discuss with Foreign Affairs and Trade.

Senator HEFFERNAN—Could you report back to this committee—if they are interested; I am—on the impact of a non-market currency in trade negotiations? Do you blokes understand what I am talking about?

Senator Sherry—I do appreciate the issue you are talking about. In fact, I notice there was some press coverage about this issue again this morning—the currency value of the Chinese yuan. It is an issue for Foreign Affairs and Trade and possibly for Treasury. They may have some economic impact analysis on this particular issue. I will take it on notice, even though it is not the correct committee. We will try and ensure that the secretariat passes that over to the other two estimates committees.

Senator HEFFERNAN—Because obviously it is a bind, as you know, Minister, for China’s investment in the US as to whether they could play with their currency and lose their capital investment in the United States versus their trading capacity on the global market.

Senator Sherry—Without going to the merits of the issue, I understand the issue and we will pass it on.

Senator HEFFERNAN—Fair enough.

Senator COLBECK—I would like to move across the water from China to Russia now for an update on the kangaroo meat trade.

Senator Sherry—I was just asking about that, actually: ‘What has happened to the roo meat?’

Ms Anderson—I can speak generally, and then officers from BSG may want to add some more detail when they are here.

Senator COLBECK—Okay.

Ms Anderson—The general update is that a submission from Australia was supplied to the Russian veterinary agency in April 2010. We have obviously urged the Russians to consider that submission as quickly as possible.

Senator COLBECK—Is that the first submission that we have put in on this matter? We have had a couple of cracks at this, haven’t we?

Ms Anderson—There have been various submissions relating to specific establishments, but, once the trade was suspended last year in August, we had indicated that we would work with the Australian industry and state regulatory authorities to develop a comprehensive submission back to Russia, addressing their concerns more holistically. There have been various representations and submissions going backwards and forwards, but this is the first holistic submission with regard to the kangaroo production chain.

Senator COLBECK—I will come to kangaroos shortly. I want to specifically talk about the broader red-meat trade at the moment. Has the quota allocation been finalised with Russia? My understanding is that there is a 448,000-tonnes-of-beef shared allocation into Russia, which puts us into the mix with New Zealand, South America and other countries. Has the allocation within that been finalised?

Ms Anderson—We have received formal confirmation of that, yes, but I am not sure if you are after something different.

Senator COLBECK—What is our expectation of what we are going to be able to send? We sent 69,000 tonnes in 2008 and 15,000 in 2009. What are the caps? What are the limits on our capacity into the market?

Ms Anderson—The 70,000 tonnes you referred to were the most we have ever sent. I think last calendar year it was around 13,000 to 15,000 tonnes.

Senator COLBECK—Fifteen thousand tonnes is the figure I have for last year.

Ms Anderson—Generally, I would expect it to be somewhere between that, really.

Senator COLBECK—Do we have a long-term average, and why did we have such a good year in 2008?

Ms Anderson—I would have to take that on notice to give you the most accurate answer, unless Mr Read wants to add anything.

Mr Read—Sorry, what was the question?

Senator COLBECK—I am just trying to get a sense of how much quota we have got out of that shared allocation of 448,000 tonnes and where our historical exports have been. I have got figures of 69,000 tonnes for 2008 and 59,000 tonnes for 2009. What is the basis behind those numbers? Why the fluctuation and what caused us to have such a good year in 2008?

Mr Read—Previously, before those years, our access to Russia was quite limited from a commercial perspective. I think it was probably still tracking around 10,000 to 20,000 tonnes. In the years about which you talk, I think there were some other market issues that occurred with Brazil in terms of restrictiveness and also the competitiveness. It is a price commodity market. At that particular time, it was a big export opportunity for Australia through those two periods. The subsequent period up to now has been about 15,000 tonnes. Our readout at the moment is that, for last month, the month before and probably the month ahead, it is actually gearing up quite significantly.

Senator COLBECK—What are the limits within the shared allocation? I think we did discuss it once before and we had done relatively well.

Ms Anderson—It is basically a competitive quota, so basically up to the maximum cap. I am not aware that there are any restrictions.

Senator COLBECK—There are 448,000 tonnes, but, within that, there are no specific shares allocated to anyone?

Ms Anderson—There is no allocation.

Senator COLBECK—So, effectively, if we could supply 200,000 tonnes into the market, they would take that, and it is effectively based on competition into the market within that space?

Mr Burns—It is an MFN quota, so it is open to anyone and it is really about price competitiveness and who Russia wants to buy from at the time.

Senator COLBECK—There are no other specific criteria around that?

Ms Anderson—I might double-check for you, but I am not aware of any, no.

Senator COLBECK—Okay. Are there any specific exporters that have limitations on them out of the round of discussions we have just been having?

Ms Anderson—Mr Read might want to comment on suspensions. I am aware that there is still one suspended establishment from Russia, but most other establishments have been relisted, some as recently as yesterday. Other than that, I am not aware of anything myself.

Senator COLBECK—Okay.

Mr Read—I can confirm that. In fact, we have had up to 19 plants suspended into that market at various stages. We now have 16 that have been relisted to that market. We have one that we are working on and we have two that will not be renewing application.

Senator COLBECK—They have made the decision not to reapply?

Mr Read—They made the decision, plus we do not believe they will meet the requirements.

Senator COLBECK—To kangaroos: how many establishments have we got suspended from that market?

Mr Read—All establishments are suspended.

Senator COLBECK—So that market is still closed to us at this stage?

Mr Read—It is still closed. I provided a letter when I was over there in April, seeking their consideration to relist those plants for Russia. That will take probably an audit visit on their part to do that. The next step in this process is seeking a review of those plants by a Russian audit team.

Senator COLBECK—What are the issues with that April submission at this stage?

Mr Read—The issues we are dealing with, effectively, were that the game meat industry in this country was a game meat industry founded on access in Europe, particularly kangaroo meat. Game meat into Europe, expressed as ‘game meat’, is a delicacy. They know how to handle game meat. As one vet expressed to me, ‘A gum leaf on a steak is something.’ In terms of the desire of the Europeans, it actually looks a bit gamey and feels a bit gamey. In terms of markets like China and Russia, it is actually a protein market, so it is just a price commodity. What they are doing is they are paralleling that with all other protein sources. They want to ensure that things like coliform counts and so forth—bacterial levels on the product—are

managed to a level that is comparable with red meat product. That has required us to come back to our system here and reform that system to ensure that we get those high levels of compliance with their prescribed requirements, as they have expressed them.

Senator COLBECK—Effectively, what our game suppliers are being requested to do is to comply with the similar export protocols to, what, beef or lamb?

Mr Read—With processes that ensure a cleaner product, you could say, by the time it is put in boxes and ready for export. That involves higher control around the harvesting, higher control around the use of the field chiller boxes, monitoring the field chiller boxes, first carcass in/first carcass out, ensuring between harvest and processing that there is no greater than 14 days, and that there is temperature control and reduction logs from the point that it goes into the chiller through to the point that it is received in the facility. All those things have to be managed in a very tight way within the program to ensure that we continually bring product within those very tight specifications for Russia.

Senator COLBECK—What have we found in respect of our local industry's capacity to actually manage that process and their willingness to do so?

Mr Read—It is a combined partnership between the state regulatory authorities and the industry and it has been a very strong partnership, at this stage. All parties have worked with the focus of regaining access, particularly into Russia, and, when we are reviewed by China, ensuring a good audit outcome from that audit as well. In terms of their capacity, the product that they are handling at the moment, from our examination of the systems that they have put in place that respond to what I have just described, ensuring consistent outcomes as required meet that market's specifications.

Senator COLBECK—Effectively, our industry has responded to the requests from the Russian market. Now, it is a matter of finally getting that response and their protocols ticked off by the Russians?

Mr Read—Essentially, what is needed now is a Russian team to come to Australia to review the systems that are operating within our kangaroo industry. If they find them as we have found them then they will be accepted into Russia.

Senator COLBECK—We have made a formal request for them to come and do that?

Mr Read—Correct.

Senator COLBECK—That was part of that submission in April?

Mr Read—Correct.

Senator COLBECK—Do we have a time frame for that to occur yet?

Mr Read—We have not got a time frame for that audit yet. We would like to see that certainly as soon as possible, but we will continue to discuss that with them.

Senator COLBECK—Okay.

Mr Read—I have got to also say that, at the moment, the relationship with Russia, particularly in this bilateral arrangement, is probably the strongest that we have had since the problem in 2007. We are having all those plants relisted. We have got an MOU in place for fish at the moment. We have had a good response in terms of cold-store listings and a range of

other requests that we have made to them for changes which they have responded to. We are responding to what they are asking of us. They are looking for some technical assistance and there is better engagement and better dialogue. We hope, on the back of that, that that is a positive sign and they will not delay that response.

Senator COLBECK—The interaction over the period since the bans came in place has actually helped to build a relationship that has assisted towards the end of the process?

Mr Read—That is my assessment.

Senator COLBECK—That is good. You mentioned China. Are they looking to go through a similar audit, if you like, or assessment?

Mr Read—We have a protocol. We have requested, again, an audit of our game meat establishments here.

Senator COLBECK—They have requested that or we have requested it?

Mr Read—We have requested of them that they come and do that. Equally, there are a range of other red meat establishments that need to be reviewed by them; cold-store listings that need to be reviewed by them. It is a very major audit from the Chinese side. Again, we are hoping that that will occur relatively soon in the new financial year. But, again, I have not got timing on those audits, but we will keep pressing and hopefully it is not too far out.

Senator COLBECK—Do those inspections occur on a regular cycle? What is the basis for us making that request in the first place?

Mr Read—They are a regular cycle of audits with all countries—every two years, every three years. With China, there was a reinforcement of some legislation around disintegrated establishments. That meant that, as a consequence of a review of their legislation, a number of our plants no longer had access and the only way to get access for a range of those plants is to actually have that authority come back out and review them. Where we have got plants that are out of alignment with the particular requirements of those countries and the only way to get them back into the system is a review, then we make those requests and push the case for those reviews to occur.

Senator COLBECK—Do we have a monitoring process where we keep an eye on where other countries are realigning their protocols, or is it effectively something that crops up based on a changed circumstance from an exporter basically finding out that that has occurred, and not necessarily something we get notice of?

Mr Read—You have SPS notification that would indicate that. A lot of countries are quite facilitatory in the way they do that. They might give you 12 months notice. They might then work with alternate systems that you have to respond to the precise requirements that they are seeking to implement in their own country. Other countries are a little bit sharper with their time frames and it makes it a little bit more difficult to get the alignment correct.

Senator COLBECK—Okay. I do not have anything else on trade and market access.

CHAIR—Senator Nash.

Senator NASH—Thank you. Very briefly, I refer you to page 64 of the PBS and the special appropriations. What does the National Residue Survey Administration Act do?

Mr Read—The National Residue Survey falls within Food Division, which is my division.

Senator NASH—It is under international market access. This is trade and market access?

Mr Burns—You will find there are a couple things here. Contributions to international organisations is another example where, for the purposes of the PBS, they appear under market access issues, but they are not portrayed in the Trade and Market Access Division that administers those particular things.

Senator NASH—Okay. Who should I ask about that?

Mr Read—You can ask me about that.

Mr Burns—Mr Read is from Biosecurity Services Group.

Senator NASH—Okay. I just want to know what it is?

Mr Read—Essentially, it is rightly named. It is a market access tool for confirmation around the status of a range of our export commodity products. We require an independent survey of a range of chemical analysis of those products to identify what sort of residue status those products carry. That enables us to make certification that it is free of a bunch of chemicals, and equally it provides our industry with good feedback around their performance in managing a range of ag and vet chemicals as well.

Senator NASH—And I notice there is a slight decrease in the program expenses. What would that be attributed to?

Mr Read—It is driven from levies on the industry. So in terms of the ups and downs that will be based on throughputs of those industries in terms of activity. Equally, I think they have got a couple of million dollars in reserve within the balance sheets of the NRS. They manage in very close consultation with their various stakeholders both on the live animal side and the plant side to ensure that they develop survey programs that meet market access requirements in concert with the appropriate resourcing from the industry side.

Senator NASH—Thanks. And on page 65, just to assist, under the Live Trade Animal Welfare Partnership, it says:

... to fully allocate funds to and deliver capacity building and technical assistance projects to improve animal welfare in the Middle East and South East Asian countries.

How does that work and how much money are we spending on that and what actually is it?

Ms Anderson—I can start, Senator Nash. The Live Trade Animal Welfare Partnership was part of last year's budget. It is to support cooperation activities with a range of countries that receive Australian live animals, to support animal welfare outcomes associated with that trade. That is what it is for. The funding for it you will find back on page 64 of the document. In this financial year there is \$832,000 and \$550,000 in each of the two out years. It is a program that is jointly funded with industry, so that is government's contribution of 50 per cent. Industry also supports that to the tune of the other 50 per cent, so the total for the program is \$3.2 million over three years.

Senator NASH—It is only going to run over the three years and then cease?

Ms Anderson—Yes, that is correct. And the higher amount in the 2009-10 budget is a rephrased amount from the year before for some projects that were not finished, so the actual

appropriated amount for that program in 2009-10 is \$500,000 and then it goes up to \$550,000 and \$550,000 in each of the out years.

Senator NASH—Do we assume that the journey of those animals originated in Australia?

Ms Anderson—Yes. We support countries that receive Australian animals.

Senator NASH—Yes. And, just finally, under the Agriculture Advancing Australia and the International Agricultural Cooperation it says:

... deliver capacity building, cooperation projects in trading partner countries under priority areas.

What actually will they be? They are actually saying, as I think, 10 to 15 projects are going to be done. What actually are they and what do they do? What is the benefit of them and how much will they cost?

Mr Burns—Yes. There are a range of projects. If you wish we could give you, on notice, the sorts of projects that we have done over the last couple of years.

Senator NASH—Can you give me a rough idea now?

Mr Burns—You will see from that list that there are some that are as small as \$20,000, \$25,000, which might be funding a training workshop in Indonesia, for example, through to larger programs where we are paying for some pest disease work in another country and so on. It is money that is available to assist with countries to improve their capacity building, but they tend to be countries where we have got a particular interest in our market access requests as well.

Senator NASH—What would be the benefit in—it is hard to talk generally. Obviously, there is a number of different projects, but what is the outcome that we are trying to get from investing money and doing this in other countries?

Mr Burns—It covers a range of things and it goes from building the working relationship with the agriculture department or, quite commonly, with quarantine officials in other countries. In the case of the sort of work we do with the animal welfare area, it is improving the handling of our animals and in other cases it is looking at what we can do to build the capacity of our trading partners to operate. Consider one example where we have in the past looked at what we can do to help Malaysia and Indonesia export some of their product elsewhere, not necessarily to Australia, because when we negotiate, say, free trade agreements with a lot of countries, as I indicated before, we have not got a lot of tariffs to negotiate. Countries are looking to increase their exports and sometimes we can work with those countries to increase their capacity to export and it may not necessarily be to Australia.

It may be to increase export of their tropical products to Europe or somewhere else. We are helping other countries and in doing so we are building goodwill, building those relationships with the trade and quarantine officials in other countries so that when we have got an issue that we need to deal with, with them, we have got that strong basis there to negotiate.

Senator NASH—Okay, thank you. And if you could take on notice and just provide that detailed list of projects and the costings.

Mr Burns—For the last two years?

Senator NASH—Yes, that would be really useful, thanks. Can I just ask you also if you could provide—and again, I am sure you will probably want to take this on notice as well—

and you talk about assistance that we have given to countries to help them export and you say not necessarily into Australia. How many instances are we giving other countries assistance to export into Australia? You say it is not always into Australia. Do I assume then from that we are giving other countries financial assistance in some areas to come into Australia?

Mr Burns—If I could give you one example, and I think I recall this was a fairly cheap exercise, but there were one or two countries that felt that their potential to increase exports anywhere would be enhanced by having X-ray technology to scan tropical fruits to see whether they had bugs on them; as simple as that. We assisted with providing one of those machines and where the product went which went through those machines I do not really know, but it was a simple thing to do and enhanced their capacity to export.

Senator NASH—Is that done then on the basis of a relationship-building exercise? Is that the purpose of it?

Mr Burns—One of the concerns that we have expressed from, say, our aid agencies is AC/AR, for example, has a lot of projects through the Pacific where they are enhancing the capacity of local production of crops and tropical fruits. The countries that benefit from that then have concerns that they cannot always get quarantine access to a range of countries to export their product. So, on one hand, our aid program is trying to enhance the economic capacity of our partners in the Pacific. But they then cannot consume all that produce themselves; they want to export it. They have difficulties because of their own limitations in capacity in meeting some of the quarantine barriers. We have a lot of expertise in that area and it is the sort of thing that we can do at low cost, which does provide economic benefits to those countries.

Senator NASH—Finally, are there any specific instances where we have given financial assistance to other countries to assist them to export their product into Australia?

Mr Burns—Not specifically that I know of. I would have to take that on notice.

Senator NASH—Thanks, Chair.

CHAIR—Thank you, Senator Nash. Now, Mr Glyde, can you just let us know what the government is doing to increase agricultural markets, domestic and export?

Mr Glyde—I may ask Mr Burns to handle that one.

CHAIR—Mr Burns.

Mr Burns—We, of course, have a range of market access activities that we participate in, ranging through from the WTO negotiations, the free trade agreement negotiations we have just talked about, the technical market access work that we do in conjunction with the Biosecurity Services Group and our overseas posts, of course, and that is all aimed at increasing our export capacity. We support that through a range of activities domestically, which we are pulling together in a food strategy

We have recently established a strategic policy unit in the department which is developing some strategies that are looking at the full chain of production through research and development, what we can do in terms of leveraging more collaborative activity in the research and development area to improve the capacity of our exporters. Sometimes it is not as simple as just the research and development to improve productivity on the farm, but it can

be as simple as improved packaging materials and a range of other issues through the production chain that we can look at in enhancing our export capacity. In terms of our productive capacity, I may even ask Mr Glyde to contribute.

Mr Glyde—Ultimately the philosophy of the department is to try to contribute where we can best contribute at the national level. I think that the work that we are doing in relation to productivity improvement, the work that Mr Burns has gone through in terms of international market access, improving the conditions for Australian exporters, all contributes to trying to expand the capacity of the Australian farm sector and—

Senator HEFFERNAN—Is that an example of the product improvement work you are doing?

Mr Glyde—Sure. The federal government invests \$200 million a year in the rural research and development corporations. It has matched funding from—

Senator HEFFERNAN—Does that include the shutting down of Land and Water Australia?

Senator Nash interjecting—

CHAIR—Senator Nash, you are the last person I expected to be dragged down to Senator Heffernan's level. That was quite out of the box. Senator Heffernan has asked Mr Glyde a question and I want to hear the answer as well. So, Mr Glyde, ignore the interjection.

Mr Glyde—That is one example of where we are working on productivity. The other, I think, is some of the work that the Australian Bureau of Agriculture and Resource Economics has been doing in terms of trying to better understand what the drivers of productivity are in the Australia farm economy. There has been some significant investment by the GRDC in helping us do that to try to understand what it is and why it is that Australian agricultural productivity growth since the turn of the century has slowed down. The rate of growth has slowed down significantly, which is a significant issue when you think forward to the problems we are going to be facing in terms of climate change, and so that is just a few examples of the sort of things that we are doing.

Senator Heffernan interjecting—

CHAIR—Senator Heffernan, if you want to contribute to the questions I am quite happy to have you ask questions as well. But we will at least listen to Mr Glyde.

Mr Glyde—I am personally very concerned about the fact that there has been a turndown in the rate of Australian agricultural productivity growth since 2000. The research that ABARE has done has indicated that it can only really be explained by two factors: one of which is drought and the other is what appears to be a slowdown in the rate of growth of expenditure on R&D, both around the world and here. Understanding the drivers of productivity is a significant contribution that the DAFF portfolio is making to improving the productivity performance of the overall farm economy.

Senator COLBECK—Can I just ask a question on the R&D.

CHAIR—Yes, of course.

Senator COLBECK—Were you concerned on the government's changes to the R&D tax laws? Do you have a view on the impact, particularly on the food manufacturing sector, of the proposed R&D tax laws?

Mr Glyde—I will have to take that one on notice in terms of the first part of your question in relation to the extent of the consultation that we had during that process. My recollection of that was that it was a cabinet process and so, in that sense, we would have been consulted but I would have to refresh my memory.

Senator COLBECK—That is all right.

Senator Sherry—It is a Treasury tax policy.

Mr Glyde—Yes, and I would have to refresh my memory to the extent of the consultation.

Senator COLBECK—I understand that, Senator Sherry, but one of the major impacts, according to the evidence that I have seen over the last month or so, is that one of the major areas of impact will be in manufacturing. Obviously that has an impact on the food sector and the concern from those in the manufacturing industry and the unions and the consultants who assist companies with their R&D work is that we will have a major negative impact on manufacturing. I just want to know what work or consultants that this agency had had in respect of that work. Have we had any?

Mr Glyde—That is why I said I will have to take that question on notice to know the extent of it. But I think the other thing to be aware of is the Productivity Commission inquiry into agricultural R&D, which is underway at the moment, and I suspect that—

Senator COLBECK—I understand that, and I will be talking to the Productivity Commission later on, but that is a separate issue.

Mr Glyde—Yes.

Senator COLBECK—But the impact of the R&D tax laws on food manufacturing, I think, is an important issue because the weight of evidence to date is that it will have a negative impact.

Mr Glyde—Yes. As far as I am aware we in DAFF have not looked at that.

Senator COLBECK—Thank you.

CHAIR—Thank you, Senator Colbeck. We will go to morning tea, but before we do take the morning tea break, there has been a change in the program, Dr O'Connell. We will give you a new copy of it. We are going to bring on Wheat Exports Australia at five o'clock, straight after the Rural Industries Research and Development Corporation. I would urge members of the committee that the RIRDC have to be finished on time tonight. They have another issue to attend to straight after estimates. On that then, we will now go to a 15-minute morning tea break and we will see you all back at 10.45.

Proceedings suspended from 10.30 am to 10.46 am

Senator O'BRIEN—I want to get some details on the Promoting Australian Produce program and on the initiatives that we have invested in.

Dr O'Connell—That comes under the Agricultural Productivity Division a little bit later today. Can we pick it up then. I will make sure they are ready to roll.

Senator O'BRIEN—Okay. I am happy to do that then. With live exports, what programs is the department pursuing in relation to the live exports program?

Mr Burns—We might just need to clarify a little bit what elements you are talking about there, because we have some programs spread across the department. We spoke a little bit earlier about the Live Trade Animal Welfare Partnership, which is an animal welfare initiative.

Senator O'BRIEN—I am more interested in some of the activities working on market access, for example, into Indonesia.

Mr Burns—Perhaps Mr Read could answer some questions on that as well. But, for example, we have an agricultural cooperation working group meeting with Indonesia next week in Darwin, and one of the issues on the agenda there will be the future of the live trade with Indonesia, so we have quite a lot of engagement with Indonesia on that. You might recall some media attention a few weeks ago when the Indonesian agriculture minister was in the Northern Territory and met with Minister Burke and there was discussion on the future of the trade there and a visit to a cattle property and so on. So there is quite a lot of engagement with Indonesia in terms of promoting the trade.

Senator O'BRIEN—We have invested a fair amount of money in Indonesia in terms of processing capacity, which is, of course, connected with animal welfare as well as with the market promotion issue. Have there been any further investments in that area in the last 12 months?

Mr Burns—Under the Live Trade Animal Welfare Partnership that I spoke of before, we have had some projects in Indonesia. In 2009-10 we had, under the Live Trade Animal Welfare Partnership, \$150,000 allocated to a project titled the Indonesian point of slaughter improvements, which is basically looking at installing some of the slaughter boxes and other equipment that we have rolled out in the Middle East, so we are starting to expand some of that activity that we have had in the Middle East in the past into Indonesia in terms of improving animal welfare outcomes there.

Senator O'BRIEN—Is there any data which will show us any volume changes of live exports into Indonesia in recent times?

Mr Burns—I am not sure if any of my colleagues have the figures.

Mr Ross—I do not have the specific figures, but we have seen a growing market there and I understand that the numbers of cattle that went into the market last year were at record levels, so the trade is healthy in that respect. More recently we have seen the Indonesians look to more closely manage the import permit system there, because they are currently experiencing an oversupply of cattle and beef in the market. At the moment that is a current issue for us which we intend to raise with the Indonesians next week to help get a bit more certainty for industry. But that has, at the moment, led to some curtailing of exports in the short term.

Senator O'BRIEN—How does that program impact on volumes and access for Australian cattle?

Mr Ross—At the moment the Indonesians are approving a limited number of import permits, at lower quantities than the companies are seeking, and so it is, at the moment at

least, temporarily constraining exports. Our hope is that it will get sorted out quite soon, we will get better certainty, and in the lead-up to later in the year, when the seasonal demand in Indonesia is greater, we will have a return, hopefully, to higher levels.

Senator O'BRIEN—Thanks for that.

Senator HEFFERNAN—In relation to the market access for live exports to Indonesia and the oversupply, does the department do any work on facilitation?

Mr Ross—Can you be more specific about what you mean by 'facilitation'?

Senator HEFFERNAN—You would be aware, as most Austrade people are, that to get things done up there you often have to graft people. To get an edge in a contract competition there is facilitation money. Do you come across that? Do you do that sort of work—because it can distort the market, I have to say?

Mr Ross—No, we do not, and I am not in a position to comment any further.

Senator O'BRIEN—In terms of another product, I want to ask about Tasmanian cherries and their access to Korea. Could someone tell me what role the Australian government played in facilitating market access for that product, which is of growing importance in the state of Tasmania.

Ms Anderson—I might ask Dr Findlay from BSG to answer that question. She was more directly involved.

Dr V Findlay—We played a significant role in negotiating the quarantine protocol that would apply to the trade in Tasmanian cherries to Korea, including holding a number of bilateral meetings with them and talking with industry as well.

Senator O'BRIEN—What period of time did those negotiations run over?

Dr V Findlay—The most recent set of meetings that resulted in us gaining access happened over a relatively short period of time. Korea delivered us access much more quickly than we had expected.

Senator O'BRIEN—Okay. What were the key factors that resulted in us obtaining access for the Tasmanian cherries?

Dr V Findlay—Good negotiations.

Senator O'BRIEN—Were there any particular issues, such as a differentiation from other nations' product, or have we just done a good job and they liked the look of us?

Dr V Findlay—We have a good product and we were in a good position to hold very robust negotiations.

Senator O'BRIEN—Is time of the year of production of critical importance, or is that just incidental?

Dr V Findlay—It does play a factor. Obviously, counter-seasonal production and trade is a lot more easily accepted by trading partners. In this instance it did play a part.

Senator O'BRIEN—What is the situation with cherries produced in other parts of Australia in terms of access to Korea?

Dr V Findlay—That is next on the list.

Senator O'BRIEN—Okay.

Dr V Findlay—We had an option to pursue market access for all cherries from Australia, and we were made aware early in the piece that that was going to take a significant amount of time. Through discussions with the Koreans, we reached agreement that they could finalise access for Tasmanian cherries a lot more quickly than if we had kept the two issues together. It is not going to slow down the final outcome for all cherries; it just gave us quicker access for the ones that were easier to do.

Senator O'BRIEN—Okay. In terms of the market access to India for Australian fish products, there have been some new bilateral agreements brokered which have led to the reintroduction of those Australian products into the Indian market. Can someone tell us what has occurred, what were the issues, and how we regained access in that area.

Mr Burns—I might ask Dr Schipp from Biosecurity Services Group to help with that answer, Senator.

Dr Schipp—We became aware last year that access for certain seafood products into India was restricted when an Austrade food promotion event was held. A number of products intended to be used in that promotion were stopped at the border. As a consequence, we negotiated with the Indian authorities to identify which products were of concern and organise agreed certification for the remainder. Subsequently we have negotiated additional certification for those products of concern, which were largely around seafood that was exported live but intended for human consumption.

Senator O'BRIEN—Their concerns were based on the fact that it was live?

Dr Schipp—That was the main concern. The products that initially were held were those that were exported in a live state.

Senator O'BRIEN—That is, it was possible to introduce them into their waters, I take it?

Dr Schipp—Yes, things like yabbies and some shellfish were of concern.

Senator O'BRIEN—Presumably we were bringing those products into India before they stopped them, or was that a first introduction?

Dr Schipp—No, we were exporting them previously, but it appears that it had not come to the attention of the Indian quarantine authorities until this event was organised and had some profile.

Senator O'BRIEN—Thank you, I was not sure why that had happened.

CHAIR—Just very quickly, can you give us an update on what is happening with the live export trade?

Mr Burns—Would you like an update on the—

CHAIR—Sheep and cattle—coming from WA, it is a very topical issue.

Mr Burns—Perhaps you would like an update on the MOUs that we have been negotiating recently?

CHAIR—Yes, please.

Ms Anderson—As you may be aware, there are a number of MOUs that we have developed over the last five, six, seven years with Middle East countries, in order to provide some certainty to the trade. The most recent of those was with Sudan and Bahrain in November last year, and that is quite a positive development. Sudan is a new market, potentially, and we are also discussing with Morocco, which would be an expansion of market too, a protocol and an MOU to open up trade to Morocco. So there has been a number of new opportunities identified by the industry that we are now pursuing through formal agreements. Obviously, I mentioned before the Live Trade Animal Welfare Partnership, which is our way of cooperating with those countries in order to ensure that animal welfare standards are upheld. Those combined efforts are largely where we have been focussed and will continue to focus over the next 12 months.

CHAIR—What about Egypt, where Senator Colbeck and I visited the facility? Have we progressed that?

Ms Anderson—You visited Ain Sokhna, was it?

CHAIR—Yes.

Ms Anderson—The first shipment to Ain Sokhna was earlier this year, not that long ago. That is a new opening of that trade. There are others in BSG who may be able to add more about the specifics of how that was managed but, again, that is the opening of a trade that was closed more recently.

CHAIR—Very good.

Senator COLBECK—Was that for cattle or sheep?

Ms Anderson—I think that was sheep, but BSG is probably better placed. I had better defer to their knowledge when they come on. I am sure there is someone who can answer that.

Senator COLBECK—When we were there, they were—

Ms Anderson—Sorry, it is cattle. There is no access for sheep.

Senator COLBECK—My understanding was that the work being done with cattle was as a precursor to potentially reopening the sheep trade.

Ms Anderson—That is correct. You have prompted my memory. It was most definitely for cattle. There is a closed system for cattle, which was part of the negotiation about reopening the trade. We had assurance there was quite a robust system in place in Ain Sokhna. There is no similar system in place for sheep at this stage, so there is no sheep trade.

CHAIR—Thank you, Ms Anderson. As there are no further questions for Trade and Market Access, thank you. We now welcome officers of the Biosecurity Services Group, which includes the divisions formerly known as the Quarantine and Biosecurity Policy Unit, Australian Quarantine and Inspection Service—AQIS— Biosecurity Australia and Product Integrity, Animal and Plant Health, known as PIAPH.

Senator MILNE—Earlier you would have heard some questions about the shipment of seahorses into the US from Tasmania and the question related to what is being called a Customs bungle that led to the seizure of the Tasmanian seahorses in the US because a Customs officer had apparently failed to fill out the paperwork in the manner that is expected. The Customs officer was expected to put the number of seahorses in the shipment and instead

wrote 'confirmed' on the container and so it was seized in the US. Can you tell me what role biosecurity and quarantine services have in that at this end and the relations with Customs, or is this not something that you deal with?

Mr Read—We have no role in this particular issue. We are aware of the issue because you raised it earlier so we have made some phone calls to find out a bit about it. It is as you described. There is a CITES certificate that is completed by the department of the environment. That is forwarded to Customs in Tasmania. It requires a number to be written in the back specifying the number of seahorses on that. That was not done. The form has gone to the US. It has been picked up in the US and it is an issue between the competent authority in the US and Customs, and they are seeking to resolve that. Our embassy over there has been involved in that as well.

Senator MILNE—Okay. And the Customs we are talking about is Customs out of where?

Mr Read—Customs Tasmania is the information I have.

Senator MILNE—Okay. So it is a Customs Tasmania official who has made the mistake here and Biosecurity has nothing to do with it?

Mr Read—That is correct.

Senator MILNE—Okay. I want to move on to a number of issues. I am very concerned about the bacterial disease, the bacterial septicaemia that is believed to be causing the death of groper on the Great Barrier Reef. Can you give any indication of how that bacterial disease has gotten into the Great Barrier Reef and into the marine population and can you give me an idea of what Biosecurity is doing about that particular outbreak?

Ms Mellor—Senator, I will ask Dr Biddle to assist you with your inquiry.

Dr Biddle—Thank you. We recently saw a report from Queensland about some groper die-off; the septicaemia, as you described it. I am not certain that that has been arrived at as necessarily the true causative factor. It would be our expectation that the Queensland fisheries authorities would be investigating that matter.

Senator MILNE—There has been some suggestion that the bacterial infection could have been from frozen bait, but I recognise there are other possibilities. What is Biosecurity doing about actually investigating that issue of whether it is from frozen bait and whether it has been imported?

Dr Biddle—We have not received a referral, to my knowledge, about that potential causative link. Were it to be done we would check out whether or not the bait in question had, indeed, been imported and under what protocols. We would be liaising with the Queensland authorities once they referred that matter to us.

Senator MILNE—Okay. When you say it has not been referred to you, it has certainly been speculated about in the media. In order to hurry things up a little is there anything proactive you can do in terms of contacting Queensland and assessing whether indeed the imported bait could be a source of this disease?

Dr Biddle—We could liaise with the Queensland authorities, yes.

Senator MILNE—Okay. Then, can I ask that that occur, through the minister, of course. The next one I wanted to ask about was the Asian honeybee in the outbreak around Cairns. I

understand that has not been eradicated and there have been a number of nests that have now been found. Can you just give me an update on what is happening to eradicate the Asian honeybee and what resources the department is putting into that.

Ms Mellor—Yes. We have been involved through our national partnership arrangements with the states on that and there is an outbreak—there have been a number of nests and swarms found. I might just get Ms Hinder to come forward and walk you through what we have been doing with the relevant state on that.

Ms Hinder—We are involved in an eradication activity at the moment with Queensland. That is being managed in accordance with the requirements of the EPPRD, the Emergency Plant Pest Response Deed, but it has not been managed under that deed. In terms of current activity there has been a number of incursions that have been identified outside of the current exclusion zone, but I understand that Biosecurity Queensland have determined that those incursions have been human-assisted spread as opposed to natural spread of the pest. We have received approval from the ministers through the Primary Industry Ministerial Council to continue the program until 31 December of this year. The program will be undergoing a view to determine future eradication programs after that date.

Senator MILNE—Are you optimistic that we will be able to eradicate the Asian honeybee?

Ms Hinder—Senator, that is a decision that is yet to be taken by the national management group that is responsible for managing that particular program. It is certainly being managed as an eradication program at the moment. We will need to be able to review all of the available data around the response activity in order to put a recommendation through to the national management group and again to ministers about eradication.

Senator MILNE—And what representations have you had from industry about the impact? If this outbreak is not contained and eradicated, what are the likely impacts going to be in terms of pollination services?

Ms Hinder—We have certainly been actively engaged with the Australian Honey Bee Industry Council, who are one of the beneficiaries that have identified themselves as being a beneficiary of this eradication program, and are aware of the concerns that they hold in relation to Asian honeybees. I understand as well that Plant Health Australia has made an approach to other beneficiaries that might be impacted by an incursion of Asian honeybees. A number of those industries have indicated that they would be affected. A number have indicated that they may not be as affected by an incursion. As a result of the last national management group meeting we are doing some work with Plant Health Australia in terms of contacting again the beneficiaries to understand whether they would or would not be impacted by the incursion that is occurring and that will form part of the information that comes back to the national management group towards the end of this year when we are determining the future of the program.

Senator MILNE—Just on a couple of other threats to the bee population, the small hive beetle and the *Varroa destructor* mite, what action is being taken to deal with (a) the threat that is constituted by the *Varroa* mite and any outbreaks of the small hive beetle?

Ms Hinder—I will pass to Dr Biddle.

Dr Biddle—Yes. In relation to, firstly, the *Varroa* mite, there are strong efforts being made about awareness and to prevent the entry of the mite across the border. Our quarantine services are aware of the threats posed by the agent from different countries in the region and are alert particularly to detecting swarms of bees that might carry the mite. It is a question of vigilance. That mite and other mites are listed under the emergency response agreements and attempts would be made to control any incursion with a view to eradicating it. Whether or not that would be successful would remain to be seen. It is certainly true that the pest's range has extended in a number of countries overseas and Australia is one of the few countries that is yet to experience an incursion.

We are very fortunate with the Asian honeybee that the incursion that is presently trying to be eradicated, and we were just talking about, was mite-free, but that is not to say that next time there may not be mites. So it is a question of vigilance, awareness and preparedness. There are monitoring programs at ports that attempt to get an early detection because an early detection offers the best prospects of eradication.

In regard to the other pest you mentioned, small hive beetle, its range in Australia has been steadily expanding since its incursion about five years ago. At that time, it was decided, because of the propensity of the pest to infest feral bee nests, that it was not feasible to eradicate it. There have been some interstate movement controls to limit the spread of small hive beetle but it is a fact that there has been continued spread including, more recently, reports of the occurrence of some infested hives in the Kimberleys, which would be the greatest extent of spread because the incursion was first detected in south-east Australia.

Senator MILNE—While we are talking about bees, do we have a better understanding of the colony collapse disorder in the US and around the world and of what we to do to protect ourselves?

Dr Biddle—Yes. The short answer about colony collapse disorder, or syndrome, is that it is poorly understood. There is a lot of scientific contention about whether or not it is a real syndrome. It is certainly a multifactorial issue. We are watching developments closely in overseas countries. There are a number of viral agents which have been mentioned as co-factors, some of which occur in bee populations in Australia but do not cause disease or loss of productivity, but which, perhaps associated with other factors, may play a role in other countries. The scientific questions are quite unresolved, but it is an area of active interest for the department.

Senator MILNE—So it is an area of science and monitoring at this point?

Dr Biddle—Yes.

Senator HEFFERNAN—Could you do a 'what if' study? If we do not get an understanding and it keeps going, what happens?

Dr Biddle—We certainly have controls over the importation of breeding queen bees to best guarantee their health. All we can do is to be informed on scientific developments and ensure as best we can that our quarantine settings minimise possible risks.

Senator HEFFERNAN—But, from a global food task perspective, what happens if we lose our bees?

Dr Biddle—Certainly agronomists and others have been closely studying the pollination-dependent industries and the effect on productivity of crops and horticulture, and this has been a driving factor in countries with this disorder in investing in the science to investigate the causation.

Senator MILNE—I understand there was an incursion of myrtle rust in a nursery in central New South Wales on willow myrtle and callistemons, amongst others. I am really worried about the impact of that on eucalypts and whole native ecosystems. First of all, is there a containment and eradication strategy? I would like to be informed about where we are up to on myrtle rust.

Ms Ransom—Myrtle rust was detected on one property producing cut foliage for the Sydney market and the Central Coast of New South Wales. It was first detected on that property, we understand, by the grower around the middle of March. We were not informed of the diagnosis until the middle of April, when New South Wales agriculture had done some diagnostic work. It has, to date, only been found on three hosts: two commercial varieties of *Agonis flexuosa*: *Syncarpia*, which is the turpentine, and callistemon. At this stage we have four infected properties. Apart from the first infected property, the infection is quite low and those plants have been removed and destroyed and all of the properties have been sprayed with fungicide. At this stage, we believe the myrtle rust to be different to the guava rust, which is much more aggressive and has a much wider host range. There has been no detection of myrtle rust on any eucalypt species and there is work that is being developed to investigate the host range of this organism.

Senator MILNE—Do we know how it got there?

Ms Ransom—No, we do not. Investigations and discussions with the owner of the first infected property indicated no connection overseas. They had not travelled. Biosecurity services did some tracing back to imported myrtaceous material and there is nothing that has been anywhere near New South Wales in terms of imports. So we do not know.

Senator MILNE—You are saying it has spread to four properties but you have sprayed those properties with a fungicide and you are keeping an eye on it. Is this being handled as an eradication program?

Ms Ransom—It was investigated initially as an eradication program. It is no longer considered eradicable. That decision was made by the national management group.

Senator MILNE—Why is that?

Ms Ransom—The first infected property has about 1,000 *Agonis* plants and the majority of those were infected. We know that there were spores from that property uncontrolled for about a month, so there will have been spore movements in the area. There has been material that has gone out through the Sydney market. Given that rusts are incredibly difficult to control—they do spread readily—and the affected area is surrounded by native bush, which of course is full of Myrtaceae, the consultative committee advising the national management group considered it was not technically feasible to eradicate. The option we have at the moment, which is being further developed, is to continue to do surveillance and, where we find infection, eradicate that. But, in terms of being able to eradicate the organism from Australia, we believe that it is just not technically feasible to do that.

Senator MILNE—Given that there had been no travel from overseas, is there any theory about how it got there? Who is doing the work on what the likely impacts to the native flora are?

Ms Ransom—In terms of how it got here, we know that rusts can be carried by travellers on their clothing. Whether that is a pathway, we just do not know. They do move around the world by themselves. There may be contaminants on other materials that are coming into Australia. In terms of what is being done to test the host range, the activities that I mentioned that are being conducted through the National Biosecurity Committee are looking at developing a program for testing a wide range of hosts for their host status. As I said, at this stage we have only seen it on three genera. Certainly the surveillance around the infected properties has picked up a number of myrtaceous species that have no signs of infection on them. That is adding to our understanding of what species it has been found on and what it is not.

Senator MILNE—And that will be an ongoing program of observation, analysis and so on?

Ms Ransom—It will.

Senator MILNE—On another incursion, can someone explain how it is that we had one of the Indonesian macaques wandering through Darwin? What are we doing about talking to the Indonesian authorities about the likely spread of those into Northern Australia?

Ms Mellor—We saw a range of media about that, but I do not have evidence that actually occurred. We saw different media suggesting a different animal from time to time. We do not have evidence that there was an animal caught, captured or identified.

Senator MILNE—Nevertheless, the threat from the Indonesian islands in close proximity to Northern Australia would suggest that we should be having at least some discussions with the Indonesians, if not upgrading our biosecurity and quarantine in Northern Australia. Have we made any movement on that front?

Ms Mellor—It is not as a result of that exercise, but we do have a fairly intensive Northern Australian quarantine service that involves a wide range of surveillance. Indeed, that is spread right across the north of Australia and involves local communities. We do have extensive surveillance in the north but not as a result of that specific media report.

Senator MILNE—Okay. I only saw it through media reports. I do not have any evidence.

Ms Mellor—No, we did follow it up and we found nothing.

Senator MILNE—Okay. I will go back and I will ask people if they have got any more evidence other than what I had read in the media as well.

Senator ABETZ—Just a quick line of questioning, if I may? Australia Post told us yesterday that they are going to be slugged an extra \$5 million for the international postal service. Who can tell me about that and how that decision was made? I understand you guys are to blame.

Dr O'Connell—That was a budgetary decision.

Senator ABETZ—That is right. That was made by the government?

Dr O'Connell—Yes, that was made by the government.

Senator ABETZ—Was there any preliminary discussion between your service and Australia Post in relation to this—how it might impact on Australia Post and the dividend it is going to pay to government? Was there any discussion between the department and Australia Post?

Dr O'Connell—As with all budget matters, the consultation processes between agencies and ministers were part of the process of developing the budget overall. This is just another one of those measures.

Senator ABETZ—Be very careful. You might want to read the *Hansard*, because Australia Post tell us that there was no consultation, so that there was no normal process to which you were alluding. I want to know from where this discussion came.

Dr O'Connell—I was not referring to Australia Post; I was referring to the departments engaged in the process.

Senator ABETZ—We can read the *Hansard* but, with great respect, my question was about consultation with Australia Post. Allow me to ask the question again, just in case there was any misunderstanding. What consultation, if any, occurred between your department and Australia Post in determining the \$5 million figure?

Dr O'Connell—I am not aware of any consultation between the department and Australia Post. As I mentioned, this was a budgetary measure and took place in the normal cabinet processes.

Senator ABETZ—That answer now matches exactly with the answer I got from Australia Post. Minister, what was the government's intention in relation to this and why did they not consult with Australia Post, given that an extra \$5 million slug on Australia Post will undoubtedly mean that they will have to pass that cost on, or, more importantly, pay a lesser dividend to the government? We have got this mouse on a wheel with the money going around, nobody better off, and an extra layer of bureaucracy in between.

Senator Sherry—I understand the \$5 million charge is associated with the services provided by the department through and to the postal service for inspections and quarantine-related matters. Presumably, those are the checks that are carried out on parcels, presumably for imports.

Senator ABETZ—I know what it is all about, thank you.

Senator Sherry—You have asked the question without indicating what it is all about. Just for the record, that is what I understand the issue is all about. I assume that is what we are talking about?

Senator ABETZ—Yes. That is not in dispute.

Senator Sherry—It is perfectly reasonable. It is perfectly justifiable for a commercial service to be paying for the services that are provided by another government department, agency, or outside private operator. It is perfectly reasonable. The government has taken the decision as to the charge that is to be applied and that Australia Post will pay. If Minister Burke has anything to add beyond that, I will take it on notice.

Senator ABETZ—It is perfectly reasonable to add this impost, which is a more than 100 per cent increase on that which was previously charged. Dr O’Connell, can you tell us what the previous charge was? \$3.2 million, from memory. Does that sound right?

Dr O’Connell—Yes, I believe that is correct.

Senator ABETZ—Right. This is more than a 100 per cent increase without consultation with the commercial supplier and without giving them any prior notice until the budget that this was going to be dropped on them. So I do not misquote you, Minister, you describe that as ‘perfectly reasonable’?

Senator Sherry—I was referring, if you check the *Hansard*, to the basis of the charge. It was a budget policy decision. I stand by it. It has been made and the charge will be applied.

Senator ABETZ—Why was the figure of \$5 million achieved, as opposed to \$4.5 million or \$5.5 million?

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

Senator ABETZ—What sort of methodology was employed—as opposed to just trying to grab some money to deal with a burgeoning budget deficit?

Senator Sherry—In terms of the budget deficit, the budget will move into surplus in three years, three years earlier.

Senator ABETZ—It is a \$40 billion deficit this year?

Senator Sherry—The budget deficit will move into surplus three years earlier.

Senator ABETZ—On your own rubbery figures ‘early’.

Senator Sherry—If you want to get into a debate, I can talk extensively about why there is a budget deficit and the impact of the global financial crisis.

Senator ABETZ—Yes, it is very easy; pink batts, green loans, solar panels, BER, the cash splash.

Senator Sherry—The loss of \$100 billion in revenue due to the financial and economic crisis.

CHAIR—If you want to get on a soapbox, Senator Abetz, I am sure there are plenty in some corner of Tasmania on which you could carry on like a pork chop. Remember that this committee has a lot of work to do. It has been going along quite wonderfully. The questions have been very in depth, and I am sure the answers have been the same. We do not need to go into this sort of carrying on. If you want to do that, I suggest you go to another committee and waste their time.

Senator ABETZ—Excuse me, chair.

CHAIR—If you want to start grandstanding, take it somewhere else. We have a lot of work to do here. If you have questions, please ask them.

Senator ABETZ—Is your endorsement under threat or something?

CHAIR—Not at all.

Senator ABETZ—I do not know why you would behave like that otherwise.

CHAIR—Because you are starting to embarrass this committee.

Senator ABETZ—Senator Sherry, can you tell us how you achieved the \$5 million figure?

Senator Sherry—I do not know how issues of endorsement have anything to do with the issues. As I said, I will take the question on notice.

Senator ABETZ—You have to take the \$5 million figure on notice?

Senator Sherry—I will take it on notice. Correct.

Senator ABETZ—Did the department, Dr O’Connell, have any input in relation to how that figure was achieved or arrived at?

Dr O’Connell—This was part of the normal budgetary processes.

Senator ABETZ—Thank you very much for that. Is it normal to consult with another part of government, if charges are going to be applied to a GBE, about the capacity to pay, the reasonableness of the charge et cetera—which we agreed did not occur? I am just asking whether it is normal budget process that you would sting a GBE without giving them prior notice.

Dr O’Connell—The reduction in the subsidy to Australia Post was something that took place in the normal budgetary processes. The normal budgetary processes, as you know, often do not involve prior notice of budgetary decisions.

Senator ABETZ—All right. So how much is the subsidy?

Dr O’Connell—I would have to take on notice the current level of subsidy unless Mr Phillips can note it.

Mr Phillips—The current estimate for providing quarantine clearance services to Australia Post is approximately \$22 million a year.

Senator Sherry—\$22 million and we are only charging \$5 million. \$22 million, Senator Abetz, is the cost of this service.

Senator ABETZ—Chair, your intervention about grandstanding only goes one way, doesn’t it?

CHAIR—No, I was actually, for your information, Senator Abetz, just talking to one of your colleagues.

Senator ABETZ—It only goes one way. Caught out.

Senator Sherry—\$22 million. There you have it.

Senator ABETZ—I am glad that that is now on the *Hansard*, Minister, and Australia Post will be delighted. Of course, the government will now get a reduced dividend, so your cost recovery will of course be less because Australia Post will be able to pay a lesser dividend, No. 1. Number 2—

Senator Sherry—You have already made the debating point, but is there a further question, Senator Abetz?

Senator ABETZ—If you are chairing, that is fine.

Senator Sherry—I am just asking if there is a question.

Senator ABETZ—If you would not interrupt you might get the question.

Senator Sherry—Give it to us.

Senator ABETZ—What analysis was undertaken as to the impact on Australian exporters and Australia Post's viability in relation to its international services of this extra impost which will undoubtedly have to be passed down the line? Was any analysis of that undertaken?

Senator Sherry—Given the cost of the services being disclosed by the department, approximately \$22 million, and given the level of the new charge, \$5 million, if the minister has anything further to add I will take it on notice.

Senator ABETZ—It is now \$8.2 million, not \$5 million. If you want to grandstand make sure you get your facts right.

Senator Sherry—Thank you: \$8.2 million versus a \$22 million cost. If the minister has anything further to add I will take it on notice.

Senator ABETZ—I am sure he will not before the election, but thank you.

CHAIR—Talk about grandstanding! That was fantastic. Senator Boswell, would you like to ask a question?

Senator BOSWELL—I want to ask one question of AQIS and it will take 30 seconds. On the bananas: are there any applications to bring in imports?

Dr O'Connell—No.

Senator BOSWELL—None likely as far as you can see?

Dr O'Connell—You are referring to Philippine bananas?

Senator BOSWELL—I am referring to any bananas.

Dr O'Connell—We have no application.

Senator BOSWELL—Chairman, I have kept my word.

CHAIR—It is always a pleasure to have you in this committee, Senator Boswell.

Senator NASH—I think Senator Williams only has a couple of minutes. Is that correct?

Senator WILLIAMS—Yes.

CHAIR—That is right. Senator Williams, you are another pleasure to have as part of this committee.

Senator WILLIAMS—Thank you; you are being a thorough gentleman. Dr O'Connell, how does AQIS ensure its health certification procedures are accurate and correct?

Dr O'Connell—I might pass to Mr Read.

Mr Read—Sorry, can I have that question again?

Senator WILLIAMS—How does AQIS ensure its health certification procedures are accurate and correct? In other words, when you sign off on a health certificate for the export of meat or milk or whatever, does AQIS actually do a check that everything has been ticked off correctly?

Mr Read—I am just clarifying whether you are talking about exported product or imported product.

Senator WILLIAMS—Yes, sorry about that.

Mr Read—If you are talking about exported product, in terms of the meat program, for example, we will have on our plant on-plant inspection staff and an on-plant veterinarian. There are a range of inspection tasks that are required both ante- and post-mortem. There is also a range of audits that are conducted by the on-plant veterinarian. There are monthly visits to the plant by our area technical managers. Those area technical managers go to those plants to ensure that our veterinary officer on that plant is fulfilling their responsibility in terms of their monthly cycle of audits of that plant. That material is lodged into an audit repository database that we have to keep precise track of the audits, the findings that are coming from those audits.

We have a verification program that overlays that again, so we have three levels of audit and verification to check that, again, everything that is required to be happening on the ground at that plant is happening in accordance with particular requirements.

The other thing to keep in mind is that all of our plants are also subject to a range of international reviews. As I mentioned earlier, it is a cyclical set of reviews. Every couple of years the United States, the European Union or any one of our North Asian import authorities will come down and view the system that I have described to ensure it is both operating in accordance with the requirements of their country and is effectively operating as we describe it.

Senator WILLIAMS—Do you ever have a situation where an authorised officer who is to sign these certificates has a problem? Do you have any of those problems or concerns about them raised to you?

Mr Read—At times over the years, particularly for the European Union, we have had indications from a range of veterinary officers that are required to sign certificates to the European Union. Let me explain that a little bit further. The European Union is among those countries that require a veterinary officer to actually sign a certificate. All of our other markets, bar a couple, actually accept what we call a facsimile signature. The facsimile signature is from a veterinary officer who resides in central office. Essentially, the signing of those certificates is as a consequence of the systems that I have described. If there is a breakdown in any of the controls that are operating within that system they are identified, and any particular issues identified with product to the markets requiring those signatures is identified to the signing officer. In fact, if we identify problems with product then we recall product.

Senator WILLIAMS—So the EU are very stringent with their regulations on the export of beef to Europe. Are our criteria tighter than those of New Zealand when it comes to exporting to the EU?

Mr Read—Before you jump to that point, let me also say that we are going back to the European Union now, as we are progressively going back to all markets, to accept facsimile signatures, because a facsimile signature is a representation of our system. Where we have

individual officers signing we have to treat them with a response if we understand or identify a system problem that sits behind where their signature occurs. In terms of New Zealand—

Senator WILLIAMS—Just on that issue of the signature occurring, what is the process if an officer does not, or will not, sign that certification?

Mr Read—There is no demand on officers to sign certificates. That is my information. If we do have a vet who does not feel comfortable signing certificates then typically—I am not sure I have identified too many of those examples—

Senator WILLIAMS—Do you know of any?

Mr Read—I know of the issue you have described and I have articulated the system that sits behind the signing. It is very difficult for an individual to sit there and sign a certificate without having all the buttons in front of them, so to speak. But what I have described as sitting behind them is a very complex system of inspection and verification that identifies where we have a problem, and we respond very quickly to that problem. It is confidence in the system that allows those signatures to occur. If we do have an individual who feels discomfort with signing those certificates, obviously we will want to know why the concern is there and we need to investigate that. Equally, we will need to resolve the issue.

Senator WILLIAMS—I go back to the comparison of Australia's standards for the EU compared to those of New Zealand. Are our standards much more stringent than those of the New Zealand health certificates are?

Mr Read—Our standards are quite prescriptive. New Zealand has a veterinary agreement that it has had in place with the European Union for a large number of years. That veterinary agreement provides New Zealand a lot more latitude and flexibility than we have experienced.

Senator WILLIAMS—A lot more latitude and flexibility for New Zealand. Would you say that the hurdle is much higher for Australia to jump over than it is for New Zealand when it comes to the inspection of export beef to EU?

Mr Read—I would probably like to focus more on sheep meat, because with sheep meat New Zealand will have over 220,000 tonnes of access into the European Union. Australia has around 17,000 tonnes of access into the European Union. On beef quota I think we have around 7,000 plus another access to 20,000. I am not quite sure of the access to New Zealand. In terms of the conditions to which we certify, when you say 'hurdles', the main hurdle with the European Union on cattle is the identification of EU HGP treated cattle and the seclusion of those cattle in our EUCAS program.

Having said all that, there are a lot of parallels required to general market access to all of our international partners. So, yes, the European Union is quite specific in its directives. We argue very forthrightly around the equivalence of our national system to the European Union, and that national system is a system that provides access to us globally, particularly to the United States and Japan.

Senator WILLIAMS—Does the European Union use hormonal growth promotants in Europe?

Mr Read—I cannot talk on their local practice. My understanding is that they certainly prohibit the import of beef with the use of hormonal growth promotants and I would expect that nationally they should not be using them within their borders.

Senator WILLIAMS—I agree with you totally that they would not allow the importing of beef from Australia within any hormonal growth promotants. Would you be able to find out whether they actually use HGP's in Europe in any area? If they do, I would find it quite ironic that they use hormonal growth promotants in Europe, but they will not allow any beef from Australia to have them. That is quite hypocritical, I could call it. I have been informed they do use hormonal growth promotants in Europe. So it would be interesting to find out.

Mr Read—Mr Schipp from Export Standards Branch.

Mr Schipp—It is illegal to use hormonal growth promotants in the EU, but we are aware that there is covert use.

Senator WILLIAMS—You are aware that it is going on, is what you are saying?

Mr Schipp—We are aware that there is illegal activity in the use of hormonal growth promotants in the EU, yes.

Senator WILLIAMS—That is interesting. Is there any national body you can take that to? If you are aware that there are illegal procedures in the EU, as far as hormonal growth promotants go, and they demand that we do not have any in the beef we export to there, are there any questions to an international body? What can you do to ask or get some answers on that issue?

Mr Read—In terms of that practice, as Mr Schipp has identified, their legislation will prescribe that those particular sets of products cannot be used. They will be enforcing that, as a commission, through its member states. I would imagine also their member states are enforcing that on the ground. Within that system, I assume that there will be individuals that DO, as Mr Schipp has identified—and I do not know any facts around that—

Senator HEFFERNAN—It is a bit like marijuana.

Mr Read—They can only regulate to their national standard and we can only respond to the national standard. We raised these issues with the commission and it is then for the commission to resolve those anomalies within their own system.

Senator WILLIAMS—Let's look on the other side of the fence. How does AQIS ensure animal products imported into Australia meet our requirements? Do we perform audits like the US, EU and other countries do to our system to verify this?

Mr Read—At this time, with imported food product, there is two levels to this. One is at the quarantine level, which I will not talk about. In terms of the food safety response, products that are permitted entry into Australia are classified as either 'high risk' or 'low risk' under a risk categorisation through Food Standards Australia New Zealand. In response to that, essentially, AQIS acts as imported food inspectors at the border and will sample against that regime on the appropriate sampling template, as well as applying the appropriate test regimes to that product. It is a border inspection program, at this stage, and we do not have a capacity to audit back upstream into the exporting countries, from a food safety perspective.

Senator WILLIAMS—I am just going to take you to another area of export of game meat. Are you familiar with the Barwon Game Meat business at Walgett?

Mr Read—I could be, but it depends on the question.

Senator WILLIAMS—Okay. I am led to believe that AQIS put restrictions and conditions on that business that were actually for exported red meat and not for game meat. For example, they were told by AQIS they had to freeze their meet within 48 hours at minus 12 degrees Celsius, as you do with the red meat exports, but that was not the case for game meat, they found out afterwards. Are you familiar with those sorts of things; the directions and protocols that were placed on that business?

Mr Read—This is a topic of the ombudsman's review. There was extensive discussion on this subject a number of years ago around Walgett and the particular owners at that time, and those issues that you identified.

Senator WILLIAMS—Yes, I was not here. Those AQIS inspectors would have to be trained according to the standards to carry out the inspection of those game export facilities, I would imagine?

Mr Read—That is correct.

Senator WILLIAMS—Would all of those people have been trained, professionally to carry out their duties?

Mr Read—You are talking 'inspectors', in fact, you are referring to the veterinary officers that were at this facility.

Senator WILLIAMS—Yes.

Mr Read—Again, this is all old evidence, but those veterinary officers that were in that particular area were reviewed by our external reviewers. In terms of their competency, it was found to be appropriate.

Senator WILLIAMS—You are saying they did get all the appropriate training et cetera to carry out their duties as AQIS inspectors at that works?

Mr Read—I am saying that the level of competency of the individuals fulfilling the role they were fulfilling was found to be appropriate.

Senator WILLIAMS—I have an affidavit here from one of the inspectors that worked there and he said in the affidavit:

Prior to my appointment as a veterinary officer at Walgett Game Meat Processing Works ... I did not receive any formal training from AQIS in relation to legislative or regulatory controls relating to game meat. My instructing in game meat safety and inspection services was limited to 'on-the-job' practical training I received whilst at Walgett Game Meat.

He is simply saying he was not training for the job.

Mr Read—I can take it on notice. But that question has been reviewed previously. Again, in terms of the individual, the competency for the disposition they were making was found appropriate.

Senator WILLIAMS—That statutory declaration is dated 25 February 2007. I have a letter here from PPB, the administrators who went into the business. They circulated a letter to the creditors:

After many years of litigation and negotiation, the Company's Board was able to with the assistance of the Commonwealth Ombudsman, extract an offer of \$1,000,000 from the relevant Federal Government agency in full and final settlement.

Did AQIS pay that business \$1 million?

Dr O'Connell—I think we would prefer to take these questions on notice, if that is okay with you? Some of these relate to the history of a particular claim, but you are bringing up a different claim, I think, potentially. Without the details here, we would have to take them notice.

Senator Sherry—If it is okay with the individual that you are asking questions about—I am not suggesting in this forum, because it is public—could you pass the name of the individual on, because we do not know who you are talking about?

Senator WILLIAMS—I do.

Senator Sherry—Well, the officers do not know, and they we will take it on notice.

Senator HEFFERNAN—Can I just intervene for clarity here. This was dealt with four years ago. The department does know who that person is.

Senator Sherry—We think so.

Senator HEFFERNAN—There was an allegation of a vendetta against this plant, and it goes back four years.

Senator Sherry—Without going to the name, it would be useful to know whether it was the same individual whose case has been raised on the previous occasion, or a new person or a new case.

Senator WILLIAMS—I might discuss some of these privately with you, if I could, Dr O'Connell, because there are things I would like to say, but not in a public forum, for the interest of those involved. Perhaps at some stage we might be able to have a meeting and discuss some of these issues.

CHAIR—Senator Xenophon?

Senator XENOPHON—I just wanted to ask questions about honey and olive oil. Firstly, what processes does AQIS have in place to ensure that honey arriving pre-packaged and ready for sale in Australia is of suitable standard, in terms of human consumption and biosecurity? In other words, what tests are carried out on that and what are the level of tests? Are they random? Are they systematic? How does that work?

Mr Read—Honey, from a food safety perspective, is categorised as a low-risk food. It is subject to five per cent sampling. It is tested against a range of chemicals. My understanding is, from the tests performed to date, there has been no detection of any abnormality in any of the honey imported.

Senator XENOPHON—The five per cent sampling, is that one in 20?

Mr Read—It is a random sample, in terms of the selection.

Senator XENOPHON—Right. Does that apply to honey that arrives that is pre-packaged as well?

Mr Read—Imported honey, pre-packaged, any honey.

Senator XENOPHON—Right. One in 20 would be subject to any sample. Are there any country of origin restrictions where the product may come from countries using pesticides or chemicals banned in Australia? Does that increase the risk profile in the context of the one in 20, or the five per cent rule that you have?

Mr Read—Not that I am aware.

Senator XENOPHON—Do you think it ought to? There are many countries that have lower standards than Australia in terms of honey production. For those countries that use those chemicals, is that something that ought to be the subject of greater scrutiny?

CHAIR—Senator Xenophon, that could go very close to you asking an opinion of the officers.

Senator XENOPHON—Perhaps I will rephrase that. Insofar as there are some countries that use chemicals that are banned in Australia for the production of honey, does that increase the risk profile in terms of a closer inspection or a greater scrutiny of products from those countries?

Dr Clegg—The scheme that we operate, the Imported Food Inspection Scheme, is just a border based scheme. We operated on advice from FSANZ as to the risk. If we are advised by FSANZ that the risk of particular chemicals from a particular country is a problem and we need to change our border inspection program, we do that. But to date there has been no advice on residues—in fact, there are no risk foods that we have listed for residues that I am aware of.

Senator XENOPHON—So you rely on FSANZ to give you that advice as to whether one country—

Dr Clegg—That is right.

Senator XENOPHON—And so far you have not received any advice in relation to honey imports about which countries would use residues and which do not?

Dr Clegg—Any country that has a bee industry and uses chemicals may have residues in their honey. It is the management of those residues by the country's competent authority that is the issue. The thing is that with our border based inspection scheme we just run a system at the border where we are checking. We are not, like the quarantine service, giving approval to countries to export to Australia. That is not the way this scheme operates.

Dr O'Connell—It is probably useful to think of us as acting as an agent of FSANZ in this, in terms of the border. FSANZ sets the inspection standards and decides what the health risks are. We do not do that. We act as an agent on the border to do the test.

Senator XENOPHON—Sure. Perhaps I will put some questions to FSANZ. Similarly, in terms of olive oil imports—and maybe some of this would cross over to FSANZ; you may wish to take some notes—how much is imported in bulk and how much is prepackaged? What steps does AQIS have in place to ensure that prepackaged oil is suitable for sale in Australia?

Ms Mellor—In terms of the volume, we will take that on notice.

Senator XENOPHON—What steps do you take? There is an issue where I have had olive oil producers who are concerned about whether the oil matches the product description on the packaging: that it is either extra virgin or 100 per cent olive oil. There is a concern as to whether the descriptions are actually accurate descriptions of a product that is imported.

Dr Clegg—With the Imported Food Inspection Scheme, we are just assessing the food against the Food Standards Code. I do not think those terms ‘extra virgin’ and ‘virgin olive oil’ are food safety matters. They are description issues, so we are not really looking at that at the border.

Senator Sherry—Trade practices, I think, will see if there is anything—

Senator XENOPHON—In cases where the consumers are being misled in terms of the quality of the food—because there are different health benefits of different qualities of olive oil, whether it is cold-pressed and whether it has been blended and all that sort of thing—you are saying it is a trade practices issue, but there is—

Senator Sherry—I think it is likely, yes.

Senator XENOPHON—There are different health benefits. There are different health effects in terms of—

Senator Sherry—There is a claim about health and there is a claim about—

Senator XENOPHON—Safety.

Senator Sherry—percentage contents et cetera. I do not know whether you will be at the TPC estimates in the economics committee

Senator XENOPHON—I will try to be.

Senator Sherry—I will understand if you are not, given that it is difficult to get across all the estimates, but I will raise it with them as well.

Senator XENOPHON—Sure. I appreciate that. Finally, in terms of AQIS ensuring the purity of prepackaged olive oil imported to Australia, that really is a trade practices issue rather than an AQIS issue.

Dr Clegg—That is right.

Senator XENOPHON—Thank you.

Senator BACK—Dr O’Connell, I would just like to address for a few moments some questions with regard to equine influenza, if that is appropriate at this stage. Just to recall, on 8 February in estimates, Dr Carroll, you and I had some discussions about the advice of the expert review panel on equine influenza going to the Primary Industries Ministerial Council, if you recall.

Dr O’Connell—Yes.

Senator BACK—At that time, I was asking about possible vaccination scenarios. Dr Carroll, I think, advised us that there were four primary scenarios that were being proposed by the expert review panel on equine influenza. I was asking questions about the possibility of vaccination and we went into those discussions and did not go too much further. But on the

next day, 9 February, there was in fact from you—from the department—a fifth scenario put to the horse industry. Do you recall that?

Dr O'Connell—Yes. I am not precisely sure of the dates but, yes, I do recall the extra scenario.

Senator BACK—I was just concerned: on the day before, would you have known that you were going to put a fifth scenario to the industry?

Dr O'Connell—I do not recall the precise discussion we had at the time. I would have to look at the *Hansard* and just check what the content of the discussion was and whether or not it would have been relevant.

Senator BACK—Certainly. The fifth scenario was, in fact, the prospect of some limited form of vaccination against equine influenza, if you recall.

Dr O'Connell—Yes. It was essentially unlike the other four scenarios. The other four scenarios all assumed that there would be a national eradication response, and that left us without a scenario which said: 'Well, what would happen in the event that there wasn't? How could you go about operating?' It was one which said, 'If there is not a national eradication response because there is not a national agreement in place, and you had the potential for voluntary vaccination of sectors, what might be the sort of costs and benefits?' Broadly speaking, it was just to test a scenario which had not really been fleshed out in the work by the panel but which was quite relevant because we did not have a national response agreement in place. That was the—

Senator BACK—Did the expert review panel address themselves to the prospect of a fifth scenario, this possible voluntary vaccination program? If so, what was their reaction to it? Were they of a mind to support that scenario or not?

Dr O'Connell—I am not sure whether they, as a panel—and I might take advice—discussed the issue of a scenario which involved no national eradication response as opposed to this one. As I said, the other scenarios that were set out basically did, as I understand it, assume that there was going to be a national eradication response of some sort. I do not know if they discussed this issue in their panel or not, but Dr Biddle may be able to help.

Dr Biddle—Yes. I have just one observation, and that is that the report of the panel itself did explicitly recognise that a range of other scenarios or responses were potentially available, but they were not explicitly considered in the work that the panel had the time to do. They were open-minded to the potential for a range of other potential responses.

Senator BACK—Can you tell me—presumably it was put to the horse industry—what the reaction of the industry was to a form of voluntary vaccination of limited numbers—or was the industry perhaps so enamoured of it that they all decided on supporting a voluntary vaccination?

Dr O'Connell—I think—typically of the set of industries, in a sense here—there were different views on the issue ranging from the thoroughbred races to others. There is a variety of views.

Senator BACK—The standardbred industry would have been opposed to it, wouldn't they, given—

Dr O'Connell—Standardbred were opposed. I think we need to distinguish the scenario. The scenario was simply a scenario to explore what might happen in the event we did not have a national response and you had the availability of a vaccine. It was not a promotion of the vaccine, because the issue for us was that the other scenarios all assumed a national response, but we did not have an agreement for a national response. That was problematic. Certainly, in terms of voluntary vaccination, the harness-racing industry continued to oppose it. The Australian Racing Board, I think, were more positive towards it. I would have to get you the break-up, but certainly I do not think there are any surprises, if you like, as to where those different sectors were coming from in terms of the history of this whole debate.

Senator BACK—If we proceeded with such a voluntary vaccination scheme, that would remove equine influenza from the exotic diseases list under the Emergency Animal Disease Response Agreement. Would that be correct? Would we be then regarded by other countries—New Zealand included—as then not effectively having EI as an exotic disease?

Dr O'Connell—I will defer to Dr Biddle, but no; I think that is not right.

Dr Biddle—No. Australia, in that circumstance, would claim to be EI free with vaccination. To the extent that other countries questioned that status, we would present evidence that we think would be adequate to satisfy their concerns. As such, equine influenza would remain listed in the schedule that you referred to.

Senator BACK—Did you get advice, for example, from New Zealand as to what their response would be to such a plea in the sense that would that then adversely impact on the free movement of horses between Australia and New Zealand, as we have now?

Dr Biddle—I think it is fair to say that we are sensitive to that matter and the departments would dialogue in the event that this course of action were taken.

Senator BACK—Sure. It is my understanding that then went to the Primary Industries Ministerial Forum. Can you advise the committee as to what its current status and position is?

Dr O'Connell—Yes, in essence, the Primary Industries Ministerial Council decided that they would let the horse industry overall know that, between now and 1 December, I think, they would hope that the industry could come together and join the deed and follow the procedures which would allow us to have a levy in place or some cost recovery mechanism for any emergency response to eradicate the disease, but that if by that date there wasn't such an agreement forthcoming the ministers would agree that steps should be taken to allow voluntary vaccination.

Senator BACK—Can you tell us what the advice would have been to the ministers, given that it is a state and territory issue. In the event, for example, that the thoroughbred industry were permitted to participate in a voluntary vaccination program, would that allow free movement of vaccinated horses around Australia, between states and across borders, if there were an outbreak? Would it, in fact, give them any level of protection at all if there were an outbreak of equine influenza?

Dr O'Connell—I will again pass to Dr Biddle, but in terms of the advice to the ministerial council there was, of course, a range of advice from the different veterinary officers in the states in order to reach that position. But I will pass to Dr Biddle.

Dr Biddle—I believe that the terms of movement restrictions during an emergency response would be essentially agreed in the face of the specific response to the incident. They would be guided by the prescription in the AUSVETPLAN, which is in the process of being substantially revised, learning the lessons of the last outbreak. It is likely that quite large zones permitting movement of vaccinated racing horses could be envisaged, or potentially envisaged, subject to the circumstances of the particular outbreak. It is a question that I guess defies a specific straight up and down answer, because of the dependence on the nature of the particular individual outbreak.

Senator BACK—And can you tell us what the advice to the department was from both within the department and, for example, the Veterinary Association as to the wisdom of such a voluntary vaccination program for a limited number of horses in Australia?

Dr Biddle—The Animal Health Committee provided advice to the standing committee about the implications of various response scenarios which are factored into the ministerial council decision-making process. Separately, a number of commentators passed views. The Australian Veterinary Association was one such commentator and I think their views are well-known. They did not see a lot of benefits in pre-emptive vaccination.

Senator BACK—Sure. Where are we now with the whole exercise?

Dr O'Connell—As I said, in terms of the primary industry ministers' position that they took, we are looking now between now and 1 December to see whether or not we can have an agreement across the different sectors to sign up to the deed, accept a funding mechanism for an emergency response, and if that can be the case then all is good. The agreement was that in the event that a levy mechanism could be agreed we would pursue such a thing. So that is going on; that is the current status. If not, then the decision was that essentially there is no reason to prevent people seeking to provide some defence of their economic interests if there is no other eradication scheme available. I guess, in terms of the responses of people to the issue of voluntary vaccination, I think overwhelmingly where opposition to it came was in saying, 'Our preference would be to have a national capacity to have an eradication response', which is, of course, exactly what we had been hoping to try to get in the first place. But if you do not have one then you have the problem of whether you simply manage your border or whether you manage your border and allow people to take some sort of action to defend their economic interests.

Senator HEFFERNAN—Where are we up to with the levy proposal?

Dr O'Connell—At the moment there is no levy proposal.

Senator HEFFERNAN—But it would be stupid not to have a levy proposal.

Dr O'Connell—I think perhaps that is a conversation to have with the horse industry.

Senator HEFFERNAN—I am just sending them a message.

CHAIR—I agree with Senator Heffernan, but you did vote against it.

Senator HEFFERNAN—You will not find I did.

CHAIR—Are there any further questions. Senator Heffernan, would you like the call?

Senator HEFFERNAN—Under Biosecurity Australia's advice of 2009/25, Final import risk analysis report for prawns and prawn products, one of the key changes of the draft report

is inclusion of marinated products as a highly processed prawn product, subject to inspection. Is that helpful? As I understand it, there have been 82 successful applications, as of questions on notice. From October 2008 to June 2009 there were 142 import permit applications, of which 82 were successful and 60 were refused. Could you tell me what decided a refusal and what decided a successful application?

Ms Cupit—Some of those refusals were in relation to the amount of marinated products applied to the product. Animal Biosecurity, Biosecurity Australia, conducts a case-by-case assessment of those applications and will make a recommendation to other areas, such as our biological imports permit area, so that we can either grant or refuse those permits.

Senator HEFFERNAN—I do recall that I brought a bag of prawns along to a hearing

Senator Sherry—We certainly recall that.

Senator HEFFERNAN—which I still have if you want them—I forgot to put them in the fridge.

Senator Sherry—The same prawns? No wonder you are never in your office.

Senator BACK—They are in his pockets.

Senator HEFFERNAN—What is the test you take? It was patently obviously with the bag I had then. You just chucked them in the tub and they were fresh, full-tail, head-on prawns. How do you actually test them?

Ms Cupit—The inspectors at the border will actually take a specific sample of the marinated prawns and prawn products. They will actually assess them against the conditions on the import permits. If the import permit actually says a specific product is marinated in a specific ingredient, like chilli sauce, that is actually assessed. It will actually list that more than 12 per cent of the marinade must be visible. They make a visual assessment of those samples and they take a random sample in each consignment.

Senator HEFFERNAN—There is a serious impact on the local prawn industry we are talking about here, especially against the failure of this year's prawn harvest and the worry that they have got that we are going to open the floodgate now because we are short of prawns and slacken off on the importation of green prawns, head on. Is one of the qualifications for an import's success that the prawn has to be impregnated? How do you find the difference between marinate and impregnate?

Ms Cupit—It is a judgment from the inspectors at the border, but we actually do assess it so that they actually look at how much marinade is actually applied. More than 12 per cent must be applied, and it must be visible product.

Senator HEFFERNAN—Fair enough. If it is applied—they are in the bags, I have handled plenty of them—but they are not actually impregnated, what difference does it make if it is 10 per cent, 20 per cent or 30 per cent, if the prawn, when you wash it, is still a fresh prawn?

Ms Cupit—The assessment is actually made that it is not able to be washed off easily. If it is more than 12 per cent, it is quite a substantial amount of marinade applied to the product.

Senator HEFFERNAN—Would you like to have a human failure test on that with me because that is not right?

CHAIR—Is that a human fail test on you, Senator Heffernan?

Senator HEFFERNAN—On that test. Surely, if you are going to have a marinated prawn, in theory it ought to be in some ways impregnated. Have you ever thought about that?

Ms Cupit—We take advice. It does not appear to be, this is—

Senator HEFFERNAN—Could you take that on notice?

Ms Cupit—Could you clarify the question, please?

Senator BACK—Could I ask a question? Senator Heffernan gave the demonstration here, humorous and all as it was, and I think you just made the observation about the degree to which it adheres. When he actually put the product into water, it was clear there was absolutely no marinade at all. Clearly, the marinade was a powdered form in the bottom of a packet and the prawns themselves did not come into contact with it. If he could perform such a simple test here, I would ask: is that similar to the type of test your officers would conduct to satisfy themselves as to the extent of adherence of the marinade to the product?

Ms Cupit—There are two parts to that and I will just answer one first. When we first started looking at the amount of marinade applied to prawns, we did a verification survey and there was a large number of surveyed product that did not meet the import conditions. We have actually tightened up that and have now instituted mandatory inspection.

Senator HEFFERNAN—Good.

Ms Cupit—Since that time, the inspection results now are showing a much reduced failure rate for product. As to the exact inspection process applied at the border, we would have to take that on notice. We have actually got a training program in place for our—

Senator BACK—You might have achieved something, Senator Heffernan, with your demonstration.

Senator HEFFERNAN—Yes, the job has improved, but the likeable rogues are still getting it in.

Ms Cupit—We will just take on notice the exact detail of what they actually inspect for, but it does involve a visual inspection and actually looking at how much marinade is applied to those. The work instructions that our inspectors use are national, so all the inspectors at all borders, at all points, apply the same standards.

Senator HEFFERNAN—Do you actually break the pack?

Ms Cupit—Yes, they do. They inspect the prawns.

Senator HEFFERNAN—How do you know whether a prawn is impregnated if you do not eat it?

Senator BACK—Visual.

Ms Cupit—I think that was the question that you asked before, which we said we would take on notice.

Senator HEFFERNAN—Congratulations that you have tightened the game up a bit, but there is a sprinkling of likeable rogues that are still getting it through and using them as fresh

prawns, I can assure you, because I have been shown the outcome. Now, my little pot of meat here, which we raised at an earlier hearing—

CHAIR—Yes, extensively.

Senator HEFFERNAN—I think the official figure was 1,700 tonnes of meat.

Senator BACK—It was 1,160 tonnes.

Senator HEFFERNAN—That is 1,160 tonnes of meat from the United States comes in one form or another into Australia. This is one example of that, which is a product of America. A few weeks ago we asked you to go away and said, ‘Come back and show us that this is not actually American meat in this pot’— even though it says ‘product of America’ it has actually got genetically modified corn in it as well—and to show us the paper trail that satisfies you that that meat actually is not a product of the US. The manufacturing is a product of the US; the meat in it comes from somewhere else. Given that there is no closed inspection of the Canadian border or the Mexican border, I would be curious as to the paper trail that satisfies someone somewhere that that, indeed, is not class D meat.

Ms Mellor—Senator, you asked us that question in another inquiry, which we have taken on notice.

Senator HEFFERNAN—I just thought you might have the answer.

Ms Mellor—No, we do not have the answer here today.

Senator HEFFERNAN—Best of luck, because I have been over there to where they do it and if I saw with my eyes what I saw with my eyes, you have got a problem.

Senator BACK—Through the chair, can I ask the likely time frame? We did engage in that entire discussion in camera.

Senator HEFFERNAN—Not this bit—this was out of camera.

Senator BACK—All right. We engaged in a good deal of it in camera. I do not think it is unreasonable that we would request a prompt response, given the seriousness of the questions that we asked.

Ms Mellor—We have commenced that work.

Senator Sherry—It is another committee.

Senator BACK—It is not unrelated, Minister. It would be possible to do it.

Senator Sherry—The issues are related. I understand why you want an expeditious response, but, at this committee, it is not possible. We will pass it on.

Senator BACK—I simply sought it. It is not for me to require it but it is not unreasonable to seek it.

Senator Sherry—No, of course not, but you cannot expect this committee, which is a separate entity from the other entity. We can ask and pass it on, but you cannot press it here.

CHAIR—I think in all fairness, Senator Back, the minister is correct. It is a very important issue. We have had these questions in another committee and the committee wants to know the answers. But for the purposes of moving on—and that is not trying to elude the questions at all—

Senator HEFFERNAN—I just thought maybe you had the answer. I am happy to take you over there and show you what I think.

CHAIR—Senator Heffernan, fortunately or unfortunately, we have not got the answers yet. This whole committee does want to have the answers. Can I just urge, Senator Heffernan, that you continue your questions if you have any more.

Senator HEFFERNAN—I have, but I will come back.

CHAIR—I know Senator Milne has a couple of questions. Senator Colbeck, are you happy for Senator Milne to ask a couple of questions, or would you like to ask yours now?

Senator COLBECK—I have got quite a lot of questions.

Senator HEFFERNAN—Before we go to a whole lot of the other ones, have you blokes got the questions on Japan?

CHAIR—Why don't you have a quiet word, Senator Heffernan, to your colleagues and Senator Milne can ask her questions now.

Senator MILNE—I have been wanting to ask a question in relation to raw milk cheese and I do not know which area of the department is best to ask it in. Are there any restrictions on the import of raw milk cheese into Australia, especially since New Zealand now, as of September last year, allows the production of raw milk cheese? Can you tell me if there are any restrictions on the import of raw milk cheese into Australia and why, if there are?

Dr Clegg—Yes. There are restrictions on the import of raw milk cheeses into Australia. The requirements of the Food Standards Code apply to food from all countries. In the case of New Zealand, soft cheeses are listed as risk cheeses, except for raw milk cheeses. If New Zealand had some establishments that were approved by the New Zealand Food Safety Authority for public sale in New Zealand, those soft cheeses of New Zealand origin could be imported into Australia under the current arrangements that we have. For cheese from any other country, it cannot be imported because it is treated as a risk food by AQIS and it will be required to be tested.

Senator MILNE—How come you can buy roquefort and other cheeses in Australia then?

Dr Clegg—Because it would not fit into the definition of soft. There are standards within the Australian Food Standards Code that allow the import of roquefort cheese and also some of the Swiss grating cheeses.

Senator MILNE—Just to clarify, at the moment you can import raw milk cheese into Australia if it is not a soft cheese.

Dr Clegg—Yes. In accordance with the standards that are in the Food Standards Code—and they apply to a very few number of specific cheeses that have detailed European origin and history of production.

Senator MILNE—Are there any other countries in the world that are still restricting the import of raw milk cheese?

Dr Clegg—Other than us? I could not say.

Senator MILNE—Okay. And there is a review, I understand, in relation to this matter at the moment.

Dr Clegg—Yes.

Senator MILNE—Are you able to give me any insight into this so I can get ready?

Dr Clegg—No, I am sorry. FSANZ is developing a standard for raw milk cheeses, and that process is underway. It is just that New Zealand standard was finished ahead of Australia's in this case, but each country does its own food standard assessment.

Senator MILNE—I am a little bit confused here. I thought we had standardised Australian and New Zealand food safety and labelling laws in relation to this. Why don't we have the same standard as New Zealand since they have adopted theirs last September?

Dr Clegg—New Zealand has the ability, under the treaty we have with New Zealand about food standards, to set its own standards. In Australia, similarly, we set our standards. There are a number of them that are joint, but there are others that each of us may choose to make. They are made, in our case, by FSANZ. We are not the food authority here, but in New Zealand they are the food authority and they are also the people that deal with a lot of the export and import of food as well.

Senator MILNE—In terms of the Department of Agriculture and federally, who in your branch deals with the opportunities that might present themselves in terms of raw milk cheeses? I am just interested to know who is looking at this issue, in terms of opportunities and new markets if Australia were to change its laws in relation to the production of raw milk cheese.

Ms Mellor—It is probably in our Agricultural Productivity Group.

Senator MILNE—I will wait for them then.

Mr Read—But the sequence on this would be that FSANZ will start a review developing that standard. There will be a committee that is established. We will probably have a representative on that: one of our scientists. In terms of market access, that really will be driven by the market. We will be informed where those opportunities lie in terms of export opportunities. We would need to liaise with both the countries that that export is going to as well as the conditions and requirements of the exporters themselves. The sequence will be the development of the standard, as I would see it. If there is some of our big national companies then wishing to progress the development of raw milk cheeses and exporting those to markets, then there will be the need for Mark Schipp's branch to be involved with that, look at what the access requirements to those markets will be, facilitate access where they need to, and align the Australian standard, plus any other conditions required to go to those markets.

Senator MILNE—Considering the fact that there is a review currently on, when do we expect that process that has just been set out to be completed and a decision made?

Dr Clegg—I do not know when that will be. That is managed by FSANZ.

Ms Mellor—It is not just FSANZ undertaking the review.

Senator BACK—Can I just confirm that, in fact, the domestic producers are at a disadvantage now in the sense that we have a scenario where our domestic producers cannot make or sell cheeses from unpasteurised milk although those cheeses can be imported from countries like France and Switzerland subject to these safety requirements? Is that the position we are in at the moment?

Dr Clegg—Yes, it is, but the standards are quite specific. The roquefort cheese is like an appellation on a wine. It is only roquefort cheese made in a particular area of France that can be imported. Similarly, the grating cheeses are quite specific and particular cheeses; we could not reproduce them here.

Senator BACK—I guess that is the question, isn't it? Could a similar assessment be conducted on the domestic scenario, and in the event that we satisfied those standards, could the domestic producers not, in fact, produce those products?

Dr Clegg—Yes, it is a question for—

Senator BACK—Whether for domestic or export consumption?

Dr O'Connell—Yes, I agree with your point and I think it will be the subject of that review process, because you are clearly quite right. There is potentially some element of a competitive disadvantage.

Senator MILNE—Yes. There is a big disadvantage for boutique cheeses in Australia. I wonder on what basis you say that roquefort meets the safety standards but a domestic producer would not just because you cannot in theory reproduce a roquefort cheese here.

Dr Clegg—The standards that apply include a certification arrangement we have with France to import the roquefort cheese into Australia—and it is a whole list of EU standards that apply to that cheese's manufacture. That is how we assure ourselves that it has met the European standard for the production of roquefort cheese, which can only be made in France.

Senator MILNE—Whilst I hear what you are saying about the food standards, what about the issue of Australian producers being discriminated against? Is there no other mechanism to deal with this other than through FSANZ?

Dr O'Connell—It is a health benefit, yes. I think we can take it on notice. I do not need to say anything else, but there is essentially a health related barrier, so it does, I think, require that FSANZ work. If there is anything else, we can take that on notice and get back to you, but the basic point is what I understand.

Senator MILNE—Okay. Thank you.

Senator COLBECK—I will start with the Beale review. The government has accepted the 84 provisions of the Beale review in principle but is yet to respond to them in detail, including to the budgetary provisions. Are we any closer to actually having a formal response to the Beale review?

Ms Mellor—We have done quite a number of things in taking forward some of those recommendations.

Senator COLBECK—Yes, we will come to some of those. I am going to ask some questions about some of that process.

Ms Mellor—Yes. We have got major things that we have done. In this budget the government committed funding as a down payment, if you like, for us to start working on developing risk methodology to take forward. Obviously they are still working on the development of legislation and a lot of the fulfilment of the recommendations in detail require that. So we are moving forward. I am not sure that we are looking at a much more detailed response than just getting on with the business.

Dr O'Connell—Ms Mellor raised the issue of the legislation, and obviously that will need to be completed before we have the full response. There is also the Commonwealth/state agreement, which is in the final stages of development to go to COAG. When we have those major building blocks in place we will be closer to the completion of both the substantial response and the requirements for the budgetary position to be clear.

Senator COLBECK—Okay. The last time you said:

The government has accepted all 84 recommendation in-principle. The government has yet to respond in detail to the Beale Review including to the budgetary implications which will be subject to normal budgetary processes.

What you are saying is that those Commonwealth/state negotiations and the development of legislation around those is part of a process in the background of that in the lead-up to a formal response?

Dr O'Connell—Yes, and they are both well advanced. The Commonwealth/state agreements are very close to completion and very close to submission to COAG, and the legislation process is underway.

Senator COLBECK—Okay. You referred to the budgeted amounts for the reform process, which we are quite familiar with, having had a fairly extensive process last year and negotiation between the government and the opposition over the revised fees and charges. Can we go through each of the individual taskforces and get a sense of actually where the process is at, as far as each of the individual—

Ms Mellor—This is export certification?

Senator COLBECK—This is export certification, which is where the majority of the new money in the budget is being targeted, based on the agreement with the opposition last year.

Mr Read—Just to work through this list at the moment, I will start with the dairy industry. The dairy industry has had about seven or eight ministerial taskforce meetings. The total funding that is to be provided to that industry over the two years is \$2.2 million. For the 2009-10 financial year, the total was \$964,000. That funding is on track to be spent. Specifically within that industry, we have engaged a business mapping process. We have a contract within Dairy Australia that is assisting with the coordination and the organisation of those projects. The mapping strategy is to develop a five-year strategic plan for that industry, looking particularly around the service delivery arrangements and the audit functions. There is also a market access review of the European Union that will be conducted in July, on the back of that initiative.

Again, we are looking very closely at the IT systems interface. I will talk generally about that. The system we are looking at implementing will cover all the export sectors and provide a range of information, both in terms of the audits within each of those sectors or areas, the management of the audits within those areas, the finances within those areas, as well as looking at implementing a range of authenticity criteria and metrics to it to assist us with also over-viewing the performance of those sectors. Also, the other cross-cutting issue will be legislation review. That has also commenced with that sector. Is that the sort of detail?

Senator COLBECK—It is a good start.

Mr Read—Shall I keep progressing?

Senator COLBECK—Yes, continue. Thanks.

Mr Read—The fish ministerial taskforce has, again, had seven ministerial taskforce meetings to date. The last of those was, I think, last Monday. There is a total of \$5.5 million to be spent on that program with some \$2.48 million for the 2009-10 year. Again, the spending for that program is on track. When I quote these numbers, that allocation is across areas of program management, market access, supply chain reform and transitional funding.

Senator COLBECK—It does not include the reapplication of the rebate, the 40 per cent?

Mr Read—It does.

Senator COLBECK—Okay.

Mr Read—The seafood industry is a very disparate industry. There are a range of big stakeholders and small stakeholders, as you would be aware. I have now got the ministerial taskforce to agree to our priority—I should say, from the onset, all of our ministerial taskforces have all agreed detail project plans. They have been provided to the minister. The minister has written back to all the ministerial taskforces, telling them to get on with their job. So we have got the template set there and I am really now talking about the specifics on each of the taskforces. The business mapping process is the next priority for the fish taskforce. As I said, it is a very disparate industry. What we are looking at is a very detailed review from harvest through to export, looking both from the industry cost perspective and inputs, as well as the regulatory overlay both from us and also state regulators, and identifying how we can simplify the process and take costs, either theirs or ours, out of that process.

Again, we are looking at the integration of that with market access opportunities and, equally, around the IT reforms that I talked about, how we can use those IT reforms to simplify some of the processes that sit there, particularly manual processes; how we can use the IT reforms to identify performance across each of the exporters within that sector and, therefore, devolve greater responsibility back to the high-performing end in that industry; as well as use the metrics, as I talked about, to target the risks that we identify. Again, common across all of these will be legislative reform, where we identify the need for that, as well as financial analysis. I think it is probably easier just to say, rather than keep counting it, that we have had around 81 ministerial taskforce meetings to date across all those sectors. We have been heavily engaged with them all; we are on the phone to them nearly every week or in meetings with them. So the engagement with these sectors is at the high end.

In terms of the grain industry, there is \$13.08 million in total to be spent, with \$5.5 million applying to the 2009-10 year. Again, that incorporates the elements I spoke of before, including transitional funding. They have put on a project manager to assist with the coordination within that industry, including supply chain mapping and identifying within the sectors appropriate projects, in accordance with their project plan, which they expect will lead with the biggest benefits in that grain sector. Some of the other areas they are looking at are around legislation and how we can respond to some of the pre-clearance type activities that have been highlighted by the media and by the minister; the IT type overview that I have already described, which will be common across those programs; financial analysis; and ensuring strong communication across that sector.

The horticulture industry, which I have a meeting with next week, again, have had a large number of meetings, both teleconference and in person. That sector is around \$7.8 million in total, with \$3.3 million to be applied this financial year, again, across all those sectors I talked about earlier. I probably find horticulture one of the most difficult because of the nature of the industry: disparate, seasonable, the varying markets and the in and out players. It is quite a challenge.

Senator COLBECK—I will come to some detail on horticulture later on.

Mr Read—It is pursuing the same line as I discussed with the fish taskforce, because there are some similarities between that. We are now seeking to engage a supply chain mapping consultant to provide us a lot of detail, engaging specifically with a range of exporters across those segments within the sector, so we get a very good feel of the challenges both at the grower end, the accumulation points, the transport, the importing country requirements, the overlays that exist in terms of regulatory requirements within those supply chains, where the possibility lies to take some of those industry costs out, whether we can back more effectively into industry quality assurance type arrangements, and the flow of documents that exist, again, within that sector, because we believe there is a lot of manual transition of information that we can automate.

It also is an industry that backs onto things like our export information database, which we call PHYTO. How could we re-engineer that to provide a more accessible system to the industry using cleverer web technology? All that stuff is now on the table. We have effectively developed a brief now for the use of consultants to assist us in that mapping. We need to really engage heavily across that whole sector because I cannot leave one element out or it will undermine that whole project; to develop a very clear pathway over the next four or five years to reshape that industry and identify where the high-priority quick win projects are that we need to implement before 30 June 2011 to make effective difference to that sector.

Senator COLBECK—Okay. Live exports were probably the easiest, weren't they?

Mr Read—Again, live exports is probably one of the easier sectors that we are dealing with. There are not so many players in that particular space.

Senator COLBECK—They also had a well set direction, didn't they?

Mr Read—The project manager on a large number of meetings—about \$6.5 million in total, \$2.8 million this financial year, \$3.7 million next financial year. As I mentioned, we have an industry consultant on board to assist with the coordination in that sector. The big wins in that sector are around how we automate the information from the initiation of the desire to export through to the clearance of those documents within our areas in Canberra and transmit those requirements back to the exporters; how we look at the systems that are operating within each of those export systems to ensure that we can get some really good performance measures around that, and how we can look at the integration of the quality systems that are actually there, but more effectively put reliance in those where it is demonstrated that they are effective. Also, they have got an information database around markets which is a very powerful tool for them, and it is about how we automate that and integrate that into the system.

The other element within that sector is there is only about 30 exporters out there and every one of them has got a different quality assurance arrangement, so you go out and audit 30 different ways. It would seem somewhat logical to try and harmonise on their side the quality systems that are operating. They actually recognise that as well and are very supportive in that drive.

Senator COLBECK—Live exports at the time were probably the most supportive of the process that was initially in place. It appears that they have taken the opportunity to perhaps even expand their project a little beyond what was initially an IT-based solution to look at a broader range of things and make them potentially more effective.

Mr Read—Easier to manage, and yes they are looking at the bounds of making every dollar a winner within that sector. But having said that, the meat industry, I would say, is probably the most innovative and challenging of all the reform areas that we are involved in at present.

Senator COLBECK—Which brings us to them.

Mr Read—The meat sector has total funding over the two years of \$92 million: the first year, \$32.6 million; and the second year, \$55.6 million. We have conducted a large number of ministerial task force meetings—15, I would say, from a quick look at that list. This is going to be one of the all-encompassing reforms that I have seen and heard of applying to the meat industry since the early nineties. The reforms will be substantial on plant in relation to regulatory oversight. The industry is prepared to work with us very closely on the use of information technology, both in terms of our audit overview and in terms of very clear performance criteria in the operation of those plants which will be integrated into the management arrangements within those plants. Equally, they will work very closely with us in the development of through-chain authenticity systems that will provide us with high degrees of confidence around. For example, products—animals walking into a plant and boxes coming out the other end and does it make sense. That is the sort of information.

And we will be developing that information at a national level that we can use for international market presentations. It is a package you could take overseas and actually go live back into our system to provide a national overview of the performance of our national system. We can monitor almost real-time the performance of the 394 establishments where we have arrangements that we have got approved, particularly the on-plant arrangements, which are around 90. We have progressed things in parallel. A lot of discussion has happened between us and the CPSU in progressing a new meat program agreement—that comes into place hopefully in early June. We have surveyed our people on-plant in relation to their receptiveness to some of the reform initiatives that we are driving.

They have identified to us those who are in a position to consider accepting packages, those who are in a position to look for relocation within the BSG across our regional service network and those who seek to pursue a career in meat inspection. We have got that information and those numbers are quite aligned with what we expect to be some of the adjustments that we need to make to our workforce in those plants in the next couple of months. In regard to the rollout, we have commenced the implementation of this reform on three plants in Victoria. We are working again very closely with the ministerial task force on weekly phone hook-ups to identify the sequence of that rollout. We have to essentially

coordinate moving to plants with the people who have got the interest in staying or going—and that sort of coordination exercise.

At this point in time our endeavour is, of course, to have these arrangements completed by 30 June next year. In parallel to that I have now been to a large number of markets. I have talked to the European Union, Russia, China, North Asian markets, including Taiwan, Japan, Korea, as well as Canada and the United States. We still have a few markets to go. In terms of their responses to us, they are very positive and you can see the world watching what we are doing and considering its future application within their own systems.

Senator COLBECK—This is the beef industry you are talking about specifically?

Mr Read—Yes.

Senator COLBECK—I wanted to talk to you about that. I am interested in the point you make about them watching what we are actually doing. From what I can understand with some instances of contamination in the meat in the US, it appears that their system is moving more towards a government-based oversight rather than away from that. I wonder what feedback we are getting in respect of having something that, as I understand it, still retains some government oversight but with more autonomy at a plant level, and how that sits with some of those international groups, particularly in the US given some of the food safety issues that they have suffered over there.

Mr Read—The United States, in my view, is a fairly low-risk market for us and they actually have approved a detailed submission in relation to what I have just described. In the United States, the focus is particularly around a food borne illness. *E. coli* 0157 is one that is front and centre in their minds at the moment.

Senator COLBECK—That is the issue that has been raised with me.

Mr Read—A lot of sampling and a lot of recalls that sit around that particular pathogen. In Canada, for example, the way their legislation is framed means they are bound to provide a very large workforce of food safety inspectors on to their plants. As they see what we are doing, I think they all want to be in that place. They are getting positioned as the last point of clearance, if you like. We are developing a system that keeps a company responding to the indicators that identify just how that product is performing on plant. For example, when I talk about measurement of product, we are measuring both the macro and micro performance on a carcass. We will be measuring the macro and micro performance in a box. We will be looking at time and temperature controls between those points, and there is probably another eight indicators in combination with that that we will be working with. That really does give us a high degree of confidence around the performance of the product at the end of the day, real time. Also, embedded in the company's system is each of those performance criteria. We will actually be providing back to them where they stand in relation to their counterparts. It is going to be a feedback system as well.

Senator COLBECK—There will be information that will be shared across the industry through those—

Mr Read—At a national level, we will report regularly. I would like to see us reporting at least weekly to our plants so that across each one of those indicators they see, as a participant in the national system, what their performance is against that indicator, against a national

norm. If we have someone that is sitting below the national performance criteria they have to actually lift their game, and we need to be on that plant ensuring that they are actually developing responses to do so.

Senator COLBECK—The obvious question which this all comes back to is the cost, which was one of the things which drove all this in the first place. Let us start with beef, because they were the ones that were going to cop the greatest share of the cost increase. What work has been done on assessing what the potential cost savings are from an export cost perspective? Because you are starting to incorporate some of their own systems, it is going to be a bit hard to calculate a clean cost saving, to a certain extent. That was one of the important things that we looked at as part of the debate that we had over this process. Where are we going with that?

Mr Read—That is in the back of the mind of each of these task forces. I remind them every meeting that is why we have a target of 30 June 2011. I do not want to particularly be confronted by these sorts of discussions post that point without some performance on the board.

Senator COLBECK—I do not think anything of us do, do we?

Mr Read—That is how I feel about it. To the credit of those sectors, they are driving very hard as well. With the meat sector at this time, our target is around the 130 officers from our side. We have re-engineered the jobs on plants to utilise alternate arrangements to cover that. In terms of the benefit to the industry, that is somewhere between \$13 million and \$15 million. As we keep saying to the industry and to our staff as well, as good or bad as it is to hear, we will push hard with these markets to ensure that we take that to the absolute limit in terms of minimising regulatory access, where markets feel comfortable with the systems that we are providing, providing the alternate weight of confidence that we are meeting their certification requirements. At this stage, that is looking pretty positive.

Senator COLBECK—That \$13 million to \$15 million saving that you are looking at making on inspectors, is that going to be a saving? What proportion of that might be a transfer across, where there are still certain tasks that have to be performed within the plant? Rather than being a net saving, it is, to a certain extent, a transfer of cost, acknowledging that as part of this process there will be some flexibility for the plants in how they actually utilise those people, which might provide some cost saving as part of the process.

Mr Read—The United States has for the first time recognised our TB and brucellosis freedom. We have now managed that equivalency agreement. We put that submission forward back in February. That will result in a \$5 million saving straight off, because there is now removal of the need to conduct a range of incisions and inspection procedures that were embedded there that we actually did not ever find a result on. We are extended that also to *B. bovis* and *C. bovis*, which we will manage through the use of NLIS tags. We are also aware of those risk areas where sewerage is used as a factor of irrigation. There are a bunch of those types of clever initiatives that we are putting in that just stop the mill churning around and resources not being effective and actually put the resources where the risk is. There is going to be a substantial saving out of this across the sector.

Senator COLBECK—Is that particular saving as a result of the new systems that are being put into place, or is that as a result of a particular negotiating success that we have had?

Mr Read—A combination of everything. It is a combination of a strong drive on market access and negotiating every animal health benefit that we have in this country with those markets. It is also the fact that we can refer back to this performance tool that we are using on plants that we implemented in April. That will provide us with some real-time monitoring capability on our plants. It is also a little bit fortuitous that the world is probably a little bit more accepting than less accepting of some of those arrangements at present, for whatever reason. A combination of all those elements has resulted in that acceptance.

Senator COLBECK—There is bit of good luck and a bit of good management, effectively.

Mr Read—It is all good management.

Senator COLBECK—Let us start on the beef industry with small operators. There might be four or five inspectors in a plant and you could bring that down to one AQIS inspector and then have some other, suitably qualified plant employed staff doing the job, but that does not necessarily apply in a smaller operation. Small operators were one of the key issues that we as a committee raised when we went through the process.

Mr Read—That is an issue that is at the front of my mind and one that we are working very closely with the ministerial task force on. There are a range of initiative that we are looking at to enable some performance relief of those plants, in relation to the measures I have talked about. Integrated into those plants we will require, based on how they perform, fewer monthly audits. What we need to explore is whether the tools for replying can enable some further relief with the presence of our staff on those plants.

The second issue is that, at the conclusion of this work, particularly the meat program—which I suspect would be between October and December—there is the need for a detailed fees review. Effectively, we are taking off all the variable costs with the amount of people that we are taking out of the system, yet you are still probably left with a \$55 million program. What is the most effective way for us to allocate those costs back over that industry, and what are the drivers to do that? Again, we need to look at what the impact of those allocations is on those smaller participants. You would be aware that, in terms of registration charges, we reformed that approach to look at not just throughput but the meat inspectors who were working in those plants, which gave the smaller players relief.

Having said that, I really cannot be more specific than that probably for another two or three months, when I will actually get some of the detail behind where we have got to with the markets with which we are negotiating on the IT reforms, performance and risk reviews on the plant side, integrating those into the plants and, ultimately, the fee review and the question of what is a fair burden for those smaller plants to bear within that system.

CHAIR—The committee will now break for lunch.

Proceedings suspended from 1.01 pm to 2.01 pm

ACTING CHAIR (Senator O'Brien)—I call the committee to order. We will resume on biosecurity.

Senator COLBECK—We finished on small operators in the beef sector. What about the specific example that came up during the inquiry, the game operator, for example? How do they fit into the overall process—those who do not fit within a specific structure? There was a

game operator around Myrtleford, I think, that was discussed. What is the process of engaging those types of operations that are not necessarily part of the formal beef industry structure?

Mr Read—One very important principle we are driving here is to ensure one national system. What makes it expensive running a national verification or certification program is three or four different variations in the same arrangement. Our goal is to have one national system that will apply equally over red meat plants, game plants and pork plants. If we hit that properly, that will give us international access across all those arrangements. This applies to the smaller plants equally, particularly in terms of the kangaroo industry. What I talked about will provide the opportunity to link some of these reform efficiencies into that. They are some of the opportunities for benefits that they will experience out of this reform process.

Senator COLBECK—So that links into even the earlier conversation that we had about processing chain management issues, verification of cooling and temperatures?

Mr Read—Correct.

Senator COLBECK—All those things are designed to build into this overall process?

Mr Read—Absolutely. In terms of the benefits of this program, one measure of that is the reduced fees to the industry. The second measure is the amount of cost we take out of the industry supply chain. The third characteristic is the maintenance improvement in market access as a consequence of better and tighter control frameworks. Collectively, we will be in a position in 12 months time where we will be responding against those three elements.

Senator COLBECK—You are confident that with these new processes, rather than adding cost into the supply chain they are being looked at in the context of helping to reduce compliance costs through the chain.

Mr Read—Yes, absolutely.

Senator COLBECK—Can we go to some detail and have a discussion about horticulture, which you acknowledged was interesting—that is one way to put it.

Mr Read—I think I meant difficult.

Senator COLBECK—I was trying to be polite. It is difficult because it is pretty disparate as far as industry sectors are concerned. Are there key themes running through that process?

Mr Read—What we have now is a united ministerial taskforce with all the participants around the table engaged strongly in this agenda. That has taken a little while to do but importantly we have got to that point now. The reform taskforce also signed off on the project plan, and that provides details of all the projects that will be pursued by that ministerial taskforce. As I said earlier, my reading of the industry at this stage is that the drive for improvement across the industry will be at several levels. The first will be very strongly recognised engagement within the industry that we are actually consulting up and down that supply chain around the arrangements they are operating under and seeing where we can find some easy harvests of reform benefits. We intend to do that through the scoping of the supply chain mapping exercise that I referred to. Within this industry there is also terrific potential for some of the automation that I have talked about, in terms of the automation of audit information, the industry's communication of industry information to AQIS, how we establish export documentation and the frameworks that sits around that—again very manual. We can

take some of the costs out of that through clever automation that works in our interests. Equally, within this sector there is in my view an opportunity to explore our potential to use authorised officers within approved arrangements. If we do that cleverly, that will substantially remove some big costs out of that sector.

In combination with that we need to really test the protocols behind some of the demands on product into importing countries, particularly with Japan and Korea, where we can get movement on things like stone fruits, which were mentioned earlier, and on small packets of cherries in containers. There is substantial cost in meeting the requirements of exporting into that country, as well as preclearance, as well as a range of other checks and balances that sit around it. It is important to look at those opportunities equally and see where we can negotiate some improved access arrangements.

Senator COLBECK—You have provided me with a nice little segue; I was talking to a seed exporter a few weeks ago. He is under a 100 per cent inspection regime, effectively, because he is dealing with small lots. So each different consignment that he sends is under a 100 per cent inspection regime. All of that is done on a timed basis. He submits his consignment, it goes into the system and it is inspected. The length of time that the inspection takes determines what the cost is. The advice that has come to me is that the inspection rate was \$2 a minute and has risen, under the new regime, to \$4 a minute. I am sure you can put me right or wrong on that. A consignment that used to take about 15 minutes to inspect, therefore, has gone from \$30 to \$60. That in itself is not so much of a problem but when the minimum time to inspect a consignment has gone from 15 minutes to 30 minutes, he is then hit with a cost of \$120 rather than \$30 for that consignment. If something else pops up as part of the inspection process, he could potentially be caught out by that process as well. It is a difficult circumstance to deal with. What can be placed in the system—whether or not it is a 20 per cent inspection regime or something else—to actually deal with those smaller operators where the actual inspection costs are more than the consignment, potentially?

Mr Read—That particular example probably sits under our grain program. The issue as you describe is about small high-value exports of seed jammed up against a requirement for certification obligations to those import authorities in relation to the product being exported. All I can say is that it is clearly on the agenda and we are looking at the options to assist in what you have described.

Senator COLBECK—My next question comes back to engagement because, from the conversation that I had with this particular operator—and I understand there are two or three others, in Tassie in particular, some of whom have just decided it is all too hard and that they will not even bother with the market anymore—it seems that they are not actually being engaged as part of the process.

Ms van Meurs—I do not know the specific example that you are discussing but it seems to me that what you are talking about are the fees that were disallowed. The fees that are now in place are the ones that have been in place for quite some time.

Senator COLBECK—Yes.

Ms van Meurs—There is now a lot of consultation with the Australian Seed Industry Association. They are on the ministerial taskforce, and we are very aware of that issue where

you are talking about high value/low volume. That is part of the discussions that we are having in the ministerial taskforce to look at that particular issue.

Senator COLBECK—So the consultation is being done through the seed association. To add a bit more detail, this operator operates with both seed and bulbs. They are obviously very aware themselves of their requirements, and more than understanding of the need to comply with them, from a range of perspectives—not the least of which is the survival of their own business. If they are sending material that is contaminated with soil, that is not clean or that is diseased, and things of that nature, that actually does impact on their business.

Mr Read—Just to clarify: the new rate, the 15 minute charge for the current fees, is \$27. The rebate applied until 30 June is \$10.80, giving a total cost of \$16.20.

Senator COLBECK—That is the information that was given to me in my conversation with this operator. My understanding is that there may have been, through Minister Burke or the department in some way, some negotiation on the specific circumstance that occurred for this operator. I am happy to give you the details later if you like. We do not need to deal with it through this process. It is more to deal with the broader point as to whether you can assure me that you are dealing with those particular issues. You have said that you are, through that process. Then I need to determine how I go back to this operator and the others that I am aware of and say, ‘You need to contact this particular group to make sure that your specific issues are dealt with through that particular organisation.’ It is a matter of how we ensure that the engagement that we want to see happen is managed.

Mr Read—In terms of this particular issue, we do have a representative on the ministerial taskforce. Clearly we will follow this issue back through to ensure that that communication is made back. In terms of the smaller players, as I have described, on all these fronts we are very concerned about all the smaller players. We will ensure that through those various mapping exercises and consultative processes we get to the small blokes who are in there. Those who fall outside the ministerial taskforce representation—there are a few non-AMIC members out there as well—I am going out to see to make sure that they are very aware of what is happening so that they do not feel isolated from the process. We are seeking to do everything we can. Equally, these issues that you have identified, Senator, were the issues that we are aware of both through the representations made to the ministerial taskforce, because that has actually been raised there on a number of occasions, and equally seeking to find the solutions to equitably deal with them without compromising the certification.

Senator COLBECK—I might pass on to you some of the suggestion that relates to how some of those issues might be managed. I am happy to do that. Has a cost recovery impact statement been done as part of the planning process for each sector?

Mr Read—Yes, they are on the website.

Senator COLBECK—What about a study of legitimate costs for government?

Mr Read—At this stage the Ernst and Young report has been completed. That did a detailed cost study analysis of the department and the costing approaches that are being applied. That is currently with the meat ministerial task force.

Senator COLBECK—Is that the one that was done prior to that one-day or two-day Senate inquiry that we held?

Mr Read—Yes, it was, and that has been completed now. It is with the ministerial task force. They have asked for 30 days to comment on that report, and then we will provide those conclusions to the minister in relation to that report.

Senator COLBECK—That specifically addresses the issue of legitimate costs to government?

Mr Read—The industry are still reflecting on that particular issue of the legitimate costs to government. When I say that, AMIC and other industries are still reflecting on precisely how to address that particular issue, through consultancies. The first report, which is by EY, is a detailed cost analysis of the program.

Senator COLBECK—So that is effectively an audit of AQIS costs and charges—

Mr Read—Correct.

Senator COLBECK—of how it operates and processes.

Mr Read—The charging regimes that have been applied to industry and alternate charging type arrangements that might be applied in terms of frameworks. Industry is currently studying that report. In relation to the scoping of legitimate costs of government, that is still being reflected upon by the ministerial task force—how to engage consultants in that particular area.

Senator COLBECK—Okay. So that forms part of the different plans as part of the process. The process to determine that will be determined by each of the individual task forces. You indicated, I think, that you had a compatible take-up or indication of take-up of potential redundancies in the sector—about 130 or something of that nature; is that right? Where are we at with the staging process of that?

Mr Read—At this stage we have surveyed our staff. That was back in April. The response to that survey is that there are around 90 that are positioned for VRs. There are around 120 that are positioned for redeployment opportunities. There are also probably around 100 that are seeking to reside in the program itself.

Senator COLBECK—I suppose the big-ticket item is IT reform. That is obviously something that has been identified in a number of your industry groups. That is probably the big-ticket item out of all the Beale recommendations, isn't it?

Mr Read—I would suggest at the moment that the big-ticket item is probably more on the workforce reform.

Senator COLBECK—Okay. Is that in one specific sector or across all?

Mr Read—As outlined in previous hearings, there is \$26 million there for workforce reform. There is about \$16.1 million there for supply chain reform.

Senator COLBECK—But, in terms of investment that is going to be required by government, IT is effectively the big-ticket item. It was nominated as something in the order of \$100-odd million—from recollection, without going back to the numbers.

Mr Read—Not in terms of the exercise we are working on here. That is a separate exercise. What we are working on here is about the utilisation of some clever software opportunities that we have access to to build the sort of system that I enunciated earlier.

Senator COLBECK—So the effect of going through this process may actually help in a broader sense across the implementation of the broader Beale reforms through some of the consultations that you are doing through the industry groups now?

Mr Read—Whatever good idea we can build out of this, we are going to do it in a way that obviously will have full application across the department, where the opportunity sits.

Senator COLBECK—Just going back to the question that Senator Abetz was asking about the additional \$5 million for Australia Post, how is that associated with the fee reform and structure process, or is that something that has happened as a consequence or as an aside to that?

Ms Mellor—Do you mean related to the export reforms or not related?

Senator COLBECK—It is not related at all.

Ms Mellor—No. The export reform program is running within the budget announced for it.

Senator COLBECK—So this is effectively a process of inspection on import or arrival into the country that you are dealing with?

Ms Mellor—The \$5 million?

Senator COLBECK—The \$5 million. No, you are right. Is that at the other end of the scale with stuff coming into Australia, or are you providing services at both exit from and entry to country? I have been to the mail centre in Sydney.

Ms Mellor—The \$5 million will be used towards developing our risk return approach, some of which may be influenced by or contribute to the work that we are doing in export reform.

Senator COLBECK—But it is a charge that you are making to Australia Post as a contribution towards the service that you offer to Australia Post for inspection services there, so I just want to get a clear sense: you provide export and import inspection? I have been to the mail centre in Sydney, for example—

Ms Mellor—The mail centre is import.

Senator COLBECK—and seen snakes, lizards, eggs and all sorts of stuff in the mail.

Ms Mellor—That is incoming mail.

Senator COLBECK—That is in incoming mail. I have seen the scanning processes there. Is it on an incoming basis that we provide that service that you say costs about \$22 million in total, and with the new charges we are covering about \$8.2 million of that?

Ms Mellor—That is right.

Senator COLBECK—Do you have any interaction with state governments—and it probably comes back to this horticulture stuff a little bit too; it is what helps to make life interesting in this overall scheme of things—in relation to their individual requirements? Particularly Tasmania and Western Australia I know have certain provisions. Do we provide advice to some of those jurisdictions on potential inspection regimes that they might apply to certain things like seeds, for example?

Mr Read—I cannot talk specifically on the interaction with our port inspection program, but we do rely upon some of the freedom areas, which will be supported by activities of the states. But, as I mentioned earlier, the detailed mapping that we will do of that supply chain will pick up both our oversight responsibilities and state oversight responsibilities, and any other particular player in that pond that provides us with confidence or adds cost to that process, to ensure how we can be smarter in our certification process and equally how industry can be smarter in their export arrangements, dovetailing into that regulatory framework.

Putting that to one side, in terms of the state question, particularly on the food side we have established a food regulatory steering committee. I have all the states involved in discussions regularly around this particular set of issues and around how we as a national certification body, being AQIS, and the state regulatory responsibilities can dovetail better. We utilise particular services in the dairy industry. There are some overlaps in the fish industry that we need to explore and get tighter on and in the meat industry, equally, around the types of assurances required by those state authorities to address any remits they have in terms of product that is going into the domestic market. So there is a lot of engagement that is occurring between us and the state regulators.

Senator COLBECK—And the issue of potential duplication where a seed might be imported into Australia, get inspected when it arrives at the border but then get a further inspection at the state border?

Mr Read—I am only talking on the export side.

Senator COLBECK—Okay, fine. I want to ask some questions about the active import risk assessments that we have at the moment.

Ms Mellor—I will just get Dr Grant to come to the table.

Senator COLBECK—Can we start with the freshwater ornamental fish, which is due for completion in September? Can you give us the status on that?

Dr Grant—The draft IRA report was issued on 24 March and the comments on that will close on 24 June. Sorry, are you asking about the ornamental fish?

Senator COLBECK—My notes talk about it being due to be completed in September this year. Where are we at with it? Are we going to meet that completion date?

Dr Nunn—Yes, you are correct. Stakeholder comments are currently being considered. We are on target to have that concluded within the time frame of September this year.

Senator COLBECK—Is there anything new that has come out of this particular process? The diseases that I have been advised of are gourami iridovirus and related viruses.

Dr Nunn—The new science around it is the development of better tests for these viruses, which were not before. Work was done on this in Sydney by a fisheries pathologist who has developed and validated a series of new tests for a number of the viruses.

Senator COLBECK—The IRA for stone fruit from the United States was due to be completed in March.

Dr Grant—That IRA has been out for public comment. Public comments are back and they have been taken into account. The report was put out for final consideration. There have been some appeals on that IRA, and they are currently being considered by the independent import risk assessment appeal panel.

Senator COLBECK—The final report for prawn import risk was lodged in October last year. Were there any appeals lodged to that report?

Dr Nunn—Four appeals were received on the final IRA report. They were referred to the IRA appeal panel. They considered the appeals and there was a unanimous decision to disallow those.

Senator COLBECK—What are the time frames on the prawn IRA now?

Dr Grant—The director of quarantine made a policy determination on 22 April.

Senator COLBECK—So what countries does BA expect to export prawns or prawn products into Australia following the pronouncement?

Dr Grant—We would expect them from a number of countries—Thailand, China, Vietnam and a number of the countries north of here. They are our standard market exporters anyway.

Senator COLBECK—Is there any scope for any further appeals?

Dr Grant—The process is closed now. The only circumstance that would arise in this case was if there was any new information on further diseases or anything of that nature.

Senator COLBECK—Apples from the United States?

Dr Grant—The stakeholder comments are being considered as we speak and a draft report is being prepared for the Eminent Scientists Group.

Senator COLBECK—When is that due for release, given that, according to the schedule that I have got, the completion date is September?

Dr Grant—Sorry, I should just correct that. We were waiting for some information from the United States. We have been talking with them and we stopped the clock on that one about six weeks ago now. I cannot remember the exact date, but we have stopped the clock on continuing until that information comes forward from the United States.

Senator COLBECK—What are the key issues involved in that particular import risk assessment?

Dr V Findlay—The outstanding issues for the US apple IRA are around a number of fruit rots. Until we get the information from America about those, we have stopped the clock on the regulated time frame.

Senator COLBECK—So there is effectively not a completion date until the clock starts again on that particular import risk assessment?

Dr V Findlay—That is correct.

Senator COLBECK—I think we have got other apples to move on from a different country. I will pass to Senator Nash.

Senator NASH—Thanks, Senator Colbeck. I want to talk about apples from China but, before we do, I want to talk for a bit about the *Drosophila suzukii*. Perhaps to start with, you

could give us the background of the prevalence of this in the US and what led to the discovery.

Dr V Findlay—The *Drosophila suzukii* is a newly occurring pest in the United States. It was first found in 2008 but it was not correctly identified until 2009. During that time there were increasing concerns about the impact that it was having on a number of soft fruits—caneberries and strawberries, and cherries as well. By the end of 2009 it became obvious that there were impacts on commercial fruit crops.

Senator NASH—What happened then? Cherries and strawberries from the US are imported into Australia, aren't they? So what happened at that point in terms of protecting our markets if there was concern—which there obviously was—around this?

Dr V Findlay—Yes, there was. By the time it became obvious that this was a pest of quarantine concern there were no imports of cherries or strawberries from the US at that time—so time was on our side. We worked with industry and the US to develop emergency measures to put in place before the trade season started for 2010.

Senator NASH—What were those emergency measures?

Dr V Findlay—Mandatory methyl bromide fumigation and also an additional inspection step.

Senator NASH—So they were still allowed to come in but there was obviously a process of fumigation and an extra inspection capacity in some way?

Dr V Findlay—Correct; to give us the confidence that the methyl bromide had been effective against *suzukii*.

Senator NASH—What gives you the confidence that that fumigation process does the job that is required?

Dr V Findlay—There is a standard process that is undertaken around the world called a verification trial. You undertake tests of the fumigation or treatment regime against a minimum number of insects. The US has completed those trials on over 40,000 insects, so that has now demonstrated to us that methyl bromide is in fact effective against *suzukii*.

Senator NASH—Forty thousand individual *suzukii*—is that what you are talking about?

Dr V Findlay—Correct.

Senator NASH—Have you just taken the assurance from the body in the US that it has worked, or has there been a verification process by our officers to ensure that it has?

Dr V Findlay—We recently have had two officers over in the US visiting with the scientists who undertook the research and also visiting the laboratories where the research was undertaken. They were able to scrutinise the raw data as well as look at the methodologies that were used.

Senator NASH—I am just trying to understand why the fumigation in itself is enough to give you absolute confidence and why you would not have stopped those imports for awhile until you were absolutely sure. Are you saying that there were not any coming in while all this was actually discovered?

Dr V Findlay—That is correct.

Senator NASH—So there was nothing actually coming in at that point, and at the point of the recommencement of imports with the new season you had assured yourself that this fumigation process had been absolutely verified, that none of the *suzukii* had any way of coming in on those US cherries or strawberries.

Dr V Findlay—In fact we did not have the measures agreed for the start of the season, so there was a hold-up in the start of the trade season for strawberries and it is looking likely that there will be a hold-up in the trade season in grapes as well.

Senator NASH—Is it something eradicable, or are they just going to live with it?

Dr V Findlay—No. It is too widespread now.

Senator NASH—With regard to the fumigation, what will be the ongoing observation regime, from our perspective, to ensure that that continues? Obviously you have verified it to this point, but if it cannot be eradicated, if it is going to remain in the States, what will be your ongoing process to ensure that the fumigation regime happens according to requirement?

Dr V Findlay—The fumigation regime and additional inspections that we have implemented are emergency measures. We now have to go through a pest risk analysis, which will put in place the long-term measures. Those long-term measures will take account of any developing science that happens in that time frame, and then we will move to permanent measures to address the risk of *suzukii*.

Senator NASH—Moving on to China: is it correct that *Drosophila suzukii* exists in China?

Dr V Findlay—It does.

Senator NASH—Is that being considered in the current IRA for apples from China?

Dr V Findlay—No.

Senator NASH—Why not?

Dr V Findlay—*Suzukii* has never been shown to be on the pathway for harvest-ready apples. That was the case when we first started the import risk analysis and it remains the case today.

Dr Grant—*Suzukii* is a pest that affects soft fruits such strawberries, berries and the like. It does not affect—unless they are rotten—hard skinned fruits such as apples and pears.

Senator NASH—So there is no pathway whatsoever from China to Australia for the fruit that you see being considered under the current IRA?

Dr Grant—For apples.

Senator NASH—Sorry; I am talking in particular about the IRA for apples from China.

Dr Grant—That is correct, subject to there being no rotting fruit in a consignment, and the inspection regime at each end would seek to make sure that that is the case. The intent is that the Chinese will send us good-quality fruit.

Senator NASH—I appreciate that that is the intent, but what is the actual process for ensuring that rotting fruit is not in any consignment if it can be—and I do not have the technical term—the ‘transporting agent’ for the *suzukii*? We do not have it here; the last thing we want is to bring it in here. How can you be absolutely sure that we can rule out, at any

point, rotting fruit in the country of origin? And would that also relate to rotting fruit in orchard, or only in consignment?

Dr V Findlay—It is the same concept that we apply to nearly all of our imports. We expect and make sure that the regimes that we implement are only for harvest-ready and export quality fruit. So the packaging and processing requirements that we implement and the competent authority in the exporting country has to certify that the fruit that they are sending is in fact export quality.

Senator NASH—I am really just trying to understand the process here. What if you had, say, X orchard, and they have packed the fruit. It has gone in the boxes and that is all fine—terrific. Just to be absolutely clear, if there is rotting fruit on the ground, there is no way that it can transfer to a whole, non-rotting piece of fruit in that same orchard.

Dr V Findlay—That is correct. It seems at the moment that it is physically impossible for *Drosophila suzukii* to get through the skin of hard fruits. That is because the ovipositor, to use a technical term, of the *suzukii* is not strong enough or big enough to penetrate the skin.

Senator NASH—That sounds very technical, doesn't it!

Dr V Findlay—Yes.

Senator NASH—Rotting fruit conjures up the whole rotting fruit idea, but what if the skin was just broken, simply slightly pierced? Would that then allow this little ovipositor, this little beany thing, to hop in there?

Dr Grant—There is going to be a preinspection before the fruit leaves. There is going to be competent authority certification of the quality of the fruit, and at this end there will be an inspection as well on the arrival of the fruit. This is a risk-based system. It is not an absolute certainty, but under those circumstances we have put in place a complete system to ensure that the apples will arrive here in good condition. The fact is that these pests are not known to attack to the fruit unless there is severely damaged or rotting fruit.

Senator NASH—That was my question. I understand the processes of inspection and all of those sorts of things, but you might have just answered my question for me then: it has got to be severely damaged or rotting. My question was: if there is a small imperfection, a small break in the skin, is that something that the ovipositor can get into or does it have to be rotting fruit? There is a big difference between rotting fruit and a piece of fruit with a slit in the skin.

Dr V Findlay—The only scientific evidence we have at the moment is for apples that are rotting or have been physically cut. The scientists that have been working on this pest have been unable to infect whole apples and they are actively trying. The only time they can infect them is when they leave the apples to rot or cut the apples themselves.

Senator NASH—So in terms of the IRA and the process, China through that process would have to advise of any pests or diseases that they have?

Dr V Findlay—If there is a change in pest or disease status, yes, and they have been advising us during the conduct of the IRA as well.

Senator NASH—Is having the *Drosophila* something they should have advised you on? Did they, or does it not matter because in their judgment it was not going to affect that whole fruit? Which one is correct?

Dr Grant—We were at a point through the IRA when this whole issue became known to us from the American circumstances. The knowledge that we have and the investigations that we have done in respect of hard fruits such as apple indicate that it is not a risk of any great significance. Essentially, we have put emergency measures in place for the soft fruits coming from the United States. In respect of this hard fruit, we have looked at it and we have all the evidence. We have said we are going to require extra inspections to make sure that this happens, and then the fruit will be able to come in.

Senator NASH—I am sorry, Dr Grant. I am specifically talking about China. Just leave the US to one side because I am quite comfortable with what you have explained there. Did China notify us that they had SWD or was that something that we found out? At what point did we know they had it or have we always known that they have had it—

Dr V Findlay—Yes.

Senator NASH—and did not care?

Dr Grant—It has been in the Asian region for a long time. It is an Asian species.

Senator NASH—Bear with me. Some of the things that you know on a day-to-day basis are not things that we come across all the time. In terms of the IRA, for the Chinese apples you knew the SWD was in China but it did not impact because it was whole fruit going through the normal processes that you see as potentially coming into the country. To leave *Drosophila* to one side for a little while, in terms of the IRA how many provinces in China produce commercial apple crops?

Dr V Findlay—They have currently listed nine provinces as potential areas for export and I think we talked about this at the last estimates—

Senator NASH—A brief discussion, yes.

Dr V Findlay—and we have provided some answers in two questions on notice as well. At the moment we have conducted verification visits in seven of those nine provinces.

Senator NASH—Why only seven and not nine? I may have asked you that last time but just in the context of this.

Dr V Findlay—They are the only seven that China has indicated they are wishing to export from immediately. We will conduct verification visits for the other two once China indicates that they are ready to move on those two.

Senator NASH—Does the apple itself have to come from those provinces or can those provinces bring it in from another province that has said that they are not planning on exporting?

Dr V Findlay—No, there are very strict controls on the movement of apples between provinces, particularly with regard to certification under the Australian protocol that we are proposing.

Senator NASH—How do we verify that they are not moving across provinces within China itself?

Dr V Findlay—That is going to be the responsibility of AQSIQ which is the equivalent of BSG in China.

Senator NASH—Do you want to say that for me in English?

Senator HEFFERNAN—Are you able to provide the so-called protocol to this committee?

Dr V Findlay—I think that we could provide the protocol.

Dr Grant—We would need to agree that with the Chinese authorities as it is a government to government agreement.

Senator NASH—Could I get you to explain the BSQ?

Dr V Findlay—The equivalent of BSG in China is called AQSIQ.

Senator NASH—What will be your processes to determine that they are doing their job properly in terms of apples crossing borders in China?

Dr V Findlay—We will be running a pre-clearance program. We will have BSG officers in China in the production facilities where the apples will be exported from.

Senator HEFFERNAN—Will that go back to where they came from rather than where they are processed?

Dr V Findlay—Trace back is a full expectation and requirement of the protocol.

Senator HEFFERNAN—In the forward estimates for the department what have you allowed for the inspection cost?

Dr Grant—These are normal costs that are associated with this but they are also cost recovered at the time of export.

Senator HEFFERNAN—I am trying to find out how much effort. Are you going to send one person for one day or 10 people for three months?

Senator NASH—What we are trying to do here is to get a sense of the ongoing—

Senator HEFFERNAN—China is a big place.

Senator NASH—overarching system of being able to have the confidence that we are going to be able to police, if you like, all of these requirements.

Ms van Meurs—It depends on the volume that will be exported. The volume will depend on how many inspectors we send over. The requirement is for cost recovery and it is usually done on a weekly charge or a daily charge depending on how much time the officer spends over there.

Senator NASH—At this stage do you have any expectation at all of likely volume of export?

Ms Mellor—We do not have an import permit application at this point.

Senator NASH—No, but you have been to seven provinces and spoken to everybody over there. I thought you might have a bit of a rough idea of volume.

Ms Mellor—Just a general expectation.

Senator NASH—Yes.

Dr Grant—This will depend on the internal exporter in Australia putting up a demand request and then being supplied by the Chinese producers. When we have that permit

application, we will know the volume, we will know the locations from which it is being brought in and we will put the inspectors in there for pre-clearance.

Senator NASH—In terms of the locations I understand there are some fairly different climatic conditions across China which will obviously affect fruit differently in different areas. How do you have confidence that the overall export is going to be appropriately done given the different climatic conditions and the different impacts in the different regions? I understand it is going to be country to country. It is obviously not taking into account the different provinces, the different regions, the different climatic conditions and the different environments that exist across there. That is the first part. The second part is: is there a bit of a dilution of risk if there is a particular focus on an area that might be of high risk because it is a country to country arrangement?

Dr V Findlay—The import risk analysis was conducted for all of China. In undertaking that analysis we take into account prevalence and occurrence of pests and diseases across China but also a number of other biological and physical attributes of the pest. One of the important steps in making sure that the risk analysis covers the pests and disease status of the areas that we are exporting from are these verification visits that we are doing.

Senator HEFFERNAN—Are there areas where it is a no-go zone for export, that you have identified?

Dr V Findlay—Yes. One of the requirements of the import risk analysis is pest-free areas for some of the pests and diseases—

Senator HEFFERNAN—But there are areas that are prevalent with pests that we do not want.

Dr V Findlay—I am not sure what you are saying.

Senator HEFFERNAN—It is a hollow country; it is a bit like the US, with the borders open. So this is the whole of China—a bloody big place. Are there regions within the continent of China which would have an apple industry for which we would knock them back on the known detail we have got now? Are there no-go zones?

Dr V Findlay—If they cannot meet our requirements and they cannot meet the pest-free area production requirements, then yes, there are no-go zones. But there have been none that have been blanket banned.

Senator HEFFERNAN—But there have been no pests, diseases or anything identified that are allegedly endangering our industry.

Dr V Findlay—There have been none for which we have not been able to put in place a set of measures to give ourselves the confidence that safe trade can occur.

Senator HEFFERNAN—In terms of an area that is a no-go zone, adjacent to an area that is a go zone, what is the setback? How do you protect one from the other?

Dr V Findlay—There are very stringent rules around pest-free places of production—

Senator HEFFERNAN—Could you provide the details?

Dr V Findlay—Sure.

Senator HEFFERNAN—This was not an apparent failure; it was a failure in the import risk analysis on New Zealand apples—the border zone. One orchard, or even one block of an orchard, to another block. What are you proposing? Do you know yourself?

Dr V Findlay—It is a slightly different concept—the one you are talking about with regard to New Zealand and the concept of a pest-free place of production or a pest-free area. There are very stringent international standards that countries have to meet, including Australia.

Senator HEFFERNAN—This is OIE.

Dr V Findlay—Yes.

Senator HEFFERNAN—You do not really think that that—

Dr V Findlay—No, OIE is the animal one. It is IPPC. There are very stringent conditions about establishing pest-free places of production and pest-free areas, and we would require China to meet those requirements—

Senator HEFFERNAN—What I am trying to ask, with your indulgence—

Senator NASH—One more question and then I will have the call back.

Senator HEFFERNAN—What is the minimum border control from an area that is a no-go zone to an area that is a go zone?

Dr V Findlay—It is not the same for every pest and disease.

Dr Grant—You are talking about a buffer zone of some sort.

Senator HEFFERNAN—Yes.

Dr Grant—Senator, what we have looked at provinces from which the fruit can come. They have been inspected, they are pest free, and that is where the fruit will—

Senator HEFFERNAN—But how do you ensure, with a paper trail, as Senator Nash says, that some bloke with a rickshaw is not bringing a few from next door?

Dr Grant—We will have certification—

Senator HEFFERNAN—A bit of paper that says it is not happening—

Dr Grant—As the requirements state, we will have the competent authority certification, we will have pre-export clearance, we will have inspection this end on arrival—

Senator HEFFERNAN—So when will this committee get to see that regime before we approve it?

Dr Grant—Before who approves it, Senator?

Senator HEFFERNAN—I think this committee should test the human failure aspects of that process—

Senator Sherry—This is Senate estimates.

Senator NASH—You are right, Minister, and I am going to get the call back, but Senator Heffernan just indicated before that we would like to see the strength of those processes before the completion of the process—

Senator HEFFERNAN—This is the history of human failure against—

Dr Grant—Senator, the IRA has been a public document right through its process and it is available on the website. The protocol is a negotiated process between the governments in respect of specific commercial exports.

Senator NASH—That is right, and I think Senator Heffernan is just clarifying. He did raise this earlier and I think you said you would have to go back and see if you could get agreement—

Dr Grant—Because it is a government-to-government agreement, what we would need to seek is—

Senator NASH—That is fine. I think he was just clarifying that that would be the case and we would be able to have that information if there was agreement.

Dr Grant—If there is agreement from the Chinese side that they are happy to share that, then we would be able to share it.

Senator NASH—Thank you.

Senator HEFFERNAN—So our—

Senator NASH—Hang on, Senator Heffernan.

CHAIR—Senator Nash has the call, Senator Heffernan.

Senator Sherry—Chair, please. We have two sets of questions at once. It is becoming really difficult.

CHAIR—No, we have one.

Senator NASH—Can I just ask about the food safety quality assurance standards. Obviously they are very, very strict in this country. Are you assured that the same standard will be required of producers in China? I only raise that because we have had issues like melamine. We need to be very assured that Biosecurity is confident that the processes over there will be at the same level and have the same expectation that we place on our own producers here.

Senator HEFFERNAN—They have chemicals that they use that we do not use, that we have banned.

Senator NASH—All of those sorts of things.

Dr O'Connell—The Biosecurity Australia component is looking at disease management. If you want to look at the components related to human health standards, then probably Mr Read is best placed to talk about that.

Mr Read—In terms of human health aspects of food imported from China, as we discussed earlier in the day, AQIS is simply the border agency. It provides the border agency inspection, with the risks and the regime required determined by FSANZ. Those determinations essentially align the border inspection arrangements with the national arrangements consistent with the Food Standards Code. Particularly in terms of China, we have done many thousands of samples with China. In fact, all over the world 10 per cent of food is imported from China. The rate of compliance from all countries is around 97.5 to 99 per cent compliant. The variations occur mainly through labelling issues, where nutrient labels are not exactly as prescribed, which are then required to be remedied. Occasionally

there are detections of residues, pesticides or bacteria that are in excess of what is allowed, and that food is then appropriately treated.

Senator NASH—In terms of the residue levels for these potentially imported fresh apples, will they fall under what we were discussing earlier about the National Residue Survey Administration Act? Is that something that will fall under that—

Mr Read—No.

Senator NASH—or is it something different entirely? You were talking this morning about the test residues on incoming product.

Mr Read—I was talking about our national program that is connected with market access. There are a range of countries from around the world that prescribe residue surveys, particularly in the EU, for example. Countries need to have national programs to demonstrate their compliance with those requirements.

Senator NASH—So what will the process be to test the residue on this fruit, potentially, if it comes in?

Mr Read—In terms of food that is identified as breaching the requirements that we test for, as prescribed to AQIS, the food is rejected, it is allowed to be treated or it is destroyed. If a consignment of food fails and it is in the low-risk category, then it will go to 100 per cent inspection.

Senator NASH—What percentage of the fruit coming in would be expected to undergo residue testing?

Dr Clegg—Five per cent of fruit and vegetables. Are you talking just about apples from China?

Senator NASH—Particularly at the moment, yes.

Dr Clegg—All apples from anywhere are tested at five per cent. It does not matter where they come from.

Senator HEFFERNAN—Does five per cent mean one apple out of one container?

Dr Clegg—No, it means five per cent of the consignments of fruit. It is all based on tariff codes. If we have a tariff code that says ‘apples’ then five per cent of all consignments of apples are sampled.

Senator NASH—How many in a consignment? That is what I am trying to understand. Is it one out of every small batch or over a significantly large consignment?

Dr Clegg—The sampling rules are set out in the imported food control regulations. There is a sampling plan for how many apples need to be selected—how many pieces of fruit.

Senator HEFFERNAN—For every 100 apples that come, you are going to sample five?

Dr Clegg—No, it is the consignments of apples that are coming in.

Senator HEFFERNAN—So for every hundred containers that come in—

Senator Sherry—Senator, please let her finish.

Dr Clegg—It is the number of consignments in a particular—

Senator HEFFERNAN—If there is a thousand tonne in a consignment—

CHAIR—Senator Heffernan, I am going to have to pull you up.

Dr O’Connell—It might be best to take that one on notice.

Senator NASH—Rather than take it on notice, perhaps Ms Clegg could direct us right now where to find that on the website.

Dr Clegg—In the imported food control regulations.

Senator NASH—Okay, we will look there. Who looks after labelling?

Dr Clegg—We review labelling in terms of what the Australian food standards code requires.

Senator NASH—If the apples are to come in from China, at the end of this process what will be the labelling requirement?

Dr Clegg—It will be determined by one of the requirements of the code. If they come in, I cannot remember whether there is any requirement for the apples to be labelled with their country of origin.

Senator COLBECK—In the supermarket, they would be labelled as Chinese apples.

Dr Clegg—When we take our sample, part of the requirement will be to see that the container in which the apples are provided to us are labelled in accordance with the standard for that container.

Senator NASH—Okay. Senator Back has some questions.

Senator HEFFERNAN—Can I just ask a couple of apple questions?

Senator NASH—Senator Back is on apples as well.

Senator HEFFERNAN—In this FSANZ thing where we are going to ensure the animal side of it, can you supply to us a list of the chemicals that we ban that China uses?

Senator NASH—That is a good question.

Senator HEFFERNAN—Can I give you a couple of hints? Carbon bisulphide, dieldrin—

CHAIR—If you cannot answer that, can you take it on notice.

Mr Read—We will need to take that on notice. I am not sure whether we can get exactly or the full answer to that. On the information we have, we can take that on notice.

Senator NASH—Wouldn’t you need to be aware of all chemicals that were being used in China?

Senator HEFFERNAN—That is my point.

Mr Read—All I need to be aware of as the import authority in terms of food inspection is the information provided to me by the competent authority in Australia which is FSANZ. They prescribe the sampling regimes that I need to respond to at the border for the foods and the risk is categorised by that same agency.

Senator NASH—Who within the departments is responsible for knowing which chemicals are utilised in China that are not utilised here?

Senator HEFFERNAN—I have got a fair idea, if you want to know.

Senator NASH—I just need to know where to go. Surely, somebody would be able to direct us as to where to get an answer to that question.

Mr Read—The prescribed lists that we test against, as I keep saying, are provided by FSANZ.

Senator HEFFERNAN—Can you provide us with those classifications?

Mr Read—That is the competent authority in terms of food safety. Where they determine their risk categorisation and risk assessment from is a question for them.

Senator HEFFERNAN—They do not know. We have had this with the vegetables.

Senator COLBECK—So FSANZ provides you with the test list, effectively, for which you test?

Mr Read—Correct.

Senator COLBECK—So there is no correlation between a QA certificate that says, ‘These chemicals were applied to the particular consignment’ and a particular list of approved or unapproved chemicals? If their QA system says, ‘These chemicals were used,’ do you then test for those particular chemicals?

Ms Mellor—I think Mr Read has answered the question. We get a list from FSANZ of things to test for—for human health safety issues.

Senator COLBECK—I understand that.

Ms Mellor—We act as an agent for that agency at the border.

Senator COLBECK—I am not trying to be difficult or anything, but if you look at a QA process that a vegetable grower or an apple grower or anyone here in Australia would go through, part of the QA system covers the chemicals that are applied, when they are applied, the residue, withholding periods—all of those things are part of it, and part of the testing process that, say the supermarkets carry out in their QA covers those chemicals because they are at the highest risk of being found on the product. When a product comes into the country, is there any process whereby we test and check off the chemicals that they list in their QA systems—I am aware that a lot of the product that comes in is, for example, European CAP accredited, so it would have that information coming in with it. Do we actually test against that and compare that information against our lists, or is that something that is all funnelled through FSANZ and it comes back to us through that process.

Mr Read—Correct.

Senator BACK—I want to ask two questions, one in relation to the inspection of apples. You were saying five per cent, I think, of apples incoming?

Dr Clegg—For imported food safety purposes. That is not quarantine; that is the second part.

Mr Read—If I can clarify that, the first part is quarantine inspection and the second part will be the imported food inspection program.

Senator BACK—Sure, but does the number within consignments change? Is that five per cent figure still consistent.

Senator HEFFERNAN—That is the misleading part of this. It is not five per cent of all fruit.

Dr V Findlay—For quarantine purposes every consignment of apples coming in will be inspected, and that will be a 600 unit inspection. For food standards, it is five per cent of those consignments, not five per cent of apples in every consignment.

Senator BACK—Could you explain to me the protocol for consignments of apples going out of Australia. Is it the same as for those coming in?

Dr V Findlay—It varies, depending on the country.

Senator BACK—Let me put it this way, then: for an equivalent country, are the requirements on our exporters equivalent to those we impose on the importers.

Ms van Meurs—There is a unit sample, but again it depends on the export country because when we are dealing with export certification it depends on what the country requires. Usually it is a 600 fruit sample of the consignment which is going out, which is very similar to the requirement for quarantine product coming into Australia.

Senator BACK—Thank you; that is very clear. If I can return to cherries, a complaint has been put to me by a constituent in the sense of, again, equivalence. The point is that the US requires their officers to supervise disinfection treatments here in Australia for cherries leaving Australia, and they do not recognise AQIS officers. The cost of such visits means that there is no trade because it would be prohibitive. He goes on to talk about the different temperatures at which fumigation takes place, and his complaint is that we want equivalence, that the Americans are at an advantage because of what they impose on us compared to what we impose on them. Could you give me some advice on that point.

Ms van Meurs—The situation for our exports of, for example, citrus is very different in that it is a cold disinfestation treatment. We undertake that in transit, so it means that we start the treatment and the treatment has a readout as it travels on the ship to the US and they accept that.

Senator BACK—That is for citrus—what about for cherries?

Ms van Meurs—We currently export cherries from Tasmania, and that is area free so there is no requirement for a US officer to be in Australia. They are different situations.

Senator BACK—Is there any potential for states that export cherries, other than Tasmania, to be held up by these differences? The point he makes is that:

currently their cherries—

Americans’—

can be fumigated down as low as six degrees. We are required to fumigate to 17 degrees. I know we are talking about different pests but there will be no trade in Australian cherries as if we are required to fumigate at 17 degrees, and the Americans know that.

That is the statement that was made. I am very keen to be able to respond to that.

Ms Mellor—We might take that on notice and help you out in more detail.

Senator BACK—Thank you, very much.

Senator Sherry—Can you provide a copy of that—to the extent that you can?

Senator BACK—Yes, I certainly can, no problem at all.

Senator Sherry—We will follow that up.

Senator HEFFERNAN—What are the diseases that China has in its apple industry that we don't?

Dr V Findlay—In the import risk analysis we have identified 16 pests for which we have implemented quarantine measures. They range from mealy bugs through to moths and a couple of bacterial diseases as well.

Senator HEFFERNAN—Can this committee be given an assurance that—as we have done with many others of these, and to your great grief we did it with beef from Brazil—we will see before it is approved the final proposition that you are going to put to China as to the protocol?

Dr O'Connell—We will go through the regulatory process as we always do.

Senator HEFFERNAN—Can we then be briefed?

Senator Sherry—We cannot give you an assurance—

Senator HEFFERNAN—You have always done it in the past.

Senator Sherry—That is not right, as I am advised. In relation to a briefing: I will take on notice whether and what we can provide to you at the appropriate stage.

Senator HEFFERNAN—I do not think it is fair for us, on behalf of the growers, to have any chance of a reasonable judgment that what you propose scientifically and bureaucratically will pass the human failure test unless we see it.

Senator Sherry—Senator, we are going back over a conversation we had earlier. We are really going back over that. We will take it on notice. I am keen to assist you as much as we reasonably can within the understood practices, protocols and processes—

Senator HEFFERNAN—We are pretty keen to make sure we do not bugger it up.

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

CHAIR—The minister was answering your questions. Hear him out and then we will move on to the questions.

Senator O'BRIEN—Actually, the excerpt was reported in the *Weekly Times* on 8 April, which said that the pests are:

hawthorn spider mite; flat scarlet mite, Oriental fruit fly, Comstock's mealybug, apple mealybug, summerfruit tortrix moth, peach fruit moth, codling moth, pyramid moth, Manchurian fruit moth and white fruit moth—

and the diseases are:

Japanese apple rust, marssonina blotch, apple brown rot, European canker and apple blotch.

Senator HEFFERNAN—All of that. But we will get it in writing.

Senator O'BRIEN—They were already reported.

Senator HEFFERNAN—Thank you. And what that does not tell you is how you can protect a border. What that does not tell you is how you segregate one part of the apple industry from another part that has those problems.

Senator Sherry—Chair, are we finished on apples?

CHAIR—Yes, we are. Thank you, Senator O'Brien, for clearing that up. You might want to email it to Senator Heffernan to help out. Senator Heffernan, your colleagues have some questions. Do you have any more we go to the locusts?

Senator HEFFERNAN—Do we want to do bees or locusts?

CHAIR—I asked if you have any more questions before we go to locusts?

Senator Sherry—I thought we had done bees twice.

Senator HEFFERNAN—No. We have not done the closure of Eastern Creek, have we? As I understand it—

Senator Sherry—Is this related to bees?

Senator HEFFERNAN—It is. The Eastern Creek bee facility has been closed, I understand. Is that correct?

Mr Chapman—The lease at Eastern Creek—

Ms Mellor—Sorry, Senator, can we just clarify that this question is about the importation of bees and the quarantining of them at Eastern Creek?

Senator HEFFERNAN—Yes, this is a question about the closure of Eastern Creek.

Ms Mellor—We are not currently importing bees through Eastern Creek.

Senator HEFFERNAN—We have closed the facility, right?

Ms Mellor—I beg your pardon?

Senator HEFFERNAN—Eastern Creek has gone.

Ms Mellor—Eastern Creek Quarantine Station is still in operation. We are not presently importing bees through Eastern Creek.

Senator Sherry—It is a fair difference, Senator Heffernan.

Senator HEFFERNAN—The honey bee council did not think it was a good idea. They were not consulted; it was just announced. What was the consultative process the government undertook before they closed the facility?

Dr O'Connell—We might just get Dr Nunn.

Senator HEFFERNAN—In view of the need we may have to import bees if something like this colony collapse disorder gets a run on, what contingency do we have? It seems to me that we shut it and did not tell anyone. We did not consult anyone. The minister announced it.

Senator Sherry—The officers have come back to help you. Could you give them their question please?

Senator HEFFERNAN—They have got it.

Dr Nunn—I can explain the situation with the disease side of the station. All imports of bees have been suspended since August 2008 because of concern about two things getting in: Africanised honey bee genetics getting in and colony collapse disorder, as was mentioned before. If we were to do a review of those requirements, a review of those diseases, and if that review were to determine that we should allow importation under whatever conditions from whatever countries, we would then need to reopen the colony. In the Eastern Creek Quarantine Station, when we import bees, there is an Australian hive. The queen comes in with its escorts and those escorts are slaughtered. The queen is then mated with the Australian escorts. She and those escorts are then killed and the larvae from those are then raised, and these are what goes through. At the moment, there is no need to have bees there because we do not at the moment have any protocols to import.

Senator HEFFERNAN—So we have a contingency, if we start to lose the critical mass of our bees, through that process?

Dr Nunn—We would need to do a review of the current requirements to make sure that we did not import Africanised honey bees and that we did not import colony collapse disorder, and we would then establish a hive and go through the import process. To do that review would require public consultation and a thorough scientific assessment.

Senator HEFFERNAN—What was the consultative process to shut it down? Did you consult the honey bee council?

Dr Nunn—I am not sure what you mean by ‘shut down’ the facility. The building is still there.

Senator HEFFERNAN—Yes, I am aware of that.

Dr Nunn—When we said that there was no protocol that countries can meet, the hive, I presume, was disposed of—taken away somewhere else.

Senator HEFFERNAN—But did you consult the bee people?

Dr Nunn—There was consultation about the need to suspend because of those diseases.

Senator HEFFERNAN—Could you provide us with the paper trail of that consultative process?

Dr Nunn—I can attempt to.

Senator HEFFERNAN—Thanks very much. You can take that on notice. Have we done bumblebees and tomatoes?

CHAIR—No, Senator Nash is going to ask some questions on bumblebees and tomatoes.

Senator HEFFERNAN—Thank you very much for that.

Senator NASH—I know other colleagues have an interest in this as well. Who does *Bombus terrestris*?

Senator Sherry—Sorry, just before you go on: are we by any chance going back to apples, or are we done with apples? Are we finished with apples?

Senator NASH—I think that should be fine.

CHAIR—So we have finished with that.

Senator HEFFERNAN—Just as long as everyone knows the import risk analysis for New Zealand apples—

Senator Sherry—Yes, we know, Senator Heffernan!

Senator HEFFERNAN—includes importing the disease but it not getting out.

Senator Sherry—I am happy to go to bumblebees.

Senator NASH—To whom should I direct my *Bombus terrestris* questions?

Ms Mellor—You can direct them to me and we will find you the right person.

Dr Grant—Generally, and we will see what the question is.

Senator NASH—There has been in the past—and I think it might have even started in 1997—an interest from some horticulturalists in being able to import the bumblebee, and I gather that *Bombus terrestris* is its proper name, for use in glasshouses for pollination. I understand they already exist in Tasmania, and I think Senator Colbeck has some questions as well. Could we just have a bit of a background on the issue and the reasons why access to import has been denied for the specific purpose of using the bumblebees for pollination in glasshouse environments?

Dr Grant—I will attempt to take that one. I am not aware that there has been an application to import bumblebees into Australia. As you know, there are bumblebees in Tasmania. The environment minister has made it very clear that movement of bumblebees out of Tasmania onto the mainland is prohibited, and this is an issue for the environment portfolio. It is not an issue for the BSG other than if there is an application—and I am not aware of one—to import bumblebees from overseas.

Senator NASH—There definitely was one. I do understand that it is the environment portfolio, but what I was trying to get from Biosecurity were the reasons from the perspective of Biosecurity why that would not have been approved.

Dr O'Connell—My understanding, and this is very second-hand, from the environmental portfolio side was potential competition with native bees and the ecological effects, but that is the limit of my knowledge.

Senator HEFFERNAN—It now occurs in Tasmania.

Dr O'Connell—It does.

Senator COLBECK—We will come to that shortly.

Senator NASH—I do not think I can get any assistance, so if you want to ask questions on Tasmania.

CHAIR—That was a cold shower. Quick give and take, Senator Nash: you must be married and have children!

Senator NASH—Indeed. Correct on both counts, and very wonderful ones too, both husband and children. Could you take on notice for me any information that Biosecurity can provide for the committee in terms of Biosecurity's involvement. In the past there was an application, it was knocked back. I was generally trying to get more of an understanding of what happened, the time line and the process from Biosecurity's point of view. If you could get that back to the committee that would be very useful.

Senator COLBECK—From a Biosecurity perspective, do we have any sense of how the bumble bees actually got to Tasmania?

Dr Grant—To the best of my knowledge, they have been there a very, very long time. Precisely how many years—

Senator COLBECK—My advice is 15 years.

Dr Grant—I think it is longer than that.

Senator COLBECK—Okay, my advice is 15 years.

Dr O’Connell—We will have to take that on notice.

Senator COLBECK—I do not want to start an international incident or argument about it, but the probability of them crossing Bass Strait—

Dr Grant—Is minimal, I believe.

Senator COLBECK—Has a calculation or a biosecurity risk assessment or any work been done on that probability, given the right weather conditions?

Dr O’Connell—I am stretching beyond my liabilities here, but my understanding is that there is no real chance of bumble bees flying anything close to that distance even with the right wind conditions.

Senator COLBECK—They said that about the lettuce aphid.

Dr O’Connell—They are relatively short range, I believe. We have an expert, it turns out.

Senator COLBECK—Sensational.

Ms Ransom—Not an expert but I have some information. The regulation of bumble bees is a state issue because they are established in Australia. I understand that Victoria has quarantine restrictions in place that they do enforce to ensure that bumble bees do not come from Tasmania. The focus of their activities is on human assisted spread. I think a bumble bee would be very unlikely to fly the distance across Bass Strait. But the Victorian authorities have confirmed that they do enforce bumble bee restrictions.

Senator COLBECK—Probably the most likely vector would be on one of the ships that travel backwards and forwards on Bass Strait, I would have thought.

Ms Ransom—I would suspect that is probably most likely.

Senator COLBECK—If they have not made the distance in however long it is they have been there, I suppose that is one of the issues that would be considered as part of the consideration of the likelihood of them making the distance. So from a Tasmanian perspective they are effectively controlled at a state level.

Ms Ransom—Their movement out of Tasmania is controlled through Victorian state legislation. They are not controlled in Tasmania.

Senator COLBECK—I will have to ask Environment some questions about this as well.

Ms Mellor—Our understanding is that they have been there for so long they are virtually established in Tasmania.

Senator COLBECK—They certainly are fairly well established. I had a nest of them in my yard last summer, so I know they are about and you can hear them coming. But my advice is 15 years, and according to an email I have just received from someone who is watching us—and has a sad life—recorded in the early 1990s. Anyway, let us not pursue that. In the context of someone who is in the greenhouse industry in Tasmania wanting to manage and control them for their own purposes, if they are outside the greenhouse there is capacity to have them inside the greenhouse, which is effectively what the situation is. But that is not something you guys would deal with, that is Environment.

Dr O’Connell—No.

Senator COLBECK—Okay, I will go and pester them.

Senator HEFFERNAN—When considering the AHGA application, were the quite considerable economic and food safety benefits of bumblebee technology given appropriate consideration in the face of any environmental damage claims?

Dr O’Connell—Can you please clarify what you are referring to?

Senator HEFFERNAN—The industries that want the bumblebees say they will get a 30 per cent, roughly, increase in production, for example, in a closed tomato farm, or whatever. You have obviously used the precautionary principle, and I do not have an objection to that. The question is: is there a balance between the economic benefit and the environmental risk?

Dr O’Connell—I think we are going to take on notice getting you the history of any application that has occurred. If there is any environmental ban or constraint on that movement, how that decision making occurs is best put to the environment portfolio.

Senator HEFFERNAN—Are we one of the few countries in the world that does not have bumblebees? I am not going to argue whether that is good or bad, at this stage.

Dr O’Connell—You are talking to people who are a bit limited in their knowledge.

Senator HEFFERNAN—New Zealand seems to be able to live with the regime that they say we cannot.

Dr Grant—There are no bumblebees on the mainland; there are bumblebees in Tasmania. That is the extent of bumblebees in Australia.

Senator HEFFERNAN—That is my understanding. What was the key evidence relied upon that led to the conclusion that the poor old bumblebee was an unacceptable environmental risk, resulting in a rejection of the application?

Ms Mellor—We are going to come back to the committee on notice regarding a broad question posed by Senator Nash about a range of issues that may have been taken into account in any application—if we can find one—for a permit to import bumblebees.

Senator HEFFERNAN—So this question can be put on notice. Given that reference was made by the environmental lobby of the alleged negative impact of the poor old bumblebee in New Zealand, why did DEEWR ignore the independent expert advice of Barry Donovan that countermanded the letter attached to this evidence?

Ms Mellor—We will come back on notice with a range of issues, some of which we may have to seek input from DEEWR on around whether or not there has been an import permit application for bumblebees and what the reasons were, if any, for not allowing it.

Senator HEFFERNAN—Obviously the greenhouse mob are pretty keen. Obviously, I am pretty keen to make sure we do not have another cane toad episode.

Dr O'Connell—The key feature as I understand it is that they are very good at collecting pollen and get up early in the morning and collect more than the native bees, and leave the natives with very little.

Senator BACK—I have a question with regard to AQIS field services. Has there been any deterioration in the hours of service, particularly at airports, at both metropolitan and regional centres, for AQIS inspections?

Mr Chapman—AQIS still maintains its services at all international airports in Australia. There has not been a reduction in staffing numbers of any of the services we deliver at those airports.

Senator BACK—It has been suggested to me recently that now—I think it was at Cairns—for one month of the year the only services offered are for the normal 8.30 to five Monday to Friday hours by quarantine inspection officers at that particular airport. Is that not right?

Mr Chapman—No. AQIS will have staff at the airport when passengers are arriving, because it is necessary for us to do the quarantine clearance of those international passengers when they arrive in Australia.

Senator BACK—So there has been no change at all for any passenger aircraft that comes in, 24/7, at Cairns or at any other airport?

Mr Chapman—All international passengers that arrive in Australia are required to be cleared by quarantine on their arrival in Australia.

Senator BACK—Yes, I am aware that they are required to be. I am asking: are they?

Mr Chapman—They are, yes.

Senator BACK—That clarifies that, so I will have to get back to the person and tell them that they were wrong. Thank you very much. I have a couple of questions, if I may, regarding Eastern Creek, the quarantine station or centre. Its lease is due for expiry at the moment or in the near future—is that correct?

Mr Chapman—The current lease expires on 31 December of this year. We have a renewal option for another five years.

Senator BACK—Yes, and at the end of that five years?

Mr Chapman—At the end of that five years, it is unlikely that the owner of the property would agree to any further extensions.

Senator HEFFERNAN—Who owns it?

Mr Chapman—I am not sure who the actual owner is off the top of my head.

Senator HEFFERNAN—Could you let us know.

Mr Chapman—I can take that on notice.

Senator BACK—Can you give us any indication as to which way the department would be looking to advise government in terms of future provision? Would it be the purchase of a facility? Would it be outsourcing to the private sector? I have even heard the possibility of New Zealand being used as a venue for importation or quarantine of animals. Can you tell us what the options are.

Mr Chapman—I can explain the process for you. All of those suggestions that were put to you are speculation. We are required by government to go through a two-pass process for property procurement, and that has a very stipulated set of requirements on how we do that. It involves putting a business case to government outlining the options or saying that it needs to be developed further, and then a more detailed options paper with, as the name suggests, a whole series of options as to how future post-entry quarantine arrangements might be delivered.

Senator BACK—Thank you for that. Where are you with this two-pass process?

Mr Chapman—The first pass has been completed, so we are at the early stages of the scoping study for the second pass. That will be considered by government in the budget process next year.

Senator BACK—The Spotswood facility in Victoria at the moment is in mothballs—closed?

Mr Chapman—No, Spotswood is still an operating quarantine station.

Ms Mellor—Spotswood is not handling horses at the moment, but it is doing all of the other things it normally does.

Senator BACK—For other quarantine purposes it is?

Mr Chapman—Yes.

Senator BACK—What are the prospects for the future of Spotswood. It is privately owned also, isn't it—leased by the government?

Mr Chapman—All the government's quarantine stations are leased. They were sold off 10 or 15 years ago, so they are all leased. For Spotswood the lease is also due to expire at the end of this year, but we are assured of having extensions to that. I do not have any dates for that at the moment, but we—

CHAIR—I am sorry; I have to go. Keep going.

Senator BACK—I have only one other question, because of shortness of time. I wanted to pursue the question of per-day costs for quarantine stabling of horses. It has gone up, I think. Is the figure now not \$196 per horse per day?

Ms Mellor—That is correct.

Senator BACK—What was the justification for that increase, and what did it go from—\$35 per horse? Was that figure not very long in the past?

Senator HEFFERNAN—There was an increase in the price we charge, wasn't there?

Senator BACK—It could be global warming.

Senator Sherry—Let the officer answer the question.

Ms Mellor—One of the key drivers in that price increase was the horse industry seeking to also bring us together just into Eastern Creek. There were a range of factors taken into account.

Dr O'Connell—The largest part of that increase—I think Ms Schneider should be able to help—related to the implementation of the Callinan review.

Ms Schneider—Horse quarantine fees were reviewed. That was one of the recommendations of the Callinan inquiry. Justice Callinan recommended that horse fees be increased sufficiently to recover costs. The fees were increased from 1 December last year to \$196 a day for all horses. I cannot remember the fees prior to that. I think they were \$65 for non-racing horses and \$169 for racehorses—something of that order.

Senator BACK—I think part of the reason was increased staffing and security at Eastern Creek, wasn't it?

Ms Schneider—That is right.

Senator BACK—In the event of an emergency such as a stable fire or whatever at Eastern Creek, what contingencies do you have in place for the movement of horses away from Eastern Creek to preserve their quarantine status and relocate them to a safer location? Do you have such a contingency? I asked earlier and I wonder if there has been any follow-up.

Ms Schneider—We do have a policy in relation to fire or other comparable emergencies at quarantine stations. That policy is that the highest priority in any catastrophic event is human health and safety. In the event that we are able to move animals, it will require that those animals be kept in a manner that ensures that biosecurity provisions are preserved.

Senator HEFFERNAN—How would you do that? Shoot the horse?

Ms Schneider—I would say a fire is an extremely unlikely event at a quarantine station. If you take Eastern Creek, there are a number of reasons that it would be very unlikely that you would have a fire that created such a catastrophic event. It is not a likely event. In a non-catastrophic event where you had time to move animals and to construct facilities or ensure that there were facilities available that you could use, that might be a possibility that would be examined at that time.

Senator BACK—On the same question before I go off horse quarantine, has there been any negotiation or consultation with Racing Victoria for the possible use of Sandown? I know it is used for horses coming over for the Melbourne Spring Racing Carnival, but what about extending it beyond that?

Ms Mellor—That is one of the things that would be considered amongst a range of others in the two-pass process.

Senator BACK—I would like to reflect on the decision of the last couple of days with regard to the Hendra virus vaccine. I understand now that the federal and Queensland governments have jointly agreed to fund the \$600,000 requested by ARL to add to their \$300,000 to develop the Hendra vaccine.

Ms Mellor—That is correct.

Senator BACK—In previous discussions we have had here in estimates, when I have put it to the department you have made the observation that my inquiry about the government funding these moneys would be better directed to the Department of Health and Ageing. Can you tell me which agency of the federal government will make the contribution of the \$300,000?

Ms Mellor—Not at this point.

Senator BACK—So you are not yet sure whether it is from this vote or from health and ageing.

Ms Mellor—At this point what we know is that the Australian government will make that contribution. At this point, no, we do not know.

Senator BACK—Thank you for that. My final question goes back to importation of some bovine products: semen and embryos. I have some figures for the importation of bovine semen over the last two or three years. Can you give me or take on notice the information I would like to have on the importation of bovine embryos from other countries, obviously including countries that have had BSE: the UK, the US, Canada et cetera? Do you have that information available?

Ms Mellor—No, but we are happy to take that on notice.

Senator BACK—As an extension of that question, what, if any, tests are undertaken to satisfy ourselves that neither semen nor embryos are capable of transferring the BSE prion?

Dr Grant—We talked about that at some length in the committee inquiry. The information that we have—the best information in the world, from Europe and many studies—is that neither eggs nor sperm are a pathway for BSE.

Senator BACK—We have discussed this in the past; there is nothing more recent?

Dr Grant—No, that is the current information.

Senator O'BRIEN—Sandown Racecourse quarantine is due to be replaced by the Werribee quarantine centre, a privately run centre, from August this year for this year's carnival. I mention this because Sandown was talked about as being the location. It will be replaced by a Werribee centre, the construction of which has now commenced.

Senator BACK—Is that Werribee centre privately run by Racing Victoria?

Senator O'BRIEN—Yes.

Ms Mellor—I think the broader question was about the consideration of private operators within the quarantine fabric. That is a question that will be pursued.

Senator NASH—Could you give a status report on where the beef IRA is up to?

Dr Grant—IRAs are proceeding for Canada and the United States. The clock has been stopped on Japan because of the FMD outbreak. At 12 o'clock today an announcement went out as to the expert panel that has been selected to undertake the IRA. We can give you those names.

Dr Nunn—The three members of the expert panel comprise Dr Kevin Doyle, who has many years experience in import risk analysis; Dr Ron Glanville, who is the Chief Veterinary Officer of Queensland and has long experience in disease preparedness and response and with

the National Livestock Identification System; and Associate Professor John Glastonbury, who is the professor of veterinary pathology at Charles Sturt University and is the author of the current manual for diagnostics of TSEs in Australia.

Senator NASH—How many officers do you expect will travel to the US in the course of the IRA and where do you expect they will go?

Dr Grant—That has not been determined at this stage. There will be, as I understand it from FSANZ, four officers working on their risk assessment. We have indicated that we are putting together a team of 10 to 12 to work on that assessment. The in-country inspections will be done jointly by FSANZ and Biosecurity Australia, or DAFF, at the time that we go over. It is still the case today that we have not had an application through to FSANZ from either the United States or Canada, but I understand one is imminent from Canada. We in Biosecurity Australia have accepted applications through letters that we had earlier from the United States and Canada, so our clock started ticking on 8 April to undertake the IRA. In that regard it has started, but we have not had an application from the United States through to FSANZ, so the planning for an in-country inspection of specific locations from which they wish to export has not been determined at this stage.

Senator NASH—Do you have any ballpark figure of a time line for that, or do you simply not know at this stage when in-country inspections might take place?

Dr Grant—FSANZ have indicated that their process will run for the order of six to eight months. The in-country inspections will take place during that period; so, assuming that we will get an application reasonably soon, sometime between now and the early part of next calendar year, and I would say something in the order of four or five months time.

Senator NASH—Could I ask you to take on notice, if you would not mind, when that decision has been made for the in-country inspections to take place? Could you inform the committee of how many officers are going, where you are going and what the purpose of the visit will be?

Dr Grant—Yes, we will certainly do that.

Senator NASH—Thank you.

Senator HEFFERNAN—Is it possible for industry reps to be on that trip?

Dr Grant—This is a country-to-country inspection of their system by our—

Senator HEFFERNAN—This is bureaucrat-to-bureaucrat.

Dr Grant—Yes.

Senator HEFFERNAN—No industry.

Dr Grant—No.

Senator NASH—I have some other questions, but with a hopeful smile I will put them on notice and we can move on.

Senator HEFFERNAN—Can I clarify something? This is a whole of country import risk analysis for the United States and Canada?

Dr Grant—It is a whole of country import risk analysis of the countries, but we have not had specific application through FSANZ for their intent of where precisely they want to

export from. The in-country inspection will look at the systems in operation in those countries to identify the regional controls that exist in respect of animals, in that order—

Senator HEFFERNAN—Yes, so it is actually going to be a regional assessment of a whole of country IRA.

Dr Grant—It will be a systems approach within the country to look at how they control the trace-back system for their animals.

Senator HEFFERNAN—In other words, this is their way out of not having to close the Canadian and Mexican borders, because you are going to say—as the US cattlemen's association wants—'We're going to have closed herd inspection inside of a whole of country IRA'.

Dr Grant—We do not have an application yet. I think we are getting ahead of ourselves.

Senator HEFFERNAN—That is why I am very keen to see every inch of the journey.

Dr O'Connell—And I think we said we would take on notice the—

Senator HEFFERNAN—I have a couple of questions—

CHAIR—You can, but—

Senator HEFFERNAN—Just quickly. It will only take a second.

CHAIR—Senator Heffernan, I am going to help you. We have put aside some time for the Australian Plague Locust Commission, for which you have the questions. It is your time you are using.

Senator HEFFERNAN—This will take two seconds. Has there been, to your knowledge, any application for a rezoning of the Badgerys Creek site? The quarantine station? You lease the land, right? From an owner which you were going to provide us the details of.

Dr O'Connell—We are talking about Eastern Creek, not Badgerys Creek.

Senator HEFFERNAN—Sorry—Eastern Creek.

Mr Chapman—I am not personally aware of that, Senator, but as I said earlier, we have an option to extend the lease for another five years.

Senator HEFFERNAN—Yes, I am aware of that. So you are going to provide us with the ownership, the details of the ownership, the ABN, the ACN and all the rest of it. And can you inquire whether there has been any application for rezoning?

Dr V Findlay—We will certainly—

Senator HEFFERNAN—Pretty simple really. The final question is: what has happened to Cocos?

Dr O'Connell—In what sense?

Senator HEFFERNAN—Is it still in mothball status?

Dr O'Connell—As far as I am aware the island is still there.

Senator NASH—We have a winner!

Senator HEFFERNAN—I appreciate that you have got a PhD which I do not understand, and you have the ability to be—

CHAIR—Smarter than you!

Senator HEFFERNAN—My question really was: what is the status of the quarantine station?

Dr O'Connell—I would refer you to the previous estimates, because we have settled this a couple of times, I think.

Senator HEFFERNAN—So there has been no change.

Dr O'Connell—No change.

CHAIR—Well done, Dr O'Connell. Good answer. Senator Heffernan, we have now got 11 minutes left before the completion of our questioning of BSG.

Senator HEFFERNAN—We will do grasshoppers.

CHAIR—So locusts.

Dr Grant—That is me.

Senator HEFFERNAN—Could you provide us with last year's budget allocation for locust control?

Dr Grant—Yes. The budget for the—

Senator HEFFERNAN—I could give you a tip on this.

Dr Grant—The budget for the Australian Plague Locust Commission last year was \$4.611 million.

Senator HEFFERNAN—What is the allocation for this year?

Dr Grant—The commission met on 6 May and has worked out a forward budget which is awaiting confirmation from its members, the states and the Commonwealth. It is \$4.817 million.

Senator HEFFERNAN—Do you have a contingency plan for the spring?

Dr Grant—Yes, we do. We are working that through—

Senator HEFFERNAN—What happened to the \$4.6 million last year? Did you expend it?

Dr Grant—Not completely, as the year still has a month to run. We look like we will have a surplus of about \$0.4 million, which will go towards the reserve. The reserves is currently \$1.9 million.

Senator HEFFERNAN—So we now have an egg-laying season just about complete—they have just about finished at home. It is going to cover four states, potentially, in the spring. There has been no real control during this last season just finishing now of egg-laying—and expansion and flying and banding et cetera—in the bigger pastoral country. South Australia for the first time for a good while faces a problem as well as Victoria, Queensland and New South Wales. Given all of that, do you think \$4.81 million is a realistic figure?

Dr Grant—We have, as I said, \$4.81 million plus a reserve of \$2.3 million. The history of control processes suggests that that budget is sufficient for the size of the—

Senator HEFFERNAN—For the four states?

Dr Grant—It is important to understand that we do not control locusts in all of the states in all of their circumstances. This is a tiered approach between the Commonwealth, state authorities, local government authorities and landholders. Each has their responsibility. That responsibility is worked out in the states between the state authorities—the state and local authorities and landholders. And there is a memorandum of understanding between the states and the Commonwealth.

Senator HEFFERNAN—This might all come to a bucket of cust in the spring if the weather is wrong and they do not hatch or whatever. But this time is a bit unusual—pastoral country type with a few hundred thousand acres and by the time you get around your place they have not only hatched they have flown. The potential this time for what you would call some sort of a catastrophic event is real?

Dr Grant—It is certainly a large prospective occurrence for this next season.

Senator HEFFERNAN—I hope it does not happen.

Dr Grant—We have had several meetings to plan this. There have been face-to-face meetings and teleconference meetings. There are more planned over the next several weeks as we lead up to spring. Discussions are taking place regularly. The planning for the tiered approach—for how we do it—in the spring is well under way. Our part of that will be to spray nymphal bands that come out when the hatching takes place. That hatching tends to take place in a graduated way from north to south as the warm weather comes on. Effectively we have had that discussion. We are having further discussions to make sure that we are ready for that eventuality. We are aware of the concerns expressed by the community in the broad and some landholders. We have had briefings with the South Australian minister. We are expecting to potentially have similar meetings with other ministers or their staff in the next few weeks. But remember that the commission is a collective of commissioners from each of the authorities.

Senator HEFFERNAN—So, in the pastoral country in which it has occurred—and it is all right if it is at the back of West Wyalong or somewhere and you go down the paddock every day and have a look and you are fascinated by the ban and you spray them as dead as maggots—there is a big cover of dry feed. They obviously try and pick out cleared bits of country around the edges of lakes and things to lay on. Is there a contingency plan or could you provide this committee with a contingency plan to supervise all of that? Do you have a whole lot of aircraft on standby? Who is going to try to spot them because, if you have one grazier on 250,000 acres of country, that is not going to work.

Dr Grant—As I said, we are in the process of working out that plan to be ready for spring. We are certainly able to make that available to you, subject to the states agreeing. We see no reason for them not to.

Senator HEFFERNAN—If it turns to the worst-case scenario or a pretty serious event and the \$4.81 million and the \$2.3 million or whatever contingency are not enough, what happens then?

Dr Grant—History has shown over the life of the commission that the scope of cost has been as little as \$400,000 or \$500,000 in a given year and up to about \$4 million, so we think we have enough for the forthcoming season. In the event that was not the case, we would have to seek further funds.

Senator HEFFERNAN—Obviously, we all contribute to and have an interest in our rural lands protection or whatever they call that new thing. I see that it is in the notice there.

Dr Grant—I am in a similar bag.

Senator HEFFERNAN—Thanks very much for that.

Senator NASH—There is one thing I did mean to ask before. Is it correct that New Zealand do recognise the whole fruit apple as a host for the *Drosophila suzukii*?

Dr Grant—That is a very interesting question. Does New Zealand recognise the whole fruit as a host—

Senator NASH—Correct me if I am wrong, but we were saying before that it was just the rotting fruit and that the SWB could not be transmitted on the whole fruit, but does New Zealand recognise that the whole fruit could be a host?

Dr V Findlay—New Zealand has only implemented emergency measures for the same range of fruits that we have. In fact, the emergency measures that it has implemented are much less stringent than those we have so, no, they have not recognised that apples are.

Proceedings suspended from 3.57 pm to 4.15 pm

Rural Industries Research and Development Corporation

CHAIR—I reconvene the committee. I welcome the officers from the Rural Industries Research and Development Corporation.

Senator NASH—Good afternoon. I take you to last year's budget statement, and there was a budget cut. Just refresh our memories: how much was the budget cut last year?

Mr Byrne—The budget cut last year was \$3 million, going forward.

Senator NASH—That was just for this financial year?

Mr Byrne—For year 2009-10.

Senator NASH—Were there further cuts forecast at that time?

Dr Grant—The cuts were ongoing. So it was \$3 million per year, ongoing.

Senator NASH—In the budget statement last year it said:

Major risks for RIRDC in 2009–10 include maintaining sufficient capacity to deliver an effective R&D program from a reduced resource base, our capacity to attract and retain quality staff and the need to ensure business sustainability.

A year on you are obviously aware of the risks that may have been posed by the budget cuts at this point last year. So, in hindsight, how did you go managing the year with the lower budget? Did any of those risks eventuate? Were there any difficulties? Were there any cutbacks that compromised what you would have preferred to have done as an organisation?

Mr Byrne—We had some guidance from the minister on where we should make cutbacks.

Senator NASH—Can you outline those for the committee? Last year we were not sure. Where actually were the cutbacks?

Mr Byrne—The areas where we were asked to avoid cutbacks were in the areas of farm health and safety, emerging rural issues and the programs for which we receive a matched

levy. During the year the board took the decision to try to build revenue by looking for other sources of revenue, for instance, the possibility of voluntary levies from some of the emerging industries and other sources. Over the course of the year, although we had the three million cut, which was met, we did secure additional income of \$3.2 million, which built our budget up.

Senator NASH—Where did that come from?

Mr Byrne—It came from a range of sources. We had money from the DAFF portfolio, some programs from Land and Water Australia, and a pastures program also came during the year.

Senator NASH—I notice we now have an acting CEO and an acting chairperson. I welcome the new faces. At what point did the previous CEO and chairperson move on during the year?

Mr Byrne—The term of the previous chairperson finished in February, wasn't it?

Mr McAllister—No, it was the middle of January this year. Peter O'Brien resigned early February this year. I am actually the deputy chairperson; we now have a chair—Professor Daniela Stehlik. She cannot be here today, sorry.

Senator NASH—With the ability to go and raise the other resources—the cutback, the \$3 million loss, has not had any ability? Or do you see that as a lack of capacity to then go and get another \$3 million that you could have been able to raise to further what you are doing over the year?

Mr Byrne—I think we were able to pursue the directions that the board had set for the year effectively. RIRDC has a wide remit. We cover a large number of new and emerging industries, a range of established industries with levy arrangements and national rural issues, and we always face the issue of determining priorities. That was the case in 2009-10.

Senator NASH—Thank you. Within the budget statement there are a just a few things I want to run through. In relation to climate change, your budget statement says that RIRDC will be:

... undertaking research projects aimed at helping farmers reduce their carbon footprint.

What is currently under way and what is planned in that area?

Mr Byrne—We have a focus within the new rural industries portfolio on developing alternative crops that are more suited to a situation with lower rainfall, to provide farmers with options for addressing a situation of climate change.

Senator HEFFERNAN—Like what?

Mr Byrne—Native foods, wildflowers, olives, quinoa—there is a range of—

Senator HEFFERNAN—In place of what?

Mr Byrne—Really, as additional options to what they do—

Senator NASH—Senator Heffernan, I think perhaps they are talking about opportunity crops. Have you had a look at any of the markets for any of those?

Mr Byrne—The pattern for moving into those sorts of crops is to provide the industries with some initial market assessment before making decisions about investing R&D funds in those areas.

Senator NASH—So you have already identified a potential market before you have gone down that road in terms of these projects—is that what you are saying?

Mr Byrne—We try to.

Senator HEFFERNAN—Could you give us a list of the crops that you think are ‘space age’, as it were, on notice?

ACTING CHAIRMAN (Senator O’Brien)—Senator Heffernan, can we just have one questioner at a time. If you have questions after Senator Nash is finished, I will give you the call.

Senator NASH—There will be plenty of time. If you could provide that on notice, Mr Byrne, that would be very useful. Obviously with those sorts of projects you would need to do trials, I would imagine, on farm. How do you connect with farmers out on the ground? How do you pick where you are going to do the trials for any of these new products?

Mr Byrne—The location will depend on being able to engage with both the researchers and farmers. We attempt, in establishing the R&D program for a particular crop, to ensure that there is engagement with producers.

Senator NASH—I assume you have to have somebody to grow it for you, so you would need a producer.

Mr Byrne—Yes.

Senator HEFFERNAN—Do people—

Senator NASH—Hang on, Senator Heffernan. We have plenty of time. Just let me have a go.

Mr Byrne—We try and do that to effectively build in a pathway to the future, when the results are available and there is interest in adopting the crop.

Senator NASH—So how do you find a farmer to do these for you—just in general. I am just interested in how it works. You have RIRDC over here and you have farmers out there that are going to need to grow this stuff. Do you sort of bump into them at the pub or do you have a way of identifying who are going to be appropriate landowners for you to work with?

Mr Byrne—In the case of the new rural industries, we start with a planning process in which we try to set up an advisory committee of people who may already be trying out these crops. That might have representatives of the people who are already trying it out, with some research capacity representation to try and develop a plan for future R&D.

Senator NASH—How much funding for the next financial year is going to be allocated to those types of projects?

Mr Byrne—I have not got the figure, but I can provide it.

Senator NASH—That is all right. If you could take that on notice, that would be useful. In general, how do you measure the success of these projects once you have gone down the road of having this type of research project? How does RIRDC measure whether or not it has been

successful? Obviously you get some information back from it, but how do you ascertain whether it has been funding well spent?

Mr Byrne—We have a five-year forward plan for each of the major industries that we deal with and we assess the progress against that plan in terms of its objectives. We also have an evaluation process whereby we select a number of projects each year to evaluate a program, so we would do a cost-benefit analysis of a selection of projects to provide an indication of the return for that R&D investment and use that as a basis for assessing the program.

Senator HEFFERNAN—Do you have a couple of standouts for the last few years? A big wow?

Mr Byrne—We have also done a series of evaluations to contribute to the process that the council of R&D chairs has set up. Across the board for RIRDC, our outcome is an overall return of \$11 for one—

Senator HEFFERNAN—But can you put your finger on—

Senator NASH—Senator Heffernan—

Senator HEFFERNAN—These are all motherhood statements.

Senator NASH—Well then go off and do something else, Senator Heffernan, because I have some questions I would like to ask.

Mr McAllister—I might be able to help out here. I have been involved in this for a long period of time as a farmer myself.

Senator NASH—Whereabouts are you?

Mr McAllister—Deniliquin. The payback on the rice-breeding program is immense. There has been work done on EM surveying of rice soils and the payback has been very good on that. Once you start looking at breeding programs and things like that, that is where you get your bang for your bucks.

Senator NASH—You go on to talk about the sustainable environmental resource management area and, again, projects that you are doing. These ones relate to opportunities for farmers to be more environmentally sustainable. What sorts of projects are you doing in that area?

Mr Byrne—We have had a program for a number of years on agroforestry, looking at the prospects for trees to deal with groundwater recharge and the impact on salinity. That is probably the principal area that we have been involved in.

Senator NASH—Have any of the funding cutbacks affected your ability to continue with these particular types of projects?

Mr Byrne—The agroforestry program has been going for about 10 years and has continued just as individual projects, but I would have to take the question on notice to give you the exact projects that were affected.

Senator NASH—That would be very useful, thank you. With regard to international market access, again, you have projects happening here helping Australian farmers develop products better suited to international markets. How do you identify what they are, and what are you doing?

Mr Byrne—We have the Global Challenges Program, which focuses on research in the area of addressing potential trade policy issues. The program is a general one. We are not in the business of market research for particular products.

Senator NASH—In terms of looking at products better suited to international markets, are there any products that Australian farmers are currently using that you think are not suited to international markets? Are there any you think we are missing the mark on now?

Mr Byrne—We are not really doing research specifically on markets.

Senator NASH—Sorry. It is just that in here it says ‘maintaining and improving international market access opportunities’, so I thought—

Mr Byrne—It is really aimed at addressing general problems in the trade field. For instance, some years ago RIRDC funded a series of R&D projects that provided support for the trade round.

Senator NASH—What is New Rural Industries Australia and what does it do?

Mr Byrne—New Rural Industries Australia is a new initiative. The aim has been to provide a forum for new rural industries that, in the past, tended to be fragmented. These are small industries that do not have the voice and capacity to represent themselves in the same way that they would if they were brought together and had the opportunity to learn from each other and to provide a single association to look after their interests and provide a focus for them to address their needs.

Senator NASH—So it is just giving the opportunity to work more collectively and getting that economy of scale into what they are doing. How much funding goes to that?

Mr Byrne—We have initial seed funding of \$250,000 for that.

Senator NASH—You talk about a number of programs. What is the methane to markets program?

Mr Byrne—The methane to markets program is a joint program with a number of the other RDCs. It focuses on using methane from animal production sources as a fuel.

Senator NASH—What have you found in the project so far? Has it kicked off yet?

Mr Byrne—It has kicked off, but I would have to provide you with the detail on notice.

Senator NASH—How much funding is going into that?

Mr Byrne—It is \$250,000.

Senator NASH—Do you have any idea what the methane is likely to be used for, in terms of getting to a market?

Mr McAllister—Power generation, electricity.

Senator NASH—I am intrigued by the capture process.

Mr McAllister—Capture is in a pond. You put a tarp over the pond and siphon the methane out into a gas digester and it creates electricity.

Senator NASH—We are talking static; we are not talking animals.

Mr McAllister—Yes—static.

Senator NASH—Thank you for clarifying that. Are the five year R&D plans that you are talking about in here the same as what you were referring to earlier—the five year plans?

Mr Byrne—Yes.

Senator NASH—On page 190 of the PBS, could you explain the total net resourcing for agencies of about \$19.5 million down from what looks like a bit over \$28.5 million. How does that work?

Mr Byrne—Those figures reflect the expected resourcing.

Senator NASH—Is that a funding cut, or am I just reading it incorrectly?

Dr Grant—If you look at the top line you will see the reserves amounts—\$7.7 million proposed reserves in 2010-2011 and \$9.7 million proposed reserves in 2009-10. So that is the difference between the operating amount and the—

Senator HEFFERNAN—What is the annual expenditure?

Mr Byrne—This year it will be \$19.5 million.

Senator HEFFERNAN—How much is government and how much is equity partnership?

Mr Byrne—Of that, \$15 million is government. That is made up of \$10.5 million of the appropriation and another \$4.8 million, which is levy funds for—

Senator HEFFERNAN—So there is \$10.5 million of government money in your budget.

Mr Byrne—There is \$10.5 million and an additional \$2.4 million, which is the government matching of levies.

Senator NASH—In terms of staffing levels, you have dropped a couple of staff from 28 to 26. Is that temporary or ongoing? What was the staff reduction due to?

Mr Byrne—The staff reduction was set to reflect the cut in 2009-10; however, with the additional money that I mentioned earlier, one of the programs that came to RIRDC came with research support—a position.

Senator NASH—Was that from Land and Water?

Mr Byrne—That was from the Australian Natural Resources Online program, which came from Land and Water Australia.

Senator HEFFERNAN—That was them in their declining, shut down, getting rid of their stuff—they popped it to you.

Mr Byrne—Yes.

Senator NASH—You talk about investigating new feed stocks for biofuels and bioenergy to mitigate against and adapt to climate change. What are you doing there? What sorts of feed stocks for biofuels are you looking at, and what are you planning to do?

Mr Byrne—I need to take that on notice. I have been in this position only three weeks, and I am not across the detail of everything that is being done in the organisation.

Mr McAllister—I might be able to help. There was a conference held in Queensland last year and that whole methane market is looking at all sorts of things, including algae, et cetera. It is right out there.

Senator NASH—Could you perhaps come back with a detailed plan of what RIRDC is planning on looking at within the new feedstocks for biofuels, particularly if you are focusing it all on lignocellulose. If there is any work being done there, that would be very useful for the committee. I am guessing this is one for you, Mr McAllister. Under the Established Rural Industries Program, developing efficient irrigation practices in the rice R&D program.

Mr McAllister—It is already done.

Senator NASH—Tick. That is obviously a bit out dated then?

Mr McAllister—No.

Senator NASH—Is there ongoing work?

Mr McAllister—That is the extension of the EM work that was done, which was groundbreaking as far as finding leaky soils and things like that. That is being used right across the whole irrigation spectrum within Australia. As an irrigation farmer, that is just an ongoing process that we all have to aspire to everyday. I think that is just going to get more important.

Senator NASH—Absolutely. Finally, what is the Rural Women Mentoring Program and how does it work?

Mr Byrne—It is a new program associated with the Rural Women's Award. It has been going for a year and it is a method of trying to ensure that the recipients of the current award are able to keep in touch with each other and also able to maintain contact with past recipients who have the experience of undertaking their projects as winners and the success of their own activities once they have completed them.

Senator HEFFERNAN—What is the budget allocation?

Mr Byrne—I have to take that on notice. It is not a large amount.

Senator NASH—Thank you for the invitation to the dinner tonight. That will make no sense at all to you two, but I do thank RIRDC for the invitation. Apologies that I did have to decline as I will be stuck here.

Senator SHERRY—There will be no-one to ask questions!

Senator NASH—I had to decline, Minister. My responsibility is here, but thank you very much.

Senator HEFFERNAN—You have made a lot of motherhood statements in the last half an hour, but what is your mission statement? What are you supposed to do?

Mr Byrne—To provide knowledge and encourage the sustainable and profitable development of Australia's rural industries.

Senator HEFFERNAN—I realise you have only been there three weeks but, when you say 'provide knowledge' where do you get the knowledge from to provide it to someone else?

Mr Byrne—Through the research and development programs.

Mr McAllister—We get the knowledge from universities and state agencies.

Senator HEFFERNAN—Do you form equity partnerships in the process?

Mr Byrne—We form partnerships in the sense that most of the projects that we fund have our own contribution and our own funds and we look for either in kind or cash from the research partner—

Senator HEFFERNAN—which could provide the direction of the whole operation. I feel sorry for you because we in another committee are looking at the absolute falling off a cliff of agricultural research and then I see in the paper today that an eight by four toilet is worth \$800,000. You can imagine what you could do with five or six toilets at eight by four metres. You know how big that is.

Senator SHERRY—Can we have the question on the portfolio please?

Senator HEFFERNAN—It is just a bloody fact.

Senator SHERRY—Give our witness some respect. He has been there for three weeks. It is not an easy position to front up to a Senate committee at the best of times. He has been there for only three weeks. Please give some consideration.

Senator HEFFERNAN—I appreciate that. Where have you come from for this job, by the way?

Mr Byrne—Retirement.

Senator SHERRY—You would wonder why.

Senator HEFFERNAN—I do not know what that message is.

Senator SHERRY—Are you inspired, Bill?

Senator HEFFERNAN—Were you bored in retirement? I asked this question somewhere else. In terms of the new regime of gene plant patents, are you blokes across that yet? This could absolutely reinvent the monopoly of seed supply globally.

Mr McAllister—When RIRDC does a project with, say, a state department or the rice industry or something like that—

Senator HEFFERNAN—Do you deal with Monsanto and Syngenta?

Mr McAllister—Not really. There are intellectual property boundaries that are signed off. In most cases, RIRDC controls that intellectual property with industry.

Senator HEFFERNAN—So, in terms of providing the information for agricultural research to feed the whatever, do you see the inherent danger in a patent system which is based on 1929 law that then goes back to 1694 and which has allowed such broad patents in agriculture so as to tie up access to the genes in the plants—

ACTING CHAIR—Are you asking for an opinion? It sounds like you are asking for an opinion.

Senator HEFFERNAN—I am asking whether, in terms of research, that is a danger point for you fellas. If we are going to have Monsanto and Syngenta and these people not tying up the inventive step downstream from work on the gene but, as they are now in a whole range of patent applications, tying up the actual gene that gives the plant salinity tolerance or frost tolerance or whatever—

Senator SHERRY—Senator, can you please get to the question?

ACTING CHAIR—I think the question was whether they believe it should be tied up, which I think is more a policy question than to do with their responsibilities. I was giving latitude because they might want to answer, but I don't think it is really—

Senator HEFFERNAN—What do you know about it?

Senator SHERRY—They are not getting a chance to answer.

Senator HEFFERNAN—You had your in the other day when you threw the hoops. I do not know who it was, but it was your mob. This is a serious issue.

Dr O'Connell—Senator, I think you are going into areas of intellectual property policy and it is probably not in the mandate of RIRDC—

Senator HEFFERNAN—If we have to ignore that, we have no hope. I ask you, Dr O'Connell. You are the one with the PhD. Isn't there an inherent risk to the Wagga agricultural research station or wherever, which is short of money and has to form an equity partnership with a company that ties up to the gene so no-one can get access to the work and, therefore, the seed supply? Isn't that a danger for the future of agriculture?

Senator SHERRY—This is a policy issue. RIRDC are here and the officers are here.

Senator HEFFERNAN—But they are the blokes that add the information to someone else, as they said earlier, to increase production. This is a foundation stone upon which you stand.

Senator SHERRY—Do you have a question on research relating to the organisation and the witnesses before us?

Mr Grant—I know that the council of RDCs that look across all the RDCs are looking at the issues surrounding IP and patents in that area as well as sort of a whole of research and development issue, so they are doing some work on that to see what impediments might be impacting our research and development. I also know that the PC as part of their review of R&D provision in Australia has been interested in the issue of IP, so they may or may not report on that as part of their analysis as well.

Senator HEFFERNAN—In terms of the construction of the research and the information you provide for whatever preferential system with whatever equity partnerships you form, the base knowledge of the gene patent is not something you are concerned with?

Mr Grant—If it is impacting research and development and productivity, we would be concerned with it, but I do not understand the full background of the issues you are raising.

Senator COLBECK—I think he is answering the question. Is the piece of research that you are talking about a piece of research that is being conducted by the chair's committee?

Mr Grant—It is an issue that the council of chairs or the council of RDCs, as it is now called, is looking at. They are looking at IP issues as they affect R&D development across the RDC.

Senator COLBECK—Mr McAllister, is there a piece of research, a paper or something that is going to come out of that process that might inform the inquiries that are being undertaken surrounding the issues of IP and gene patenting and things of that nature? Obviously it does have some potential implications for the research work that is done. I think

that is the foundation. The fact that the chair's committee is looking at it is a good thing, but will there be some comment, paper or piece of research coming out of the processes occurring at the chair's level?

Mr McAllister—I am unaware of that because I do not participate in the chair of chairs. I have only been to one meeting, so I am not fully across that.

Senator COLBECK—Perhaps we could ask you to take that point on notice and come back to us, because it is an issue that is of interest to members of the committee. That actually deals with Bill's issue in the sense that it is being addressed in a form, but the question of what will come out of it being addressed is the thing that we need to get an answer on.

Mr McAllister—Yes.

Senator Sherry—Thanks, we will take it on notice.

Senator HEFFERNAN—I would like to make it explicitly clear that the research industry for agriculture needs to come to terms with patents that do not define the inventive step away from the discovery. The gene is the discovery; the work on the gene, the methodology and the outcome are the invention, but the patents that have been granted now to Monsanto and other people are locking up access to the gene. So Billy Bloggs cannot have a crack at it, if he is a one-man operation, unless he pays someone.

ACTING CHAIR—Is there actually a question here? This is estimates, not speech time.

Senator HEFFERNAN—Yes, but I just want to make sure you understand what the problem is.

Mr McAllister—I understand.

Senator Sherry—We are taking it on notice—the extent to which the chairs meet and consider this issue—and we will respond.

Senator HEFFERNAN—My question then is: having done that, could you come back to this committee with an impact statement on the potential damage of those broad patent applications succeeding in access to the gene?

Senator Sherry—It is not the remit of RIRDC to do impact statements at your request. They will come back with as much relevant information within the ambit responsibilities of RIRDC. We will take that on notice and they will do their best to come back and report on the information they can make available.

Senator HEFFERNAN—I will talk to you later.

Senator COLBECK—If there is a piece of work that is going to be done, and that has been taken on notice—

Senator HEFFERNAN—I do not know whether you get it, Minister, but this is a bloody big deal.

Senator Sherry—No, I understand the importance of the issue. I think that it is just a little unreasonable for the RIRDC to be pressed on this broader issue which, in the main, is not in their remit.

Senator COLBECK—I have just got a couple of very quick questions on this. You indicated before that you had received about \$3.2 million in revenue from outside sources; a

transfer from Land and Water Australia and also some funding for DAFF. You said to Senator Nash that you will give her an answer on notice about the projects that you have had to let go. But that \$3.2 million would have come with some obligations for work, I would have thought—particularly the stuff from Land and Water Australia. Could you—on notice, because we are time constrained—give us a list of what those obligations were as far as projects that you have to conduct? I think you mentioned one of them from Land and Water Australia. Could you provide us with a list on notice of the projects from Land and Water Australia and the additional responsibilities that you have had to take on board in response to the additional funding out of DAFF?

Mr Byrne—Yes, we can do that.

Mr Grant—Can I just clarify? I think we did report that in the transfer of projects out of LWA into other partner organisations that they did come with funding. We can take that on notice, but I just wanted to make that point.

Senator COLBECK—That is recognised in the \$3.2 million.

Mr Byrne—Yes, correct.

Senator COLBECK—So can we get a split up of how much funding came from Land and Water Australia and how much came from DAFF, and the respective obligations that came with that funding along with the list of projects that RIRDC has had to relinquish because of the overall budgetary constraints?

Mr Byrne—We can provide that. Some of the money came with projects that were underway, so that was an obligation. Some of the money was not tied to projects, but is now with us to move forward.

Senator COLBECK—To formalise new projects—okay Thanks.

[4.56 pm]

Wheat Exports Australia

ACTING CHAIR—We now proceed to witnesses from Wheat Exports Australia.

Senator NASH—Welcome, gentlemen. To start with I have some questions concerning the accreditation process and, in particular, an explanation of surrendered accreditations. On the website there is one from Sumitomo from 19 May this year and one from GrainCorp Ltd from 25 May last year—I am guessing that GrainCorp changed into another formal guise or something—but can you explain for the committee the reasons for surrender for those two particular companies.

Mr Woodley—In the case of GrainCorp, they initially had accreditation for two of their companies and then decided that they only needed accreditation for one. In the case of Sumitomo, they had been accredited for quite some time but with Sumitomo's ownership of Australian Bulk Alliance, ABA, through their purchase of shares from Viterra they went from a 50 per cent ownership to a 100 per cent ownership of that company. That company in turn owns the Melbourne terminal operator which is the provider of terminal services at Melbourne Port terminal. Because of that, Sumitomo group, as a group, were seen to then be required to comply with the access test arrangements under the act—or Sumitomo Australia; that is the accredited body. As there is no access undertaking in place at present, they were

obliged effectively to surrender their accreditation. But they surrendered their accreditation voluntarily because at this stage being a provider of port terminal services they do not have an access undertaking.

Senator NASH—And with GrainCorp, did they have any reason why they kicked off with two separate companies that they wanted both to be accredited?

Mr Woods—No.

Senator NASH—No idea?

Mr Woods—No, they didn't. They just surrendered one eventually, using the one they are now accredited for as their vehicle for exports.

Mr Woodley—As an example, AWB have three of their companies accredited. It is unusual, but—

Senator NASH—Okay. So how is it all going in general? Are you happy with the way it is all proceeding?

Mr Woodley—Yes.

Senator NASH—Good. Why am I not surprised you just said that?

ACTING CHAIR—Is that a question or a value statement, Senator Nash?

Senator NASH—No, it was a question. I know these gentlemen are very, very keen in doing what they do. In terms of the Productivity Commission report, when are you expecting any kind of response from government? Obviously any potential changes from that are going to have to come to WEA to deal with, so what is the sort of time frame of dealing with any changes that might arise out of that Productivity Commission report?

Mr Grant—Perhaps I can take that question. The PC is due to report to government by 1 July. The act stipulates that the government must release the PC's report within 15 sitting days, I think it is—I can check that for you. There is no constraint or time line scheduled for when the government must respond to the PC's report, so really the response is in the government's hands and the timing of any changed arrangements, if any, to WEA and the operations of the wheat marketing system will be in accord with the government's response.

Senator NASH—Whenever; that is fine.

Senator BACK—The draft Productivity Commission report is out though, isn't it?

Mr Grant—It is.

Senator BACK—It recommends that Wheat Exports Australia actually be dismantled.

Mr Woods—Correct.

Senator BACK—Can you give me the authority's reaction and the department's reaction to that draft recommendation?

Mr Woodley—Our position is: it is business as usual; it is business as usual until and if the government makes changes to the act and to our responsibilities.

Senator BACK—I imagine it would be business as usual. That was not really the question. The question was: what is wheat export's reaction to the draft recommendation should it be implemented? Do you support it? Do you oppose it?

Mr Woodley—All I can say is that we did submit a public submission in response to that draft report, and that elucidated some areas of detail around the accreditation scheme and also made some recommendations to the Productivity Commission of other issues that maybe they should have a look at. With respect to the recommendations, it is not for us to make any comment.

Senator BACK—Given the fact that your response was public, could you advise the committee in very brief terms as to what the main thrust of your response was to the draft?

Mr Woodley—Yes, and I have it here before me.

Senator BACK—That might be easier, if you would care to table that.

Mr Woodley—Eight pages—I can hand it to you if you wish.

Senator BACK—Table it and—

Mr Woodley—It is largely just to clarify some matters in the report. As you said, it is a draft report. They clearly have indicated that in some areas they needed to look further at some issues. They have asked certain questions. They have asked for certain information to clarify their own thoughts before producing the final report, so we just commented on some areas that were relevant to the operations of WEA and the accreditation scheme, and gave some further detail on some of those points.

Senator NASH—Just back to the accreditation: I notice that three of the companies on the accredited list, CBH Grain, GrainCorp Operations and Viterra, on 18 December last year—I will just read what it says; it will be easier. It says:

... WEA decided to revoke a condition of accreditation renewal under s28(1) of the Scheme. The revocation took effect from 21 December 2009.

On 12 March 2010, WEA decided to vary a condition of accreditation renewal under s 28(1) of the Scheme. The variation took effect from 22 April 2010.

Can you just explain what the condition is that was revoked in December and then what the variation was in April for those three companies?

Mr Woods—The conditions that were varied and revoked were in relation to the first 12 months to 1 October last year in relation to access arrangements, so in the changing from the WEA looking at access arrangements and ports until the ACCC had access undertakings in place. Then it took us a little bit of time to get some legal advice on the change in the condition and the form it should be and work through that, and there were some delays in processing it.

Senator NASH—So what actually was the condition that was revoked?

Mr Woodley—When the access undertakings were put in place, there was a period of 14 or 21 days when people had the opportunity of appealing against that access undertaking. If someone had appealed against that access undertaking, effectively the access undertaking then does not take effect until that appeal is heard. In normal circumstances those appeals may take months or even years to be resolved, so the original condition was to ensure that, in the case that there was an appeal, the access undertaking would effectively take effect. As it turned out, there were no appeals—

Senator NASH—I will have to wait until the *Hansard* comes back to make sense of that one.

Mr Woodley—It is a highly complicated arrangement. It was put in place for that period of 21 days in case there was an appeal. There were no appeals, therefore it was no longer necessary and it became redundant.

Senator NASH—Why did it then only apply to CBH, GrainCorp and Viterra and not any of the other companies?

Mr Woodley—Because they were the only three accredited exporters that were required to have an access undertaking with respect to the port terminals that they owned and provided services through.

Senator NASH—Yes, that makes sense. Thank you very much. On 12 January this year you decided to impose a further condition on the accreditation renewal of OzEpulse. What was the further condition?

Mr Woods—It was a tonnage restriction.

Senator NASH—And why was that?

Mr Woods—In going through their renewal process they were looking at having some new financial facilities developed and they did not eventuate. They wanted a restriction in place on the tonnage that they could export.

Senator NASH—So they wanted a restriction on the tonnage they could export?

Mr Woods—Yes.

Senator NASH—Why would they ask you to put a restriction on the amount of tonnage they could export? I don't quite follow that.

Mr Woods—Exporting tonnage as part of our accreditation process is looking at an export proposal—so, what an exporter is thinking they will export over the next year, two years or three years—and depending on that the board then considers the finances of the company, the capability, the payment terms and all those sorts of things. So a tonnage restriction does provide everyone with some flexibility to aid in accreditation.

Senator NASH—So it makes them look a more viable company when you stack up their financials to what they are actually planning to do—is that the point of it?

ACTING CHAIR—It is more so that they can meet the financial obligations that that limit provides—

Mr Woods—That's right.

ACTING CHAIR—rather than have a bigger limit and then be questionable as to their financial capacity.

Senator NASH—That is just what I was getting at, but I probably need it from them, Acting Chair—thank you for being so helpful, though!

Mr Woodley—Also, it is an issue that can be revisited—and it has been revisited in the past—where a company that had a tonnage restriction then applied to have that increased, and we reviewed their situation, their financials, and in that case approved it.

Senator NASH—Okay. Where are we at the moment—and I know we have this discussion every time but we will have it again—with the world price of wheat, compared to when I last asked in February?

Mr Woods—The world price of wheat is not ours and we do not control it. It is sitting out there at the moment. The Aussie dollar has fallen; therefore the price of wheat has increased over the last 10 days. World stocks are sitting right up there. There has not really been a change.

Senator NASH—I actually just wanted a figure at the moment.

Mr Woods—A figure of what it is worth today?

Senator NASH—That would be great.

Mr Woods—The market at the moment is trading, for example Melbourne, at just over \$200 a tonne for hard 1. It is freely available on the internet.

Senator NASH—I know lots of things are freely available on the internet but if we did that with everybody, Mr Woods, we would only be able to spend half a day here and it would not be much fun at all. Do you have the figure for any other grades, or is that the only one?

Mr Woods—No. I can table this if you like. APW, which is pretty much the benchmark grade at the moment, in Melbourne is just short of \$200. So it is around that \$200 mark.

Senator NASH—Okay. Apropos of a conversation we had last time about the price of wheat being a result of the world market, I would like your comment on this—and I will read it out for the benefit of the *Hansard*. This is from a Canadian wheat board media release of 25 March this year:

Two years ago, Australian farmers were receiving a premium price for their wheat on the world market. But Canadian Wheat Board director Bill Nicholson says Australian wheat is now selling at a discount to U.S. wheat.

The difference maker, he said, was the deregulation of the country's grain marketing system.

"There was clear evidence that Australian wheat was being discounted to the world market, and certainly discounted from their previous pricing practices," Nicholson said during a March 16 CWB Farmer Forum meeting in his hometown ...

He used as an example an Australian wheat sale to Japan following AWB's loss of its single desk in August 2008.

"Once their single desk was gone, they ended selling at a \$26 a tonne discount to what American wheat was being sold into Japan," he said.

Wheat board spokesperson John Lyons said 26 companies were granted licences to market Australian wheat after AWB lost its single desk. In a scramble to lock up export sales, those marketers drove prices into the ground, he added.

"There was an immediate impact as everyone in Australia started fighting for market share," he said.

"Discounts were generally \$50 to \$60 (per tonne) below U.S. prices for the first six months to a year (after deregulation)."

In Nicholson's example, an Australian marketer sold wheat to Japan in December 2008 at a \$27.67 per tonne discount to equivalent U.S. wheat, Lyons said.

I guess that is the direct antithesis of your view that there is no impact at all from the deregulation. Do you have a comment for the committee? Should we just dismiss the Canadian Wheat Board's view?

Mr Woodley—The only comment that I can make is that there are multiple exporters competing for Australian grain and previously there was just one opportunity to provide grain. Inherently when there is competition and choice, they do nothing other than to increase marketability, and if demand increases one would expect the price would increase.

The other thing, as I think has been instanced at previous hearings, is that we have got evidence from a number of the accredited exporters who had previously been trading on the world scene and using grain from sources other than Australia, who are now sourcing that grain for their markets from Australia. One would expect that the greater competition for Australian grain would increase the price that growers in Australia would get for their grain.

Senator NASH—You would expect that, unfortunately—

Senator HEFFERNAN—That is—

Senator NASH—No—I have got just one more question and then you can have it.

Mr Woods—If I can just add on to that: this is Australia's competition not being able to compete in the market. Of course there are going to be some sour grapes—

Senator Sherry—Just before we go on; Senator Faulkner is replacing me until 6 pm

CHAIR—Welcome, Senator Faulkner!

Senator Sherry—And Senator Ursula Stephens is replacing me between 6 pm and 6.30 pm.

Senator NASH—It takes two to replace you; that is impressive!

Senator Sherry—And Senator Faulkner is well known as a farmer about town. Senator, you will be fascinated by the discussions.

CHAIR—Mr Woods, you were answering Senator Nash's question.

Mr Woods—It is the view of one of Australia's competitors that they are finding it difficult to compete in the world market. That is really no big surprise to anyone: they cannot compete against Australia and they could not compete against AWB. The market fluctuates all the time.

Mr Grant—I will just add that I think the PC did look at this in response to a number of submissions on this issue. They made some comments in their draft report, so it might be useful to have a look at that as well.

Senator NASH—Yes, I was at a few of the meetings. I have read the draft report and in my view there are probably some slight differences in the reporting of the draft. But that is entirely up to the Productivity Commission.

I am probably in completely the wrong place to ask, but have the products that Australian farmers have to market their wheat improved or changed in any way from the point of view of the WEA since we had the change to deregulation?

Mr Woods—I suppose it is not really our area, but there is a broader range of pool products, cash grain prices and some new innovations coming in over the next year in the way that growers will be able to sell to accredited exporters.

Senator NASH—Okay. Are growers able to benchmark those products against similar sorts of products offered in countries overseas at all? Can they get any kind of sense of how ours stack up, I guess, compared to those on offer in other countries?

Mr Woods—Benchmarking against other countries is always difficult because of fluctuations in the dollar and currency differences in that respect. You have also got yield differences that you need to take into account in all those sorts of things. But the benchmarks are the world futures markets. Everyone is using those as their price.

Senator HEFFERNAN—They all set their bet on the same market.

Mr Woods—It is discoverable.

Senator NASH—Are there any changes in how farmers have been able to access whether or not they are comparable to other countries over recent years? Has anybody been responsible for it? It is not an area that I know a lot about—has there been much done in the past by you or any other organisations to provide that information to farmers?

Mr Woods—There are a number of industry advisors that provide this information to any grower who wants it, and it is actually in the *Land* newspaper every week.

Senator NASH—Do you do it at all, or is it not part of your lot?

Mr Woods—We do not need to. Everyone else does it.

Senator HEFFERNAN—You ring up and get it every day.

Mr Woods—If there are enough people doing it, we do not need do it.

Senator NASH—Have you ever done it? Is providing that kind of information anything you have been involved in?

Mr Woods—We have provided some fact sheets occasionally to inform people of what is happening in the industry, but it is happening well now. The government marketing programs that they had a few years ago has kicked in, and people are looking at risk management more. There are more pools being operated. The Kondinin Group do all sorts of reports on those sorts of things. There is no need for us to be going into that space.

Senator NASH—Thank you, Mr Woods.

Senator HEFFERNAN—Could I just clarify a couple of things that have just been said. The bloke that used to run my show—and we won the crop competition last year—now works in Canada for the second largest wheat grower over there. The price of Canadian wheat, where they want to dismantle the desk at the present time—you would agree with that?—

Mr Woods—Yes.

Senator HEFFERNAN—cannot compete with us. If you take out the differentiation in the Canadian dollar versus the US dollar, because of our appreciation they were \$10 ahead of us, but they are now looking to grow crops other than wheat in Canada because they are in the same boat as we are. Despite what all that other garbage is about, the reality is that they actually want to dismantle their—

Senator NASH—I would suggest, Senator Heffernan, that given I respect your opinions and your views—

Senator HEFFERNAN—I am telling you these other facts. If you want to know where to look it up—you do not know—you look it up on the Bloomberg site every day.

Senator NASH—Where we differ, Senator Heffernan, is perfectly fine, but I certainly give you the respect of having your own view on matters and you should respect mine.

Senator HEFFERNAN—That is all right. Thank you very much.

CHAIR—Despite my ongoing desire to hear the argument keep going, Senator Heffernan, I must call you to order and ask questions of the officers.

Senator HEFFERNAN—Thank you very much.

CHAIR—We appreciate your input.

Senator HEFFERNAN—Thank you very much, Fiona, too.

CHAIR—I am sure you will sort it out after the tea break.

Senator HEFFERNAN—She is all right. Can I just go to port access. We have not dealt with this, have we?

Senator NASH—With what?

Senator HEFFERNAN—Port access.

Senator NASH—Who?

CHAIR—I am a little bit lost, Senator. Do you want to ask questions of the officers?

Senator HEFFERNAN—I do. In the *Land* on 29 June there was a two-page article about the grievances of the industry regarding the arrangements with the three major grain corporations and CBH. Are you familiar with that?

Senator BACK—What date was that, Senator Heffernan?

Senator HEFFERNAN—It was 29 April: ‘Pressure points: port access dogging wheat trade export’.

Senator BACK—It was 29 June. It was last year.

Senator HEFFERNAN—My first question is: do you give credence to the Australian Grain Exporters Association? Are they reliable?

Mr Woods—They are an industry association of grain exporters.

Senator HEFFERNAN—Of some credit?

Mr Woods—They have been around for quite some time.

Senator HEFFERNAN—In response to the Productivity Commission’s draft report on wheat marketing arrangements, the AGA claimed:

... the system gave CBH an unfair advantage by effectively allowing CBH to operate a “risk free” logistics operation, with fixed costs, variable costs and margins covered and prepaid by the auction system.

You would be aware of that. The AGA submission argued the auction system had actually distorted market signals, reduced competition and increased costs for the supply chain, which flowed through and created lower prices for growing. This is because of the way they are organising the port. Further to that:

... Viterra booked its entire shipping program themselves and cancelled each vessel as it comes due within two weeks of the arrival date, with that space then offered to other traders.

“It’s not possible to make a sale in an international market, charter a vessel and find the grain to put in there in a two-week period,” the trader said.

“Subsequently there’s about one million tonnes of capacity gone to waste in South Australia where nobody’s been able to ship because of this blanket booking.”

Do you have any comments to make about that sort of behaviour by the people that actually own the infrastructure?

Mr Woods—I think for both of the ones that you quote there there have been numerous submissions to the Productivity Commission, and they are currently looking at this. As far as those areas go, they are access arrangements that are under the ACCC area.

Senator HEFFERNAN—I am aware it is an issue for the ACCC, but I am also aware it is an issue for this committee. If you like, I can table this article. CBH, GrainCorp and Viterra are all going along with further deregulation of the industry in their submission to the productivity mob. It appears to me that the rest of the industry is being held to ransom.

Mr Woodley—I think it is fair to say that this issue is probably the biggest issue that the industry is discussing at the present time. You have referred to that article. There have been a number of articles about these issues. The Productivity Commission themselves have indicated that they believe that is the biggest issue that they are addressing in their review. Clearly these sorts of issues are subject to their review, as it was in the draft report, and I am sure they will be coming out with a little bit more information in their final report.

Senator HEFFERNAN—Would it be fair to say that when the AGEA says that the system needs to be fair and transparent, given the evidence in those articles, that might not be the case.

Mr Woodley—I think there has been a significant change in the last year or two. A year or two ago, there were no access undertakings. The access undertakings were put in place, as you are aware, on 1 October last year. They have been in place since that time. I think everybody has acknowledged that, since the access undertakings have been in place, there is greater transparency. The problems of the first harvest after deregulation did not occur last year. I think everyone will still say that there are still some issues to be addressed, including the bulk handlers themselves. As I said, it is still the biggest issue facing the industry at the current time.

Senator HEFFERNAN—We will take up the question of further deregulation of the ports and transport system and this whole issue with the ACCC.

Mr Woods—That is certainly something that the PC is looking at and, as you said, fair and reasonable access is what was in the minister’s second reading speech when this act was released.

Senator HEFFERNAN—It does not appear to be the case at the present time. Thank you very much for that.

Senator BACK—I just wonder if you could give me some indication of what the change in percentage—speaking of Western Australia now—in terms of the receivals by CBH or Grain Pool operators following deregulation in 2008-09 and 2009-10? Can you give us those figures?

Mr Woodley—We are not at liberty to give you figures of individual companies. If I refer you to our marketing year 2008-09 report to growers, we did give some information in a more generic sense. We indicated the actual percentage of grain exported by the top exporters and also gave some information on tonnages there. I can read that out or just leave it with you. Unfortunately, we are not in a position where we can indicate what the actual tonnages from individual companies are.

Senator BACK—I was not interested in individual exports. Prior to deregulation in Western Australia, CBH or Grain Pool took the entire harvest, yes?

Mr Woodley—Prior to deregulation, AWB would have received all of the wheat that was destined for export.

Senator BACK—And then following deregulation?

Mr Woodley—Following deregulation, AWB has not received 100 per cent of the wheat destined for export.

Senator BACK—Can you give us some breakdown perhaps of CBH versus the others?

Mr Woods—No, we can't.

Mr Woodley—We are not in that position I am afraid.

Mr Woods—I do not think it is near the figures you are talking about. There are 29 exporters. We know that, as Senator Nash has indicated, the world price is low and in all states growers are sitting on a lot of grain. Therefore it has not been sold to anyone yet.

Senator BACK—That was a further question I was going to ask. My first question was to try and get some idea of the change in relationship of CBH to others receiving wheat. The second question relates to on-farm storage following deregulation. What percentage of the harvest has remained in on-farm storage as opposed to that going into common storage?

Mr Woods—We do not know. ABARE are doing the statistics and reporting on that. We have no role.

Senator HEFFERNAN—The other question is: how much of that hasn't got weevils in it.

Senator BACK—My next question goes to that—

Mr Grant—Maybe I can help. The ABS and ABARE together, as Mr Woods pointed out, do release monthly estimates of wheat stocks held. That information is publicly available on ABARE's website. My recollection is that the most recent survey came out just a couple of days ago.

Senator BACK—And that is available on ABARE's website?

Mr Grant—Yes, it is.

Senator BACK—Thank you. As Senator Heffernan has alluded, one of the concerns being raised is the possibility of variable standards of grain storage on farm. Have you any comments or observations to make on that?

Mr Woods—We were asked similar questions at our last appearance and it is not for us to comment on that. All the bulk handling companies and exporters are working on quality assurance programs that they are in control of.

Senator BACK—My final question also goes to port access. In the summer of 2008-09 there was great controversy and concern off Fremantle about loading of vessels and who had priority et cetera. Can you tell me whether this most recent harvest experienced the same problems, or had they been resolved?

Mr Woods—No. They are not fully resolved. CBH introduced the auction system that Senator Heffernan was talking about before. No, there were not ships queued up at port but then the season was different again and we did not have the delay in harvest and the rain events and those sorts of things that we did the previous harvests. There has not been the volume of grain trying to be exported out of the ports, therefore that has changed the whole logistics process.

Senator BACK—And tonnages of wheat produced in this last harvest would be available on whose website—ABARE's?

Mr Woods—They are the only ones that publish docs and they are doing that monthly at the moment.

Senator BACK—You just made reference a few moments ago to the Canadian circumstance. Is there any evidence of the Canadians trying to adversely impact on our markets by price manipulation? Are you aware of anything of that nature?

Mr Woods—We are not aware of anything like that. We know that Australian exporters are taking grain to more countries and more end users than has been the norm.

Senator BACK—Yes. That is our observation as well.

CHAIR—Thank you. As there are no further questions of the officers, I thank Mr Woodley and Mr Woods.

[5.28 pm]

Agricultural Productivity

CHAIR—I welcome officers from Agricultural Productivity.

Senator COLBECK—The department provided the Horticulture Code of Conduct committee report to the minister's office on 14 September last year. The minister released the report publicly on 1 November last year and said the government would consider the report. Where are we at with the response?

Mr Grant—The government is still considering its response to the recommendations of the ACCC and the report of the Horticulture Code of Conduct committee.

Senator COLBECK—Is the government considering advice from the department or is the department preparing advice for the government to consider?

Mr Grant—The government is considering its advice in response to the recommendations of the ACCC and the horticulture committee.

Senator COLBECK—So the government has provided advice to the minister—

Mr Grant—We are continuing to provide advice.

Senator COLBECK—Okay. So is there a time frame to try and finalise this particular issue? It is obviously one that has got quite a history, and a somewhat vexed one.

Dr O'Connell—It is with the government, as Mr Grant said.

Senator COLBECK—What I am trying to determine is whether or not the government has the final advice. I think I have a feeling of *deja vu*.

Dr O'Connell—I was going to say that. I think we had this right at the start.

Senator COLBECK—We have been here before.

Dr O'Connell—And the same set of considerations would come to bear.

Senator COLBECK—So it is still bouncing backwards and forwards?

Dr O'Connell—No, that is not what I was saying. I think the government is considering its response and that is all we can say, effectively.

Senator COLBECK—So it has had the report since September and we still do not have any response to the report.

Mr Grant—Sorry, Senator, was that a question? I thought it was a statement.

Senator COLBECK—It might just have to remain as a statement I think, Mr Grant.

Mr Grant—That is how I was interpreting it.

Senator COLBECK—I thought I might try and tease some sort of response out of you in a different format but obviously that is not going to happen, so we will just have to wait and see what the government decides to do, I suppose. Is the government continuing to get representations from industry to provide a response? What is the current status of representation from industry on this? Are they asking what is going on?

Mr Grant—The government continues to meet with the industry as part of normal business. I am not aware that there has been a strong lobby about the timing of the release of the government's response to the code but I can take that on notice, if you like.

Senator COLBECK—You mention the continued consultation, so could you take on notice to provide us a list of meetings that have been undertaken between the department and/or the minister and industry on the matter. The minister has said that there is a possibility of a horticulture ombudsman; is that still part of considerations?

Mr Grant—That would be one of the considerations, given that that was a specific issue raised by industry in its considerations of the code. So that would be one of the considerations given to the government's response.

Senator COLBECK—But we effectively do not know anything else at this stage; okay. Going to the Prime Minister's great big tax on mining—

CHAIR—Look, I promise I won't say 'phoney Tony' if you don't run that again. Is that fair?

Senator COLBECK—No. You run your lines; I will run my lines. We are cool with that. Incitec Pivot announced last week that it had ceased exploration works in North Queensland following the announcement of the tax. Has DAFF undertaken any work on the impact of the tax on the price of fertiliser?

Mr Glyde—No.

Senator NASH—Are you going to?

Mr Glyde—We are not planning to at this stage.

Senator COLBECK—Given that industry obviously thinks that there may be an impact, is there any reason why the department would not have some work done to give the government some advice as to what the potential impact of the tax on farming, food prices or any of those downstream from fertiliser issues may be?

Dr O'Connell—The issues relating to the tax are best put to the Treasury.

Senator COLBECK—I am sure that will be done.

Dr O'Connell—I think that is as far as we could go with that.

Senator COLBECK—So that is your final point?

Dr O'Connell—I would say that is my final point, yes!

Senator COLBECK—So you obviously have not been asked to do any modelling or any work by the government in the preparation of the tax?

Mr Glyde—ABARE did some work of a conceptual nature at the request of the Treasury in relation to the super profits tax.

Senator COLBECK—Can you discuss with us the work that you did, even though it was of a conceptual nature?

Mr Glyde—ABARE's report that it provided to Treasury was at their request, so that would be a question you would have to ask Treasury.

Senator COLBECK—Can you give us any indication of the general themes that were requested as part of that?

Mr Glyde—I do not think that I can. I would say that over the last 10 to 15 years ABARE has done a number of pieces of work in relation to resource rent taxation in general. In fact, one of our officers is quite expert at it and has written a number of papers. I could give you the dates of those papers and what is actually on the public record, if that would help.

Senator COLBECK—That may be helpful.

Mr Glyde—But the substance of what is in the report to Treasury is something that you will have to put to the Treasury. Just bear with me while I find the right dates—

Dr O'Connell—We can table it or provide it on notice if that helps, rather than struggle to find the dates.

Mr Glyde—I can read it now if you like?

Senator COLBECK—Yes.

Mr Glyde—There was a report that was released in January 2007 that was called *Mineral resource taxation in Australia: an economic assessment of policy options*. Its number is ABARE Research Report 07.1. On the basis of that paper the author was invited to an International Monetary Fund conference and presented a paper at that conference entitled *International minerals taxation: experience and issues*. It is known as ABARE Conference Paper 08.11. Also at an IMF conference, held in Washington DC in September 2008, there was *Taxing natural resources: new challenges, new perspectives*. And again, following that conference there was some work that was published as a chapter in a book that the IMF and ABARE did jointly. The book was called *The taxation of petroleum and minerals: principles, problems and practice*. That was published by the IMF in April 2010. That chapter is a revised version of the conference paper, with a greater discussion of international mineral developments in recent decades.

Senator COLBECK—Could you give me the name of the book again?

Mr Glyde—The book was called *The taxation of petroleum and minerals: principles, problems and practice* and it was published by the IMF in April 2010. If it helps, we can provide the links to these—the first two are on our website.

Senator COLBECK—Yes, that would be great. They might provide some debating points, if nothing else.

Can I go to the Regional Food Producers Innovation and Productivity Program and the reduction in the program to provide \$5.5 million in savings over two years? Can you give me a sense of where those savings are going to be achieved?

Mr Grant—The savings were redirected into two initiatives. One was to do with the Pacific Islands fisheries policy and the other was to do with the amalgamation of the delivery of adviser ombudsman services under, amongst other things, the Horticulture Code of Conduct. There was a budget decision to centralise the provision of those mediation arbiter services within the department of innovation and industry, and some of the savings from the regional food producers innovation program were directed to that initiative.

Senator COLBECK—That does partly answer my previous questions about the Horticulture Code of Conduct. There is a hint there that something is going on in that respect.

Mr Grant—No, it is purely an administrative arrangement. Previously the administration of those mediation and arbitration services existed under four codes: the horticulture code, the oil code, the produce and grocery code and the franchising code. They all took place independently of one another and were handled across three different agencies, but the government decided to amalgamate the delivery of those under one agency and with one service provision.

Senator COLBECK—What you are effectively doing is taking money that would have gone to industry to assist them to become more competitive through productivity and innovation improvements and putting it into government administration.

Mr Grant—The government made a decision on the savings.

Senator COLBECK—I am not arguing about that; I am just rationalising exactly what has happened. This was a program that was providing maximum grants to Australian food producers, and it is being removed from that process and put into government administration.

Mr Glyde—It is a little bit more than government administration; it is providing a dispute resolution service. As you would be well aware, one of the key aspects of the horticulture code and all of the debate that has been going on for some time is trying to resolve disputes between the various levels in the supply chain, and this provides a service that industry has been using and will continue to use. It is trying to find a streamlined way of providing that service.

Senator COLBECK—We might agree to disagree on interpretation, but you make your point. That is fair enough. It is part of the process. I would still like to know: what are we losing in respect of the grants programs? What grants and programs are being cut to provide this funding to those two particular programs, the island fisheries and the adviser programs?

Mr Grant—There were two transfers of funds—\$1 million from the 2010-11 budget and \$4.5 million from the 2011-12 budget.

Senator COLBECK—Who misses out?

Mr Grant—It will reduce the funds that are available under the Regional Food Producers Innovation and Productivity Program.

Senator COLBECK—So there are effectively fewer grants available under those programs?

Mr Grant—That is right.

Dr O'Connell—Just to be clear, removing \$1.5 million from 2010-11 and \$4 million from 2011-12 does leave \$5.5 million in 2010-11 and \$8.8 million in 2011-12, so there is—

Senator COLBECK—What have been the subscription levels to various grant rounds so far?

Mr Grant—They have been quite positive.

Senator COLBECK—Effectively, have they been oversubscribed? Have we had more in applications than we have had money to distribute?

Mr Grant—Certainly more applications have been made than grants, but you would expect that in a competitive process.

Senator COLBECK—By what factor?

Mr Grant—Let me give you an example. For round two of the Regional Food Producers Innovation and Productivity Program there were 160 expressions of interest, which is basically an initial view. That resulted in 50 applications being received. Of those, 42 were considered by an independent advisory panel and 16 grants were awarded. That is the order of magnitude of interest. Those grants that were awarded were deemed to be those that best met the merit criteria under the guidelines of the program.

Senator COLBECK—I understand that process. So the total program is wound back by \$5.5 million? The initial election promise was \$35 million over five years. Will that effectively come back to \$29.5 million?

Mr Grant—Yes. The savings that were made did total \$5.5 million over those two years.

Senator COLBECK—What is the total commitment to the seafood industry so far?

Mr Souness—The seafood component of the regional food program is, so far, \$3.1 million to date. That is probably yesterday's figure.

Senator COLBECK—Which elements of the program is this coming out of? There are a number of elements to the program, so where is the funding being taken from? So, for example, is the funding for Pacific Island fisheries planning coming from the seafood allocation, or where?

Mr Grant—There is no formal allocation. There was a commitment made by the government for a \$35 million program, of which \$10 million would be directed to the seafood industry. But there is no formal budget split that that has been taken on.

Senator COLBECK—How much is going to be allocated to the seafood industry at the end of the day?

Mr Grant—The government said that it wanted to provide \$10 million in its election commitment.

Senator COLBECK—Yes, but it also said that it wanted to provide \$35 million in an election commitment. I want to know what the number will end up being.

Mr Grant—It depends on the applications that are received, the assessments that are made and the extent to which those applications meet the merit criteria under the guidelines.

Senator COLBECK—So there still may be \$10 million going to the seafood industry but that will come at the expense of other sectors of the food production industry.

Dr O'Connell—It will not come at the expense. The budget reduction has been made and now we will deliver within that the—

Senator COLBECK—In the context of the promise it will, of course it will. This is the old 'Tony Abbott took a billion dollars out of health' argument when it was taken out of the forward estimates, and that is what is happening here. Tony Abbott says he did not—and he did not actually; the cuts were made before he became health minister, but that is another argument. But what you are saying now is, 'We are not taking money out of it because it is coming out of the forward estimates.'

Dr O'Connell—I am saying that the budget has been cut and saving has been made. The issue beyond that—

Senator COLBECK—I am just trying to get a sense of what part of the sector that cut is going to be in.

Dr O'Connell—If I could finish—the budget cut has been made. The suggestion that after the budget cut has been made the distribution is at the expense of one part or the other is not correct. It is simply that we will deliver the program with that reduced budget. Your suggestion that was—

Senator COLBECK—Is this a 'the money's not real' comment?

Dr O'Connell—Your suggestion was that if we hit the \$10 million mark for the seafood industry it is at the expense of something else—they were your words. I am just saying that it

is not at the expense of something else. It is just part of the objective the government had originally.

Senator COLBECK—It has to be at somebody's expense. If out of \$35 million \$10 was going to go to the seafood industry that left \$25 million for somebody else. That is now no longer \$25 million; it is now \$19.5 million.

Dr O'Connell—It is the budget savings—

Senator COLBECK—It has to come at the expense of something.

Dr O'Connell—That is the budget; it is not the expenditure on—

Senator COLBECK—It is at the expense of allocating it.

Dr O'Connell—Not the expenditure on the fisheries, which is what you are suggesting. That is my point.

Senator COLBECK—That is actually not what I was saying. I accept that that \$10 million may still be spent on fisheries. In accepting 'may' it means that it might not be as well. Whose expense it is at in terms of the final allocation is not known yet. I am happy with that as an answer but I was just trying to get a determination as to where perhaps the priorities of the government might lie in the overall allocation. The only thing that I have got to take that from is what the initial commitment by the government was, which was \$35 million over five years. I understand that there has been a cut to that; that is part of the deal. There was a sub commitment of \$10 million and that may or may not be met. What consultation with industry was undertaken prior to the cut in the budget?

Dr O'Connell—As we have discussed before, that was again a normal budgetary process. We do not normally have consultations on the matters that go before ERC for the budget.

Senator COLBECK—So the industry was taken by surprise by the budget cut?

Dr O'Connell—The normal budgetary procedures occurred.

Senator COLBECK—When is the next round of grants due?

Dr Grant—For the Regional Food Producers Innovation and Productivity Program?

Senator COLBECK—Yes.

Mr Grant—I think I quoted you the outcome of the round two grants process, in which decisions were made on 6 April 2010. There is currently no formal time line for a third round of grants. We are considering whether a third round of grants is the best option to deliver the program or whether the remaining funds could be delivered in some other way that might equally benefit the industry, but would be in a different sort of format. That consideration is going on at the moment.

Senator COLBECK—Were the first two rounds done annually? Was there a round in, say, 2008 and another in 2009?

Mr Grant—The first grant opened in December 2008 and closed in March 2009. The second round opened in April 2009 and closed in August 2009. They were about a year apart.

Senator COLBECK—What consultations are you having with the industry about the other ways that the funding might be allocated?

Mr Grant—There has been some initial consultations with the Australian Food and Grocery Council, who are the major industry representative group that represents the interests of some of the people who might benefit under this grant. The initial consultations have been with them to date.

Senator COLBECK—What about people in the fisheries sector?

Mr Grant—No, we have not had those consultations yet.

Senator COLBECK—So the only people you have spoken to about it so far are the Australian Food and Grocery Council.

Mr Grant—So far.

Senator COLBECK—What is the planned consultation process?

Mr Grant—We are still working out whether there will be the need for further consultations. The decision about whether there will be a change in the delivery of the program has not been made and so it may be that the program stays as it is. That decision has not been made. Until that decision is a little more clarified, we will not know whether there is a need for further formal consultations.

Senator COLBECK—And the only input into that decision making process is the food and grocery council and the department?

Mr Grant—As I say, this is still a matter of consideration by the government. No formal decisions have been made.

Senator COLBECK—I understand exactly where you are, and I am not trying to skip a stage or anything like that. But the government is considering whether or not it is going to make a decision one way or the other on how this funding will be delivered. I have got that right?

Mr Grant—Yes, that is okay.

Senator COLBECK—It has had consultations with the food and grocery council on how it might deliver that funding if it makes a decision to do something one way or the other, but that would be the only input into that decision making process other than obviously its own decision making process politically or information from the department.

Mr Grant—No, I could not say that. The decision making is still happening and the consideration is still happening. There may be a need for further and wider consultation and that may occur.

Dr O'Connell—The matters are for the minister to make in the end and what he deems to be sufficient consultation we will hear in due course.

Senator COLBECK—I understand that. My concern was that if there was a decision made to change the focus of the election commitment what the process might be to do that. That is all I am trying to get a sense of. If you are assuring me that there will be a consultation process broader than the one that has occurred at the moment I am relatively content with that. The government and the opposition will deal with that in the way that governments and oppositions generally deal with those things. I would have hoped that the government would

have a reasonable consultation process if it was going to make the decision that is being considered.

Moving on to food labelling, can you give us a rundown of DAFF's involvement in the intergovernmental labelling law policy review chaired by Dr Blewett?

Mr Grant—Yes. The responsibility for overseeing that review sits with the Department of Health and Ageing but the department has agreed, as part of the Commonwealth contribution to funding that review, to fund half of the Commonwealth's share. The department is putting in \$500,000 along with the Department of Health and Ageing putting in \$500,000, which is being matched by the states because this is a cross-jurisdictional—

Senator COLBECK—The Commonwealth is going to put in half a million dollars?

Mr Grant—The Commonwealth is putting half a million dollars and DAFF is putting in half of that amount.

Senator COLBECK—Okay, the department is putting half of that amount and Health is putting in the other half?

Mr Grant—Yes.

Senator COLBECK—Okay, so \$250K each.

Mr Grant—And the states are putting in the balance of the funding for that review. DAFF's involvement is in funding. DAFF is also keeping in regular contact with the Department of Health and Ageing on the conduct of that review but we do not have a formal role in undertaking that review.

Senator COLBECK—So there is no formal role for—

Mr Grant—We do not have formal role in overseeing the review process; that sits with Health.

Senator COLBECK—I understand there is no formal role in the oversight. That is fine. But what role is DAFF playing in the review itself?

Mr Grant—In the end, that review will report back to the Food Regulation Standing Committee—

Senator COLBECK—That is not the question I asked. I want to know what role DAFF is playing.

Mr Grant—I was trying to get to that. In the end, that review will report to the Food Regulation Standing Committee—DAFF is a member of the Food Regulation Standing Committee along with Health and the states and territories. So we are playing an equal role with those other jurisdictions in the oversight of that labelling review.

Senator COLBECK—So you are playing an equal role. What is that role?

Mr Grant—We were part of the process that set the terms of reference for the review, which happened through the standing committee and then was formalised through the ministerial council, and we would also be part of the process of receiving the reports and, if necessary, providing any redirection or guidance to the review panel through the standing committee.,.

Senator COLBECK—So potentially providing some policy advice or guidance from Agriculture's perspective into the process?

Mr Grant—Yes, that is correct.

Mr Glyde—There is also the process of submissions and being involved in the discussions with the committee.

Senator COLBECK—Has someone given you a copy of my questions?

Mr Glyde—No.

Mr Souness—I could also add that the department has had the opportunity to meet with the members of the panel on a number of occasions, along with other Commonwealth agencies, and to also attend the public consultation meetings. We have had an opportunity to discuss some of the issues that the panel has identified through their consultation process and to discuss those with members of the panel.

Senator COLBECK—How many submissions has the review committee received?

Mr Souness—The last figure I heard from the secretariat in the department was over 6,000 and that was in the first round. They have just held a second round of consultations and called for submissions. That closed about a week ago, but we have not been informed as to how many submissions they have received at this stage. It was over 6,000 in the first round.

Senator COLBECK—You could say there is a bit of interest in this then?

Mr Souness—There is, and quite clearly the majority of the submissions are related to things such as labelling of GM crops and animal welfare labelling.

Senator COLBECK—So there are a lot of generic submissions?

Mr Souness—Those sorts of issues would suggest, yes, a lot of generic submissions.

Senator COLBECK—Do you have an assessment of those so that you can tell us, say, that there are 3,000 form letters that are saying: 'Label GMOs for genetically modified foods'? Can you distil that down a bit?

Mr Souness—No, we do not have access to that level of information. The panel have, in their recent public consultations, outlined their assessment of the issues that were raised. I think that is available on their website, which is accessible through the Department of Health and Ageing website. I think it is www.foodlabellingreview.gov.au. But they have not given a breakdown of the number of submissions related to topics.

Senator COLBECK—Given the involvement so far with the review committee and progress so far, how are we going with providing a final report by the end of the year?

Mr Souness—Our last discussions with the panel indicated that they were on track. They now have the second round of submissions and they are working through those. They will prepare a draft report that they plan, as I understand it, to road test with a small focus group. They will discuss their draft report with the Food Regulation Standing Committee and then present the final report to the Food Regulation Ministerial Council in December this year.

Mr Glyde—It is a COAG timetable.

Senator COLBECK—Yes, I understand that. So they are talking about ministerial council in 2010 and COAG in 2011.

Mr Glyde—That is right, in early 2011, yes.

Senator COLBECK—I suppose that does put some constraints around it, with those particular targets to be met. You mentioned GMOs, but can you give us a sense of any other specific themes that are coming through as part of this process so far?

Mr Souness—Labelling for consumer information was one area—that is, GMOs, animal welfare, organics. So there is that suite of measures. Enforcement of current labelling requirements has been a fairly regular theme that the panel has identified as well.

Senator COLBECK—Which is a state responsibility.

Mr Souness—A state responsibility, yes. There has been, according to the public meetings we have attended and the submissions, concern about the ‘inadequate enforcement’. That is the way people describe it. There have also been issues on broader nutritional labelling of foods such as front-of-pack labelling. That is an issue that has been brought up as well. I think they are the main areas that have come up.

Senator COLBECK—What about provenance?

Mr Souness—I do not recollect that being an issue that has been raised, but again we do not have access to the submissions themselves.

Senator COLBECK—What about things like generic products and the impact of those on the market? It is obviously something that the Food and Grocery Council, and certainly the major supermarkets, might have an interest in. Some of us on the committee have just been involved in an inquiry into the dairy industry, where there is no doubt that generically labelled milk appeared to be having an impact on the market for milk. Is that something that has come up?

Mr Souness—The panel has not declared that as an issue that has come up.

Senator COLBECK—How would we find out about that?

Mr Souness—I am not certain. We would probably have to ask the panel, and it would be their determination whether they tell us or not given their independence.

Senator COLBECK—Providence is certainly an issue that has been raised with me as part of this overall labelling debate, and generic is certainly one that has been raised in public and also by the Senate, so it would be interesting to know how what we are hearing publicly lines up with what is actually coming through the issues in the panel. Are any of the submissions public?

Mr Souness—Not that I am aware of at this stage.

Senator COLBECK—Is there to be any decision made to make them public?

Mr Souness—You would have to ask the Department of Health and Ageing.

Senator COLBECK—I shall. A nice segue from labelling, grown in Australia labelling: is that going to fit within the current review process? There is a commercial entity out there, I know, that manages the grown in Australia label, which was an election commitment for the

government, and I accept that is out there, but is that going to be built into the current review of labelling?

Mr Grant—Are you referring to the election commitment that the government would introduce a grown-in provision through the Trade Practices Act?

Senator COLBECK—Yes.

Mr Grant—The government introduced legislation into the House to give effect to that policy on 17 March 2010 under the Trade Practices Amendment (Australian Consumer Law) Bill, and that bill incorporates a provision for a grown-in claim to be made, and products are not only made but also grown in the country that is claimed as the origin. That is the way the government has implemented its election commitment. Whether or not the national food labelling review gets into that area will depend, I guess, on the submissions that are made to it.

Senator COLBECK—Amendments to the Food Standards Code to clarify country of origin labelling was part of the election commitment, so how deeply entrenched is that process into what we have just been discussing?

Mr Grant—Mr Souness can clarify this: if the Trade Practices Amendment Bill currently being introduced into the House is passed into law, then the Food Standards Code will be amended to reflect the fact that there is a new provision under that code to allow for a grown-in safe harbour defence to be made.

Mr Souness—I could add that Dr Blewett, the chair of the review panel, is aware of the proposed amendment to the proposed Australian Consumer Law and has talked about it publicly in the context of country of origin labelling.

Senator COLBECK—So it is actively being considered. What about the compliance arrangements that were part of the commitment as well? Where do they fit into the process, given our conversation a moment ago?

Mr Grant—The compliance arrangements to ensure that—can you—

Senator COLBECK—Part of the election commitments were a new grown in Australia label under the Trade Practices Act—we have dealt with that—amendments to the food state standards code to clarify country of origin labelling requirements, consideration of amendments—that is repeated—and strengthening of compliance arrangements, so what is the progress with respect to that?

Mr Souness—There are two components. You are probably aware through a media release that Parliamentary Secretary Mark Butler has asked FSANZ to review the country of origin labelling standard, and that is a component of that work. The states and territories, as you identified earlier, are responsible for enforcement of these laws, and we work with a subcommittee of the Food Regulation Standing Committee to encourage states and territories to more consistently enforce the current existing food standards including country of origin labelling, but our powers are limited in that capacity and they are simply to encourage and help facilitate with the states a consistent approach to enforcement.

Senator COLBECK—So that process will effectively work its way back through into the FSANZ process, which again involves a ministerial council and an agreement reached on that basis?

Mr Souness—FSANZ really does not play a role in enforcement. It is really within the domain of the Food Regulation Ministerial Council to ensure that the jurisdictions do adequately enforce the food standards code that is maintained by FSANZ.

Senator COLBECK—So effectively the only action taken so far is Mr Butler's press release asking for FSANZ to review the code?

Mr Souness—No, as I said, we were also working with the states through a subcommittee of the Food Regulation Standing Committee to encourage them to play a more active role in enforcement and to adopt a nationally uniform approach. Some work plans have been developed to try and facilitate that for all food enforcement work. There is a protocol that has been developed to enable states to work consistently. So there has been a body of work done on not just focusing on country of origin labelling but all enforcement work.

Mr Grant—It may be that out of the national review there will be some issues raised by stakeholders about consistent monitoring and implementation of labelling standards across all jurisdictions.

Senator COLBECK—So the work plans are at what level? At what level are the work plans being produced—at ministerial council level or agency level? Where are those work plans? What is their status?

Mr Souness—Those work plans sit within probably the Food Regulation Standing Committee. The ministerial council is aware of the work but the standing committee of senior officials is overseeing that work.

Senator COLBECK—Moving on to a specific issue, is DAFF aware of the concerns on King Island regarding the labelling of beef on the island—or more to the point, the labelling of beef as King Island beef that is not processed on the island?

Mr Grant—I am not aware of that, no.

Senator COLBECK—Well, there is not much point in asking you what role you are playing in the issue then.

Mr Grant—It would be a matter for the fair trading acts within Tasmania if that is an issue.

Senator COLBECK—So you have not read the submission made by the King Island Brand Management Group to the Senate's meat marketing inquiry?

Mr Grant—I have not. Mr Murnane may have focused on that.

Mr Murnane—I am broadly aware that there have been some complaints or criticisms made, I believe, following the recent change of ownership of the King Island abattoir in the last couple of years—

Senator COLBECK—No, it is slightly different to that. Fortunately, those issues have been resolved between the producers on the island and the owner of the abattoir to the extent to where there has been a commitment, of which I am sure the Commonwealth had some

involvement in the discussions about it. In fact there has been a fairly significant loan made to the operators of the abattoir on the island to upgrade the facility and to effectively stay there for a period of time.

Mr Murnane—That was a loan made by the Tasmanian government.

Senator COLBECK—So there was no involvement by the Commonwealth in that process? You were not involved in the discussions?

Mr Murnane—Neither I nor my branch participated in those discussions.

Senator COLBECK—Okay, that is fine—no criticism. That is why I was talking about provenance earlier and the issues of regional provenance in particular. The issue that exists on King Island is their claim that the only true claim to King Island beef is beef that is grown and processed on the island—that being the only way that you can actually guarantee that it is King Island beef. I have had representations made to me about King Island turkey, King Island chicken, King Island rabbit—none of which exist on King Island, I might add, but it gives a demonstration of the value of the brand. It is the most recognised beef brand in the country, so obviously there is an attachment to it.

There is currently a processor and an application for a registration for a branding for King Island beef to be sold in Victoria, but it is not processed on the island. That is why am I interested in the province issues in relation to food labelling and whether any policy consideration is being given to it by the government. It certainly is an issue in certain areas. Again, it goes back to the generic milk issue. If you buy a carton of generic milk it will be labelled ‘produced by Woolworths’ or ‘produced by Coles’, but you have absolutely no idea who the actual processor is. They are issues of provenance that I have an interest in. It was part of the dairy dispute that occurred in Tasmania so it surprises me that it is not an issue that comes up on the radar with respect to labelling.

Mr Grant—It is an issue about fair and honest labelling and fair and honest trading. Potentially, if you can have trace-back systems in place to ensure the consumer that the beef you are selling actually comes from King Island then you are presenting the product as labelled. It comes down essentially to fair trading acts and the ACCC in terms of its monitoring of fair trade.

Senator COLBECK—That is a very good point; hence my questions to you about your involvement in that process. That is exactly the issue that people on King Island are concerned about—and the fact that the only commodity in the country that has protection in respect of each provenance at the moment is wine or brandy. That is not extended to any other commodity. That is the argument that the good people of King Island make in their submission to the Senate inquiry in relation to the produce off their island. Dairy products and beef are the two dominant ones. You make my point, in fact, and I appreciate the fact that you have done that. My questions have been based on trying to find out what the government’s and the agency’s attitude is towards those particular issues. It is disappointing that it is not something that has come through in the labelling review process.

Mr Grant—It may have come through in the labelling review process but we are not across the detail of all the submissions that have been made. Maybe you could take that up

with a health—I mean secretariat. They may have made submissions to that effect under that labelling review.

Senator COLBECK—My only response at this stage is in the questions that I am asking of you. I will go and pester Health next week, don't worry. Your response to me is that it is not something that has come back through to the department. I accept that but I am concerned that it is not something that the department has picked up or is aware of, given the particular discussions about those issues in the public arena on a range of topics—beef and dairy in particular—over the last 12 months or so when they have been, in certain locations, fairly high-profile public issues. Is there any advice on the government's intention or time frame to respond to that Senate committee report?

Mr Grant—The Senate committee meat labelling report?

Senator COLBECK—It was the Senate Select Committee on Agricultural and Related Industries, and it was the meat marketing inquiry.

Mr Murnane—That committee provided an interim report and a final report. The government responses to both the interim and final reports are currently under consideration.

Senator COLBECK—The first recommendation from the report was that the Commonwealth government negotiate with states and territories to have the AusMeat system applying to exported meat extended to domestic processes in Australia. And you will make your response. Recommendation two stated that, subject to the current Australia and New Zealand Food Regulation Ministerial Council review into food labelling, the government create separate country of origin labelling regulations for food products that recognise the importance of origin of ingredients in processed food as well as the place where production processes occur. Those two issues that we have talked about are specifically referred to in the report of the meat marketing inquiry.

Mr Grant—As I recall, the Senate referred its report to the Primary Industries Ministerial Council for further consideration. The council addressed that issue. At around the same time, the issue was brought to prominence in New South Wales by the introduction of a bill by the Speaker of the House regarding meat grading and labelling. That bill was passed in the New South Wales parliament but has not yet been promulgated. There are still negotiations between industry and the various officials and parliamentarians in New South Wales to determine how that bill might be promulgated. It is wrapped up in that issue that was being pushed the New South Wales, which was addressed by the ministerial council along with the Senate report.

Senator COLBECK—I want to go on to some comments made by Senator Wong last week about water buybacks in the Murray Darling Basin. Senator Wong recently told a conference that the Murray Darling Basin Plan, which is currently under development, will be tough, and one of the toughest adjustments Australia has ever seen, and that it is only reasonable to expect that irrigators significant cuts in their water use. What role is DAFF playing with respect to development of the plan and the impact on agricultural productivity?

Mr Grant—I guess there are two roles that DAFF plays. Firstly, ABARE has been doing some work for the department.

CHAIR—You get all the good jobs, Mr Glyde—environment, water.

Mr Glyde—Exactly. We traversed this yesterday with Mr Gooday. He talked about the work he had done for DEWHA and also for the Murray Darling Basin Authority. There is some work that ABARE and the BRS are doing jointly for the Murray Darling Basin Authority to help them understand the consequences of the inevitable changes that are going to have to be made to sustainable diversions limits.

Senator NASH—Are you going to have to rename it ‘reduced agricultural productivity’?

Mr Glyde—Good question. It is the difference between production and productivity. The starting point is that CSIRO has made it very clear that we are not going to get the same yields out of the river system that we have enjoyed in previous decades, so an inevitable adjustment is coming up. That is the purpose of the Murray Darling Basin Authority. They are putting together a whole-of-basin plan that meets the targets the governments have set them. That is the process we are going through. As Mr Grant was saying, ABARE is trying to provide some information to help guide that decision. The discussion we had with Senator Joyce yesterday ran through the limits of the modelling we have done, but it is certainly making a contribution to their decision making. There is also the second role that Mr Grant was about to go to.

Mr Grant—That second role is basically just trying to represent irrigators and farmers and small communities’ interests in the debate in the development of the plan. We work with other agencies in formal and informal groups just to ensure that the circumstances and all of the considerations that affect producers are taken into account in the development of that plan.

Senator NASH—Just from the producer and the small community perspective, and the discussion that we had yesterday was around the difficulty for ABARE into drilling down into that very small localised information provision in terms of the socioeconomic impacts, is that something you have more capacity to do within your division rather than ABARE? You have just mentioned being able to work with producers and small communities on the impact, so what capacity have you got to understand the impacts of reduced water?

Mr Grant—We work closely with ABARE—we sit in the same building and we do work as a team. ABARE talks to users and industry as much as we do, but we sometimes get a different perspective from ABARE on the sorts of insights and concerns that industry might bring which we would share with ABARE and develop that as part of a departmental view on the associated issues.

Senator COLBECK—Who is representing DAFF in this process?

Mr Grant—Mr Ottesen is formally on a number of those bodies.

Senator NASH—Mr Glyde, we have just been talking about the reduced water and the SDLs we are going to have to deal with in the middle of the year. To date, what is your understanding, just in terms of the basin, of the overall allocation, say for each of the last five years, compared to the actual licensing across the basin?

Mr Glyde—I would have to take the specifics of that question on notice. I just do not have that information in my brief or in my head.

Senator NASH—That is understandable, but it is an important point I think.

Mr Glyde—I understand.

Senator NASH—If you could come back to the committee on that, because it is all very well to talk about reducing overall entitlement and reducing licences, but if the allocation against that entitlement is only minimal, there is going to be no actual reduction physically in water over historically the period of time. So it is not as simple and clear-cut as saying reducing entitlement or licensing will actually provide more water, because that is quite simply not the case. I do think we need to recognise that the allocation against those licences has been minimal in many areas so not that total amount has been utilised. I would assume that is something you have factored in very closely in the work you have been doing and not working on the actual licensing itself but that is —

Mr Glyde—That is right.

Senator NASH—not to say there should not be some summary balancing.

Mr Glyde—That is correct. You have to know the difference between the allocation and the amount of water that is actually going to be delivered in order to make some calculations in relation to the changes in the gross value of irrigated agriculture across the basin. I think we all know that the gross value of irrigated agriculture across the basin is going to decline because there is just not as much water. The real tricky part of this is knowing how farmers are going to adapt and what new technology is going to be deployed in trying to factor those sorts of things into the calculations. If you look at the experience of the last few years and the years you are talking about, because of drought and very low storage levels within the basin there have been really very low to non-existent allocations in some parts of the basin. I guess from an ABARE perspective we have been surprised at the ingenuity of irrigators and their ability to be able to—

Senator NASH—I am never surprised at the ingenuity of irrigators.

Mr Glyde—Our initial expectations about the size of the decline in the value of agriculture production were that there would be a much larger decline in the first year or two, but we have been surprised how they have been able to keep it going. You can keep going like that for a year or two or maybe more, but when it is a permanent reduction there is a further adjustment that has to go on. I think we remain impressed with the capacity of the irrigators to be able to adapt and to still be able to produce. And that is a significant difficulty in modelling to know how people in the real market in the real world are going to react.

Senator NASH—In terms of how irrigators are managing, do you do much work on irrigation efficiencies and what needs to be done there compared to just the removal of licence or reducing allocation? In utilising the water that we have got more efficiently, do you do much work on what can be improved and what can be done better, or is that not something ABARE looks at?

Mr Glyde—It is not something that we are expert in but, by the same token, we like to have an understanding of what is going to be the progression in technology and how much more efficient people might be in their use of water. But that is pretty much the extent of it. We are certainly not expert in it and we are certainly not in a position to advocate to anyone the use of a particular technology; it is more that we are observing the rates of change in technology and what farmers are starting to use as water becomes more expensive.

Senator NASH—What about you, Mr Grant? In your division is the efficient use of water something you focus on?

Mr Grant—No, not in an analytical sense.

Mr Glyde—Probably the best place to go for that information would be the Department of the Environment, Water, Heritage and the Arts. They have an infrastructure program that is targeted, in part, at trying to improve efficiencies right through the basin.

Senator NASH—Yes. They just have not spent much of the money yet. Sorry. That is not your call.

Mr Glyde—In terms of expertise within the Commonwealth, that is probably the best place to start, I would suggest.

Senator COLBECK—You talked about farmers' ingenuity and how they were actually making do and continuing to maintain levels of productivity. Is there any analysis being done on the impact of the current buybacks—that is, the learnings you have been talking about combined with assessing the impact of the buybacks so that that can be applied to the process that we have been warned is coming up?

Mr Glyde—Yes. There was a report released on 26 April this year which ABARE did for DEWHA, which Senator Joyce asked us quite a lot of questions about yesterday. It looks at the potential impacts of the government's purchasing program for the \$1½ billion worth of water entitlements purchased between 2008-09 and 2010-11. That was our work to understand what the impact of the buybacks would be on the farm community. I am more than happy to—

Senator COLBECK—Is that process continuing? One thing I will give you enormous credit for is keeping an eye on these things and continuing to update work. I suppose it depends whether, in this circumstance, it was a commissioned work or otherwise. But I recall other conversations where you have provided updates on the work that have proved to be informative and very valuable in the overall context of decision making.

Mr Glyde—I would have to check, but we are in discussions with DEWHA at the moment about doing some further work in relation to that—what the impact of the further aspects of the buyback is—and also the infrastructure program.

Mr Grant—On the subject of water efficiency, while the department does not have a strong focus on the analytical side of that, certainly some of the research and development corporations would. There would be a number of projects within the RDCs looking at water efficiency.

Senator NASH—Mr Glyde, in terms of the resource economics side of ABARE, do you do any work on water retention and capacity for cities?

Mr Glyde—We have published some work in the past. I would have to refresh my memory as to the exact nature of it. But, generally speaking, no. We tend to focus on what is happening in the bush, what is happening in agriculture.

Senator NASH—If you could provide for us what you have done in the past, that would be useful. Where would be the most appropriate place to ask those questions, given the nature of the increasing population and the static nature of our retention capacity in terms of providing

water for the cities? I am interested to find out who is doing work on the potential for expansion—or not.

Mr Glyde—The National Water Commission has certainly been active in that space in terms of urban water use and regulatory and pricing arrangements for water, and possibly also the Department of the Environment, Water, Heritage and the Arts.

Mr Grant—Possibly the Treasury in terms of long-term population demand and projections.

Senator FIERRAVANTI-WELLS—I would just like to ask some questions about the funding agreement between the government and Australian Wool Innovation.

Mr Grant—Yes, I am happy to try and respond.

Senator FIERRAVANTI-WELLS—You are obviously aware of the persistent and continuous media and other reports about conflicts of interest in AWI and the various other problems. I will not traverse those because I am sure the department is very well aware of them, particularly after the findings of the three-year review of performance in AWI. Suffice it to say it has been most unsatisfactory. Given the comments that Minister Burke has made about the problems with the structure of AWI, and I am sure you are aware of those and I will not have to refer you to them as well, what is the status of this agreement? Is the government still intending to enter into a three-year agreement with AWI, given the current problems with the organisation?

Mr Grant—The statutory funding agreement that the government enters into with all of the industry owned companies who operate as research and development corporations is set out under the relevant act. In the case of AWI it is set out in the Wool Services Privatisation Act, which provides the minister with the ability to enter into a contract with the industry owned company to deliver the services.

The statutory funding agreement basically sets out the obligations of AWI as well as setting out the obligations of the department and the government—so it is a contract. It mostly focuses on those obligations around the payment, the use of the levies and the matching government funds. It does not override directors' responsibilities under the Corporations Act or under the company's constitution—so it does not have quite the directive powers that some people think it might. The current statutory funding agreement with AWI expires on 30 June and the department has been in discussions with AWI for about the last six-to-eight months or so since the performance agreement that you referred to was made public.

The statutory funding agreement requires that AWI spend the funds efficiently, effectively and ethically. If AWI breaches any of those provisions—that is, if it spends the funds in ways that are not efficient, effective or ethical—then under that statutory agreement the Commonwealth can give AWI 28 days to rectify the issues that it sees as a problem. After AWI has responded in that 28-day period, if the Commonwealth is then unhappy with the response from AWI or believes that the response is inadequate to address the issues that it has identified, the Commonwealth can suspend, terminate or reduce the payments or terminate the statutory funding agreement. Under another clause in the SFA, it must give the industry owned company six months to do. So there must be six months notice before it terminates the

agreement and terminates the funding, which is basically time enough for the company to be wound down if that was the case.

In that way the existing statutory funding agreement is quite limited in the directions that the Commonwealth can make to AWI and the directions that AWI must respond to from the Commonwealth. For example, the statutory funding agreement does not allow the minister the authority to direct the expenditure of funds by AWI except to the extent that they are consistent with the national rural research and development priorities and consistent with the outcomes of the wool poll that the company conducts every three years. The statutory funding agreement does not allow the minister to intervene in the day-to-day operations or the governance of AWI, notwithstanding the sorts of media representations that are often made.

As I said, a new statutory funding agreement is being negotiated with AWI. While the performance review that we talked about indicated a number of problems in the governance and management of AWI, including that it did not consult well and did not plan its operations well, it concluded that AWI was not in breach of its obligations under that statutory funding agreement. From the regular six-monthly formal meetings that the department has with AWI under the provisions of the statutory funding agreement, it is our judgement as well that AWI has not formally breached the obligations under the statutory funding agreement. So there is no initial rationale or reason why the government should ask AWI to formally review its changes with a view to changing the management funding arrangements.

We are negotiating a new statutory funding agreement with AWI. In the new agreement we are discussing with AWI the need for the government to provide the minister with more authority to direct AWI in the use of its funds. We are negotiating with the company about a provision that may have AWI formally explain its actions in certain circumstances—a show cause type clause. We are also trying under the new SFA to better define agri-political context in the context of AWI because there have been a number of debates around AWI's involvement in agri-political activity. Under the new SFA we are trying to provide some quite strict guidelines for the way that AWI operates in that sphere as well. We are also providing some more flexibility under the new statutory funding agreement for the minister to change the funding profiles under certain circumstances. So if the new SFA is agreed to by AWI—because it is a contract—it will tighten up on a lot of those areas and will in fact give the government a fair bit more authority to oversee and direct the operations of AWI, notwithstanding that we still cannot breach directors' responsibility under the Corporations Act or have AWI do things that are in contravention of its constitution.

Senator FIERRAVANTI-WELLS—You could of course revoke their status as the research body.

Mr Grant—The act gives the minister the power to revoke AWI's declaration as the industry services body. It is a disallowable instrument, so that would be tabled in parliament. The act also allows the minister to declare another body to be the industry services body. Under the statutory funding agreement, which is the contract we have, the minister needs to provide AWI with six months notice before that would be imposed to give the company a chance to wind up. The statute also gives the minister authority to change or vary the levy rates that are levied to AWI and the money that is paid to AWI.

Senator FIERRAVANTI-WELLS—Mr Grant, could I just ask you a couple of things. As part of this, has some consideration been given to, as part of this agreement, the minister requiring AWI to perhaps institute some arm's-length selection committee process? Given the comments that the minister has particularly made in public in relation to the selection processes at AWI, is this under consideration? Has the minister also considered the conduct of the 12-month review recommended in the 2006 to 2009 performance review, in the Arche report? AWI has only agreed to consider this. Perhaps those are another two things that the minister may potentially, or may have, give consideration to, given the parlous state of affairs at that organisation and given the fact that they are required, as I understand it, under statute, to use levies, not only in the best interests of wool growers but in the best interests of the Australian community.

Mr Grant—That is true, given the matching funds that the government makes to AWI. Let me take the second of those first. The intent of all of the statutory funding agreements, and certainly the intent with the one that we are developing with AWI, is to reflect the recommendations of the independent review of performance. The cycle will be that, in the case of AWI, there will be a three-year agreement. In the third year of that agreement there will be an independent performance review. The performance review will report and, in the development of the next iteration of the statutory funding agreement, the recommendations from that independent review will be picked up and implemented in the SFA. The intent is that the new SFA that we negotiate with AWI will include all of the recommendations that the independent reviewer made, including the recommendations that AWI undertake a 12-month review of its progress in implementing all the other recommendations that were made by the independent reviewer.

The minister has also been on the public record wanting to ensure that all of the industry owned companies—in fact, all of the RDCs—have skills based boards. As part of the general negotiation and the general development of statutory funding agreements, we are working to include clauses that will have companies like AWI aim to develop and implement skills based boards or skills based selection processes, which might include independent selection panels for those skills based boards, and do so in accord with public company standards that are set out in standards that exist under the public company provisions.

Senator FIERRAVANTI-WELLS—As I understand it, the SFA requires AWI to have regular meetings with the minister, and there is certainly some latitude for the minister in relation to the company's performance, in terms of delivering the government's broad priorities for research and development, and such other matters as the minister may request. My point is that, given all the problems at AWI, I would have thought that at this point in time there is at least some greater degree of leverage available to the minister. I do not want to labour the point; I am just stating that, surely, at this point in time there is some leverage to impose on AWI greater obligations, pending what the Productivity Commission may say in relation to that. My question is: is this perhaps not a time to give consideration to a broader set of obligations in the renewed agreement, which potentially includes some of the matters we have discussed, especially given the difficulties with this organisation?

Mr Grant—Yes. While we are trying to make all of the statutory funding agreements as consistent as we can across the board, given the history of AWI, given the outcomes of the performance review and given the responses and representations from stakeholders, there will

be a much stronger focus in the next iteration of the statutory funding agreement from AWI on accountability, governance arrangements and the ability of the government to more closely play an active role within the operations of AWI.

Senator FIERRAVANTI-WELLS—There was an article in *Weekly Times Now* on 19 May 2010 which referred to:

A damning report alleging conflicts of interest and undue interference by directors is to be tabled at Australian Wool Innovation's board meeting tomorrow.

The article also says that the report, which was to have been prepared by Professor Bob Baxt, will coincide with the board's attempts to finalise its three-year strategic and operations plan. My point to you is: are you aware of this report? Is this report going to be something that the minister is going to require to see, given potentially those reports of yet another damning report about AWI?

Mr Grant—I am aware of the report. I do not know what it is about. I have not discussed it with AWI. Maybe it is something that could be taken up with them later this evening. Reports of that nature would be regularly raised by the minister with AWI in our regular six-monthly meetings. In the past, we have asked to see copies of those sorts of reports. In some cases they are confidential to the board; in other cases we make them available. So I would expect that this is one where we would ask to see a bit more detail.

Senator FIERRAVANTI-WELLS—I am conscious of the time, so I might move on to a couple of other matters. One is branding and Woolmark. At the time that AWI took over the Woolmark, the government gave a \$15 million grant to AWI for that takeover. Has the government been following that in relation to the efficiency and the way that AWI has been handling Woolmark given the moneys that the government gave over?

Mr Grant—Not specifically. Our interest in the operations of the Woolmark is to ensure that levy funds that are collected from levy payers for either R&D or marketing are not used to subsidise the Woolmark operations. That is where our main focus has been. We have not taken a strong interest, to date, in the operations and effectiveness of Woolmark.

Senator FIERRAVANTI-WELLS—I have a couple of other issues. There is the problem in relation to animal welfare. On the issue of the National Wool Declaration, what is your view on how that is progressing? The second phase of on-farm audits was to occur. I understand the government have given some seed money for that second phase. Can you just tell me a little bit about that.

Mr Grant—Yes. We and a number of stakeholders, including the US retailers association, see the National Wool Declaration as a potentially very important tool to enable woolgrowers to declare their places as mulesed, not mulesed or mulesed with pain relief. My understanding from the data that is around is that, to date, there is a very low response from woolgrowers to using the National Wool Declaration. It is a very small number. So through the industry, through AWI, we have been trying to encourage wool producers to use the National Wool Declaration to a much greater extent.

Just in relation to the second question, on 19 April the minister announced funding of \$164,700 under the Promoting Australian Produce Program for AWEX to implement the on-farm audit component and education campaign for the National Wool Declaration. So there is

some money that is going under Promoting Australian Produce to help encourage farmers and to educate farmers about the use of the NWD.

Senator FIERRAVANTI-WELLS—Obviously mulesing is an issue. I will not traverse the pros or cons, but it certainly remains the issue that will affect our standing in terms of the production of wool and also potential markets overseas. You are aware of the report that I produced and you have traversed that. But at what point would the government contemplate intervening with some sort of parameters for potential legislative reform, noting that of course animal welfare is an issue for state governments but potentially could be something with COAG? Is that something that is contemplated?

Mr Grant—The issue of mulesing is discussed on, I guess, a regular basis at the Primary Industries Ministerial Council. It is an issue of concern across all jurisdictions. The last time it was discussed there was no inclination from jurisdictions to want to move to regulate mulesing in any sense. I expect that it will continue to be raised at the ministerial council, depending upon how the market reacts at the end of 2010 when the commitment to phasing it out is supposed to be adopted. As you say, the Commonwealth really does not have any jurisdictional power to do that. We are helping to work with the jurisdictions in the development of animal welfare standards and guidelines, including a standard and guideline about sheep. Certainly, mulesing will be part of the development of the standard and guideline, so we can at least have a consistent application of animal welfare aspects around mulesing across all jurisdictions.

Senator FIERRAVANTI-WELLS—I was concerned about the correspondence that was recently sent, particularly by Italian wool processors, to the chairman of AWI, which I know you are aware of. Surely, that must affect our standing, particularly with such an important market. Given the value of the wool industry to Australia, can we continue to see a deterioration of circumstances with what is, effectively, our premium brand market, particularly for the premium end of the wool industry? I place that on record and note that those sorts of concerns that are being raised directly, yet again, about AWI's inability to send a consistent message, must surely be of concern in relation to the future of this industry.

Mr Grant—Yes, it is. Again, the ministerial council—ministers from all jurisdictions—addressed the sorts of communication issues that are happening across the wool industry. The issue is a matter not just of AWI's communication, although that is a central part of it, but of communication and coordination across the whole of the wool industry. Ministers agreed at the last meeting they would try and work within their jurisdictions to encourage the industry to collaborate more and to provide much more consistent communication messages both to the market and the growers in each jurisdiction.

Senator FIERRAVANTI-WELLS—Thank you.

Senator McGAURAN—Minister, you would have been listening intently to Mr Grant's answers, no doubt.

Senator FIERRAVANTI-WELLS—I didn't know that Senator Sherry had an interest in wool!

Senator Sherry—I have heard these questions in this debate at a number of estimates, so I am reasonably familiar with the issues. However, I did miss some of the earlier evidence, Senator McGauran.

Senator McGAURAN—My colleague raised the matter of the internal report that has been commissioned by the board of AWI relating to conflict-of-interest matters of board members and also to general governance matters I suspect. Will the minister be seeking a copy of the report and will he be acting upon the governance recommendations of that report?

Senator Sherry—I will take part of the question on notice. Obviously, I have to refer to the minister for his specific response: (1) whether he has sought or has received a copy of the report and (2) what his response is or would be when and if he receives a copy of that report. Reports of conflicts of interest and governance type matters are certainly a matter of concern but, as I say, I will have to take on notice the minister's specific requests for copies—whether he has requested, will receive or has received—and what his response will be. But they are matters of concern.

Senator McGAURAN—Thank you.

CHAIR—We will adjourn for 10 minutes, but, please, no-one leave the building. Do not go away!

Dr O'Connell—Just before we adjourn there are a few questions which have been asked which we said we would try to get responses to before the end of the session. I have some which I can table now.

CHAIR—Thank you, and I would like to take this opportunity to thank the officers for their appearance here over the last two days as well.

Proceedings suspended from 7.00 pm to 7.10 pm

Australian Wool Innovation

CHAIR—I will take this opportunity to thank the officers of Australian Wool Innovation for providing their services to us a lot earlier than was on the original agenda. I welcome Mr Merriman, Mr Fletcher and Mr McCullough. Senator McGauran.

Senator McGAURAN—Previously we were talking to the department about an internal report apparently commissioned by the board regarding governance matters and, more specifically, as it was reported, conflict of interest matters in relation to the board. Can you confirm whether or not that report has been undertaken.

Mr Merriman—Where did the information come from?

Senator McGAURAN—The newspaper.

Mr Merriman—What report are you referring to?

Senator McGAURAN—The *Weekly Times* of 19 May claims it is 'a damning report', but that may be poetic licence. It alleges undue interference by directors:

The internal report was commissioned by AWI directors ... following the resignations of chief executive Brenda McGahan—

et cetera.

Mr Merriman—That is correct and not correct. Since the Arche report our governance has been questioned, and this is, yes, another report on our governance, the same as the one we have with Cameron Ralph and the ongoing governance we have with a crowd called John Harrison and Associates. That is the context, and they would have looked at the last five to six months of our business.

Senator McGAURAN—Okay, we have established that there has been a report regarding governance—

Mr Merriman—There have been three reports.

Senator McGAURAN—Have they been presented to the board?

Mr Merriman—Those three have, yes.

Senator McGAURAN—Do any of those reports go to the question of possible board members' conflicts of interest?

Mr Merriman—I will talk about conflicts of interest in a little while, if you like; I have spoken about how we manage any perceived conflict of interest in this forum before. All those reports are for our governance and they are privy to and confidential to the board, as the people who gave the report want it. I cannot divulge to you what those reports say, and I am not going to. They are for the board only.

Senator McGAURAN—If the minister were to request the three reports, would you present them to him?

Mr Merriman—I would take advice from the board and our legal people. The board are privy to the reports and they are not for everybody else. I do not have the authority to present any of those reports.

Senator McGAURAN—Minister, you were listening to that. There are three reports and in some way or fashion they go to the governance problems of AWI.

Mr Merriman—Sorry, not governance problems. The Arche report on our performance stated that we should do something to improve our governance, and this is part of that program of improving our governance.

Senator McGAURAN—All right, to improve the governance, which has been subject to criticism, Minister. You might be interested to know, following my previous request on notice, that there is extreme reluctance—you might want to pass that on to the minister too—and legal advice would have to be taken first before any of those reports go to the minister. I would ask you to take that on advice, and whether you have any further comments.

Senator Sherry—Firstly, I note from Mr Merriman that as a matter of fact there have been three reports carried out. Secondly, they go in part to improved governance, so I think it could be reasonably supposed that they criticise existing governance. I think that would be a reasonable supposition. As to the legal position of declining to make those public, I would have to take that on notice, because I do not know whether that is the correct legal position in terms of whether or not the committee's request should be met.

Senator McGAURAN—Yes, to take advice on whether they can be made public would be good. I was really pointing out to you the reluctance of the board, who would take legal advice prior to presenting them to the minister. I am just doing your work, if you like, wanting

the reports to at least get onto the minister's table. If they are as damning as is reported, I have enough faith in him to believe he would act upon them. My concern is whether they will even get to the minister's desk.

Senator Sherry—I can only take that on notice for the minister.

Senator McGAURAN—I point out, though, that the board is resisting already.

Senator Sherry—You have asked a reasonable question about the availability of those reports for this committee.

Senator McGAURAN—I did not. You have extrapolated that. It was initially just to get them to the minister, but I now add, 'Yeah, why not?'

Senator Sherry—I may have misheard you. I thought you actually requested information on them yourself as a member of the committee.

Senator McGAURAN—No, I had not asked them to be tabled to this committee. I was asking for them to be tabled to the minister. I think the minister is going to have enough problems, without the committee getting them, quite frankly.

Senator Sherry—I will take it on notice, but the board will obviously have to consider whether or not to provide them to the minister should the minister request them. I will pass that on to the minister and then he will act as he determines.

Mr Merriman—I would like to point out before we leave this topic that this Arche report was over a three-year period, not the one-year period that this board was in power.

Senator FIERRAVANTI-WELLS—I know that, Mr Merriman, but it does traverse directors that were previously on the board, so it did look at the performance of AWI over a three-year period, as you correctly said, and it also made a series of recommendations which one would assume that the current board would take on board.

Mr Merriman—Which is what they are doing with these three reports.

Senator FIERRAVANTI-WELLS—Thank you, Mr Merriman. You are here to answer questions; I am here to ask them. Minister, I think the point that Senator McGauran was making was that, within the purview of the minister's obligations under the agreement that is currently being reviewed—and you were not here previously for that part of the exchange with Mr Grant—it is open to the minister to require AWI to provide, apart from regular briefings to the minister on company performance in performing its functions and in delivery of the government's priorities for research and development, such other matters as the minister may request.

Our question to you is: within the purview of those responsibilities, could you take on notice whether the minister will request those documents? If so, then they can be dealt with accordingly at further estimates or, potentially, their release can be considered within the parameters of the minister's purview.

Senator Sherry—Yes, I think that is perfectly reasonable.

Senator FIERRAVANTI-WELLS—Thank you.

CHAIR—I take it by the nodding, Senator McGauran, that Senator Fierravanti-Wells has taken the words right out of your mouth.

Senator FIERRAVANTI-WELLS—He concurs with Senator Fierravanti-Wells. On that note, Mr Fletcher, could I ask you this question: the report in the *Weekly Times* of 19 May alleges that:

The internal report was commissioned by AWI directors Brian van Rooyen and Roger Fletcher following the resignations of chief executive Brenda McGahan and company secretary Sue Myers in February.

Is that correct?

Mr Fletcher—Yes, we looked at the situation and then passed it off to someone to go through it. We thought it was a bit over us. We did not think it was our job, after having a look at the papers, and moved it off to—

Senator FIERRAVANTI-WELLS—Following the resignation of Ms McGahan and other people in senior positions, have there been provided to the board or to the management of AWI reasons for departure?

Mr Fletcher—People leave the board at different times all the time. One thing you have to realise is that if we had not pulled back on a lot of things 18 months ago, we would have run out of money; there is no doubt. In the last 18 months, the board has cut expenditure back and to do that we had to downsize a lot of the jobs that we were doing and a lot of the people who were doing them. When you do that, naturally some people are not happy. It is a difficult job. The easy job is putting people on. It is not an easy job putting people off. Anyone who runs a large company knows that.

Senator FIERRAVANTI-WELLS—Certainly, I accept that. Just looking at the last annual report—2008-09—note 26 at ‘Notes to the financial statements’, I notice there that there is a list of key management personnel. There are the non-executive directors, of course, and other key management personnel. Of the 25 or so listed there, a considerable number would be still employed with AWI; or no longer employed?

Mr Fletcher—There are still a lot employed there. Of course we have downsized. We are trying to build a staff that can go forward on what we are doing. We are representing the woolgrowers and I can assure you that our job is to make sure that the woolgrowers are getting the best money value out of the funds that come in. You cannot do that if you have too many people sitting on their backsides.

Senator FIERRAVANTI-WELLS—One of the allegations that has been made in relation to AWI—and indeed, this article refers to it—is that there is undue interference by directors. Is that the case? Has the perception of interference by directors in the day-to-day activity of the corporation been the cause of considerable angst and problems at AWI?

Mr Fletcher—There is always strong debate on what we are operating in. Eighteen months ago we went through a period where we virtually had no CEO for a time. Some of the board members did help put some things together. Naturally, there is always serious debate within a board. If everyone just went ‘aye’ and passively went along with it, it would be no different to parliament. It would not work very well. I think some of the media pick some of that stuff up but can go a bit overboard; and naturally, the media is there to sell the papers.

Senator FIERRAVANTI-WELLS—That may be the case. I have had some more personal knowledge of these matters, but I will leave it there. You are aware, of course, of the

Productivity Commission's review into R&D corporations. Will AWI be making a submission to the Productivity Commission?

Mr Merriman—This is where I would like to hand it to Stuart. We will.

Senator FIERRAVANTI-WELLS—My question was to Mr Fletcher, if I may get his view first.

Mr Fletcher—Yes, we realise that. I would not be on the board if I did not know that.

Senator FIERRAVANTI-WELLS—Thank you. Mr McCullough?

Mr McCullough—Yes, we will be making a submission. That is due by 25 June. We have commissioned a company to help us with that and it is well on track. It is probably 85 per cent done. We will meet that target.

Senator FIERRAVANTI-WELLS—Sorry, you have commissioned a company?

Mr McCullough—Pricewaterhouse Coopers.

Senator FIERRAVANTI-WELLS—So there was not sufficient expertise in-house to be able to prepare that report?

Mr McCullough—No, that is not the case. This is quite a specific challenge, one that we have not been a party to before; certainly I have not been. We felt the resources—some expertise and talent—needed to be brought in to help us prepare that. That is what we did. I believe that we are within our rights to do that.

Senator FIERRAVANTI-WELLS—Mr Merriman, have you dealt with the correspondence that was sent to you in February from a group of people in Italy?

Mr Merriman—Have I dealt with it? Which letter do you mean?

Senator FIERRAVANTI-WELLS—The letter dated 23 February 2010 which was forwarded to you by a group of about 10 companies.

Mr Merriman—I got one on 24 February, yes. That is the one where they offered to do joint marketing with us.

Senator FIERRAVANTI-WELLS—My concerns were more about: 'The reasons for our disappointment are as follows'. I was wondering if you would care to comment on that.

Mr Merriman—I have the letter here. I wish you would read the back of it instead of the front. I gave an open letter in the papers explaining this. What the board did was to send a group of people over as part of the due diligence for our strategic plan, to find out what our shareholders and stakeholders in overseas mills and their brand people wanted and were interested in. That was what this trip was about. In this first letter, yes, we have some criticism. I regard it as criticism from friends, because I personally know three-quarters of that group. If you look over the back of the page—

Senator FIERRAVANTI-WELLS—I did see your photograph on the odd wall in Italy when I went over there, Mr Merriman.

Mr Merriman—Good. You will have seen some of my rams there, too.

Senator FIERRAVANTI-WELLS—I did see some of your rams too.

Mr Merriman—But on the back of that document—it is the first time in my memory; I have never seen it before—these top brands in Italy are offering to do joint ventures, dollar for dollar. I have never seen that before, and I have a similar follow-up letter here.

Senator FIERRAVANTI-WELLS—I would like to go on to ask AWI what its intentions are in relation to that. Perhaps Mr McCullough or Mr Merriman could answer that?

Mr Merriman—There are projects there. Stuart can fill you in on that.

Mr McCullough—This speaks to the point that we may not be investing appropriate figure amounts of money into that particular market. I did some analysis before I came down here, knowing that that may be—

Senator FIERRAVANTI-WELLS—You may have read my report, Mr McCullough?

Mr McCullough—I did. I have it right here.

Senator FIERRAVANTI-WELLS—Very good. Does that mean that you agree with that part of my conclusions?

Mr McCullough—There are a few tags here but we will not go into all that tonight.

Senator FIERRAVANTI-WELLS—No, it will suffice to tell me what your intentions are.

Mr McCullough—One of the things I did analyse was our operational and project spend in that market. In terms of volume consumed in that market—and this is not the only stat that we should follow, because it is a flagship market as I think you referred to it—they are consuming about 3½ per cent of the Australian wool clip at the moment. If you compare them against China, who are up around 75 per cent, in Italy we spend double the amount of money that we spend in China on projects and operations. However, they only represent five per cent of what China is consuming. In terms of investment, we are spending there appropriately—maybe a little too much.

However, we have committed some funds. After this letter was sent to us, I put a project up to the board to liberate some funds to joint-venture invest with those processes and people that signed on to that letter, and to make sure that we had that money on the table so that we could go and then talk to them seriously about co-investing on marketing. So we have liberated a little bit more money.

Senator FIERRAVANTI-WELLS—I am conscious of the time. From reports in the paper, marketing appears to have caused a degree of angst on the board. Has that been an issue?

Mr McCullough—No, not for me.

Senator FIERRAVANTI-WELLS—You are not on the board.

Mr McCullough—No, but I have had to present a strategic plan for the next three years to the board in the last five days and that has been prepared over the last 70 days. We have done a strategic plan and an operating plan that dovetails into that; and at the back of the operating plan, of course, are the budgets.

Those three pieces of work were submitted to the board on Thursday or Friday last week and, apart from a few formatting and synergy changes, they have been approved. Key to the strategic plan of that document is a large piece of marketing. All the marketing that we do—and it will flow across three different channels—will be leveraged as per what we stated in

WoolPoll and leveraged with retailer and brand partners. We have extracted a strategy out of the board over the last couple of months. I have prepared a strategic plan—it has gone to the board—and it is ready to come down to Canberra for—

Senator FIERRAVANTI-WELLS—Mr McCullough, as part of the discussions for the renewal of the agreement, have you looked at the definition of the use of R&D moneys?

Mr McCullough—In the step? The other piece of work that we are doing is renegotiating the statutory funding agreement. That is at a point now where it has left our building and comes down to the minister. The definition of research and development spend and how we jam-jar the funds for R&D spend are clearly articulated in that document.

Senator FIERRAVANTI-WELLS—On the marketing issue, can you tell us a bit about your relationship with the UK based agency keep and how that relationship started. What is the basis of that and what is your engagement with them?

Mr McCullough—AWI's at the moment?

Senator FIERRAVANTI-WELLS—Yes.

Mr McCullough—AWI has no contract with the keep agency at the moment.

Senator FIERRAVANTI-WELLS—Did I understand correctly—and I am asking you the direct question rather than relying on reports in papers. Did you go out into the marketplace for bids or interest in relation to market?

Mr McCullough—Yes, we did.

Senator FIERRAVANTI-WELLS—Did you put that out to a tender process?

Mr McCullough—Yes, we did. The keep agency had done a piece of work for us in the past, so we included them in that bid process. When I got the role as acting CEO there were only executives on the selection panel of that, which I changed immediately. We kept some of the executives on there, but what I did add to that selection were five people who had international marketing credentials, international talent. I was not on there and the person that I have looking after that project was not on there either. For example, we had the chief marketing officer of the Commonwealth Bank sitting on that committee. I wanted it to be independent. We went for the first cull, a reduction in the eight people that bid, and we are now down to four. We will move onto a second phase of that. That will be decided in two weeks time.

Senator FIERRAVANTI-WELLS—So you had about seven or eight companies initially?

Mr McCullough—We asked 10 and we got eight.

Senator FIERRAVANTI-WELLS—You asked 10?

Mr McCullough—Yes.

Senator FIERRAVANTI-WELLS—And you have culled that down to four?

Mr McCullough—Yes.

Senator FIERRAVANTI-WELLS—Presumably that process is still confidential.

Mr McCullough—Yes. It is ongoing, except in this stage I am planning to beef up that selection talent even more. This is an important piece of work and something that we are

going to have to live with for three years. I want to make sure that we choose the best agency that has the ability to roll this out globally, in particular with talent in the Northern Hemisphere.

Senator FIERRAVANTI-WELLS—How will the timing of that affect your autumn—

Mr McCullough—Northern Hemisphere this year?

Senator FIERRAVANTI-WELLS—Yes.

Mr McCullough—For winter in the Northern Hemisphere this year. That will be in the marketplace this year.

Senator FIERRAVANTI-WELLS—Sorry, Mr McCullough. It is not a process yet that is in the public domain?

Mr McCullough—No. There is a bit of staging to go on there. The first thing is that—

Senator FIERRAVANTI-WELLS—No, I did not want to ask you the details of it because I am asking you—

Mr McCullough—Not yet.

Senator FIERRAVANTI-WELLS—Not yet. We are not at that point—

Mr McCullough—But as soon as we can, we will make it public.

Senator FIERRAVANTI-WELLS—Could I ask you about this UK based campaign, which I have also read something about, with His Royal Highness and his comments in relation to wool. Is AWI formally part of that campaign? What is the situation there?

Mr McCullough—Yes, we are. The board has approved £100,000 to be committed to that project. It is a bit more than a tripartite arrangement. We have the British Wool Marketing Board and New Zealand involved, but then we have the Netherlands—they have dropped a little money in—and the International Wool Textile Organisation have dropped a modest amount of money in as well. Essentially, it is a tripartite arrangement between us, the British Wool Marketing Board and New Zealand Wool—

Senator FIERRAVANTI-WELLS—Without canvassing the concept of marketing, one of the alleged points of difference on the board has been between targeted marketing and generic wool marketing. Is that now something that this process is going to look into?

Mr McCullough—No.

Senator FIERRAVANTI-WELLS—I ask that specific question, Mr McCullough, for obvious reasons: members of your board, because of their background and what they do, may be swayed towards a particular type of marketing as opposed to another type of marketing.

Mr McCullough—The first thing—and this is explicit in the strategic plan—is some definition on ‘marketing’ and no marketer knows the word ‘generic’ promotion or marketing. It is a wool growers’ word. If I understand what wool growers might mean by that word, I think they mean that they do not want a woolmark in Times Square on a billboard saying, ‘Wool is good.’ I do not think they want that. They voted very clearly in 2000 about that. We will absolutely not 100 per cent be doing anything like that. That is what you call business-to-consumer marketing, with no call to action. There are very few companies in the world that

do it now—some FMCG companies and a few car companies actually use that style of marketing.

What we will be doing is leveraging all our marketing. What we have done in the past is that we have piggybacked off other brands and retailers' marketing and attached our brand to that marketing. The only difference will be a new channel of marketing that we are doing—we are going to continue doing that one as well—where we will be commissioning the marketing and we will be having brands and retailers swinging off our marketing. That is very much along the lines of the HRH program. We have 100 retailers interested in co-investing or being part of that HRH Campaign for Wool program. So, no, the strategic plan has no generic promotion, no business-to-consumer promotion without a partner in it at all.

Senator FIERRAVANTI-WELLS—You have heard the various comments in relation to the selection process. The minister himself has made comments in relation to the problems at AWI—you know the comments that I refer to.

Mr McCullough—Yes.

Senator FIERRAVANTI-WELLS—Has AWI, because of the nature of its corporate structure, given some thought to changing its constitution to incorporate a more arm's length selection committee process, perhaps in line with potentially MLA or some other model?

Mr McCullough—Do you want to answer this, Wal, or will I?

Mr Merriman—That is a board matter.

Senator FIERRAVANTI-WELLS—I have just asked you, Mr Merriman: has the board given consideration—

Mr Merriman—Are you asking me?

Senator FIERRAVANTI-WELLS—I am asking: in light of the comments that the minister has made, has the board given some consideration to the issues that the minister has raised and, in particular, when he publicly makes comments to the effect that it is the structure of AWI not the people who have been behind its chequered and volatile past. Following those sorts of comments—and there are a raft of them out there—has the board given any consideration to some internal changes to its constitution?

Mr Merriman—I like to think that I have a very good rapport with the minister. Our staff and government and DAFF have come up with the new statutory marketing—

Mr McCullough—Funding.

Mr Merriman—Statutory funding agreement.

Senator FIERRAVANTI-WELLS—Mr Merriman, a simple yes or no would suffice. I have just asked—

Mr Merriman—I am not going to comment on our new statutory funding agreement before the minister has even signed it, so I think you will just have to wait.

Senator FIERRAVANTI-WELLS—Mr Merriman, if you had listened to my question, my question was: following the comments that the minister has made about the structure of AWI, has the board given any consideration to proactively itself making some changes to the constitution?

Mr Merriman—Yes, the board has considered it.

Senator FIERRAVANTI-WELLS—Thank you, Mr Merriman. That was my question. Are they formal changes or is it just a consideration that you are giving?

Mr Merriman—The results of it will be in the statutory funding agreement.

Senator FIERRAVANTI-WELLS—I see. So part of the statutory funding agreement will be a commitment to change your structure?

Mr Merriman—The statutory agreement has it in it. It is part of it. We have signed it, it has gone to the minister and I cannot comment on what the minister has done with it.

Senator FIERRAVANTI-WELLS—Sorry, I have not understood, Mr Merriman. Are you saying that the agreement or what you have sent to the minister includes a proposed change to the structure of your organisation, or a constitutional change to—

Mr Merriman—I am sorry, I am not going to comment on that document.

Senator HEFFERNAN—Fair enough.

Mr McCullough—I think it is best that the minister gets it and considers it before we start predicting what might or might not be inside that document.

Senator FIERRAVANTI-WELLS—All right, thank you.

Mr McCullough—But the answer to your first question: was it considered? Yes, it has been considered.

Senator FIERRAVANTI-WELLS—Yes, thank you, Mr McCullough. That is what I wanted to know. I know other senators have questions, so I did not want to take too much more time.

CHAIR—Thank you. Senator O'Brien.

Senator O'BRIEN—We are hearing that there is a letter, addressed apparently to Mr Merriman, from key Italian wool stakeholders who have raised concerns about AWI. We are being told that the letter expressed disappointment about a recent visit of three members of the AWI board of directors to Italy and it claimed the delegation did not express official AWI thinking. Can I have your comments on those reports?

Mr Merriman—I was not there, but I have got every confidence in those people who attended that delegation. To circumvent a lot of this, there is a second Italian letter. Unfortunately good news does not get leaked these days, but I would like to pass this over to you.

CHAIR—Senator Heffernan, the secretariat will do that. It is not your role.

Mr McCullough—Actually there are some copies here, if you—

Mr Merriman—I will just make sure it is the right one.

CHAIR—Not that we do not trust Senator Heffernan, but the paper will probably be a different colour by the time we get it.

Senator Sherry—It might be useful, Chair, if we actually identify which letter we are referring to in terms of questions.

Senator O'BRIEN—Mr Merriman, you have said there are two letters. Can you differentiate the letters—dates, addressees? Can you tell us what the dates of the two letters were?

Mr Merriman—I have given it away.

Mr McCullough—The first one is dated 24 February and the second one is dated 25 March.

Senator O'BRIEN—From the same source?

Mr McCullough—They are from the same signatories of the first letter, yes. That is prefaced in the top line of the second letter.

Senator O'BRIEN—And they are Italian wool stakeholders, are they?

Mr Merriman—Yes.

Dr Sheil—I am prepared to answer that question. I was there.

Mr Merriman—Yes, excuse me. Dr Sheil was at that meeting.

Senator O'BRIEN—Dr Sheil, can you give us your response to the reports about the concerns raised by the stakeholders, and the claim that the delegation did not express official AWI thinking?

Dr Sheil—Yes, I can. I think that there has been some misunderstanding in the letter. The letter was drafted by somebody who was not at the meeting. In fact, half the people who signed it were not at the meeting either. I think one of the most important things to understand is that there is a fair amount of, probably understandable, anger towards Australian Wool Innovation from within the Italian community—I think Senator Fierravanti-Wells picked up on that in her comments—which has developed over a period of time. In the meeting that we held with them, that combined anger was expressed at the opening of the meeting. I felt that we dealt with it very constructively and went on to have a very positive meeting. I, in fact, took quite detailed notes of that meeting. The object of the meeting was to gain their input into our strategic planning process and we were able to get fantastic input from them. So it was a very positive meeting. I think the letter that came subsequently, as I said, was from people who were not actually at the meeting and did not have the opportunity to discuss some of the issues that they raised in the letter.

Senator O'BRIEN—I have not seen this second letter. Does that qualify the first letter or change the position of the signatories?

Dr Sheil—I think the second letter talks very strongly about wanting to work together with the Australian wool industry in the way that the chairman mentioned, in a way that—

Senator HEFFERNAN—Better read it into the *Hansard*.

Dr Sheil—historically has not been present before, so I think very much there is a mood to move on from the past now.

Senator O'BRIEN—The difficulty we have, of course, is that the letter may have been tabled, but we have not actually seen it yet—

Senator HEFFERNAN—Read it into the *Hansard*.

Senator O'BRIEN—I am not sure why.

Senator HEFFERNAN—It would only take a minute to read it.

Senator O'BRIEN—I am happy for Dr Sheil to read the second letter into the *Hansard*, because that will assist us.

Mr Merriman—Stuart has got a copy there. Meredith, do you want Stuart to read it?

Senator O'BRIEN—Mr McCullough, you can read it; someone read it into the *Hansard*.

Mr McCullough—It reads:

We know that our letter of February 23rd, for some reason, went to the press: we were not the ones who distributed this as our goal was to simply stimulate the importance of the unity of the AWI Board and get to a commonly agreed future advertising campaign, absolutely needed for the relaunch of wool in the international market.

A few days ago we were informed of a potential project connected with HRH Prince Charles.

We have given some thoughts to it—even though we don't know any detail—and have come to the conclusion that Prince Charles would in fact be an “excellent first testimonial” to speak in favour and passing a positive message about wool in general.

What we suggest is to take advantage of such opportunity and quickly study through a competitive tender process involving a number of top international Advertising Creative agencies, how it could be used as the starting step of an AWI “medium term” campaign that, after Prince Charles, could involve other International Testimonials, either VIPs or top manufacturers, or retailers or whoever is recognized worth to pass new positive messages on wool to final consumers (especially to the younger generation).

If the Prince of Wales campaign make sense to the AWI Board, in our opinion such subject should immediately be added to a brief to pass to the selected bunch of International Advertising agencies. The AWI Board should then take the decision of the winning one.

The Italian manufacturers offer their availability to contribute and express their opinion about the message to opt for.

If we all move quickly, we are confident we are still on time for a presence in the press next Autumn-Winter 2010-2011 season.

We sincerely hope our suggestion will find your and AWI Board agreement. We are confident on the fact that, if we agree on the subject of the campaign, if we look at it as a “first step” of something which should have a “continuity threat” for 2-3 years, if we launch a competition to various top Advertising agencies to select the best of them, all the above will recreate, inside the AWI Board and within producers and users, the necessary harmony to join the efforts and aim to a strong and positive repositioning of our precious fibre.

We look forward to receive your feedback.

In the meanwhile we send you our best regards.

That is prefaced by saying:

In agreement with the same signatories as the previous letter.

Senator O'BRIEN—So there is a bit of a mixed message out there. The first letter is reported as being quite critical of AWI, talking about potential conflicts of interest of board directors and about the purpose of the visit being misrepresented. Dr Sheil, you are suggesting that the author of the letter was not at the meeting.

Dr Sheil—Yes, that is correct. In fact, official Australian Wool Innovation thinking was expressed because the meeting was opened by the general manager for marketing for Europe, Mr Nagy Bensid, who did a presentation of Australian Wool Innovation's current marketing strategy and plan, then we opened the floor for discussion about potential future directions to gain their input. It mostly was a listening brief—the reason that we were there. So I think that that part of the letter was incorrect. As I said, there was some incorrect information in the letter.

Senator O'BRIEN—Has the board inquired as to why that took place, or are you simply satisfied that the second letter corrects the record?

Mr Merriman—I am satisfied with that delegation. The second letter not so much corrects it, but they were highly embarrassed that that letter got leaked. It was in-house criticism and I have accepted that on behalf of the board. I think it is a misunderstanding. But the second letter is the true intent of Italy and it is the work of that delegation that got us to this point.

Senator O'BRIEN—Does the board know how the letter was leaked?

Mr Merriman—If you can tell me how things leak, that would be lovely!

Senator O'BRIEN—It is obviously a matter that reflects on the reputation of the board. I would not laugh it off if I were on the board.

Mr Merriman—Our company people have tracked the PDF, and they know the author in Australia. It certainly was not anyone on the board—that author in Australia who has gone to the press.

Mr McCullough—So the letter had been scanned in Australia and put into a PDF file.

Senator O'BRIEN—So somebody—

Mr McCullough—But the person who scanned it left their signature in the PDF file.

Dr Sheil—It is fair to say that we are doing an investigation. There have been a series of leaks from the company and the information that is being leaked is biased, inaccurate and misleading.

Senator BACK—What are you doing about it? It is very unfair.

Dr Sheil—Clearly it is causing damage to directors, the board and the company and, yes, the company is doing an investigation into that at the moment.

Senator O'BRIEN—I take it the board is concerned that it, as an industry owned research body, is in the media so frequently in relation to in-fighting between its board members?

Mr Merriman—We get all that press. We get one person, from a paper called the *Weekly Times*, who dreams up these things. At the end of the day here is the document: the strategic plan, the operational plan, all signed, sealed and delivered and, with the exception of some formatting, ready to go to industry. It has been ticked off by our shareholders and it is ready to be presented to government.

Senator O'BRIEN—Will that, when it is released, stop the internal politics finding their way into the media, and will it stop us seeing more reports about—

Mr Merriman—That is for the media. As far as I am concerned, the board and staff have put out an excellent document and that is the blueprint for the next three to five years.

Dr Sheil—That has been through the united work of the board. All the corporate governance advisers that we have commissioned have all said the same thing—that they all applaud diligent boards which do not just sit back and let things go, and that actually look into the proper functioning of the company. Of course, particularly at this time, that requires a lot of debate. We came into a company undergoing quite a lot of change related to financial issues, because of the global financial crisis and due to the falling sheep flock numbers. The company had recently taken on the Woolmark company and was shifting from being a predominantly R&D body to being a predominantly marketing and R&D body and there were major shifts in the strategic direction that were required.

It has been a time of great change within the company and that requires a diligent board. Certainly there has been a lot of discussion on the board and, personally, I believe that has been managed extremely well. The issue for us is that the discussion on the board is ending up in the press in a manner that in my opinion is biased, misleading and causing inaccurate information to go into the public place.

Senator O'BRIEN—Does that reflect divisions in the board?

Dr Sheil—No. As the chairman just said, the board is united. The board has just passed a united strategy for marketing, a united strategy for R&D, a united strategy for business development. We are clearly cohesive on the road ahead and that has come through a well-functioning board with a lot of good debate.

CHAIR—And the leak?

Senator O'BRIEN—You are suggesting the leak does not come from the board. Is that what you are saying?

Dr Sheil—I said we are doing an investigation into that.

Senator O'BRIEN—I can read between the lines, I think.

Mr Fletcher—Can I just say something too? The Italian industry has probably gone through more turmoil than AWI. The industry has dramatically dropped off there. They are under massive pressure from competition with Asia, where the wages are about 40 to one. As a client of the Italians, I know more about it than anyone in this room because I cannot get my money. It is a very difficult situation. In Australia the insurance companies would not accept the insurance any more, which I could accept—if I were an insurance company, I would be in the same boat. I know one company in Australia very well that has left a lot of money up there in the last 12 months. So they are under strain and, naturally, they are coming back to people to blame—AWI. That is no different from when you see low cattle prices—they blame the processor or the government or someone else.

Senator O'BRIEN—Yes.

Mr Fletcher—They are under pressure and I accept that. Ten per cent went bankrupt in the last 12 months. You just have to look at it on balance.

Senator O'BRIEN—I am going to quote you next time Senator Heffernan is going on about cattle prices. That is another story.

Senator HEFFERNAN—And blaming the government. Can I just ask a couple of questions?

CHAIR—No, you cannot.

Senator O'BRIEN—No. I have not finished yet but then you can.

CHAIR—Just wait.

Senator McGAURAN—I have only had one!

#Senator HEFFERNAN—Yes, but you have had one go. I have not had one go yet.

CHAIR—Just wait—order!

Senator O'BRIEN—You have had a go, Senator McGauran, but I wanted to ask about another matter—

CHAIR—It was a pretty modest go from Senator McGauran. It is rare that I spring to his defence. He only got one or two questions in.

Senator O'BRIEN—I want AWI's view on how the Australian Wool Exchange Ltd's National Wool Declaration and the On-Farm Audit Program have worked and how any government investment in that area might benefit the industry.

Mr Merriman—How it works?

Senator O'BRIEN—Yes.

Mr McCullough—How the declaration—

Mr Merriman—It is pretty simple how it works. It is there; it is identified.

Senator O'BRIEN—Is that of benefit to the industry?

Mr Merriman—I presume. Stuart can talk to this—but it is one thing you might have seen in the press. The company brought Erik Autor out here from the American Retailers Group and that was one thing they were very keen and insistent on; that the wools are declared so people can see the amount of unmulesed, ceased mulesed and pain relief wool.

Mr McCullough—To give you a bit of an update on our participation in that, we have certainly supported that from day one. We have invested money in the formation of the National Wool Declaration—\$30,000. The National Wool Declaration was instigated for declaring ceased mulesed, non-mulesed and pain relief treated wool in August 2008. We continue to support that document and will continue to support it. We want to flush out as much of that wool, as possible and identify it in the auction system. So should retailers and brands wish to buy that, they can send the money down, find it and purchase it in the auction room. To find it is important.

Senator O'BRIEN—And the system will identify it?

Mr McCullough—The system identifies non-mulesed, ceased mulesed or wool that has been treated with pain relief.

CHAIR—I am very mindful that no-one wanted to ask any questions. I welcome healthy debate. The time is ticking away. Senator McGauran has had a chance, but she—

Senator McGAURAN—Senator Adams has yielded to me because it follows directly in regard to the letters and it is only one question—I really meant that.

CHAIR—Okay. Senator McGauran, sorry.

Senator McGAURAN—I have read this second letter. Perhaps the CEO could explain this to me, seeing he read the letter. It was said by Mr Merriman that the first letter was an in-house criticism that should never have leaked out. Part of that criticism was in fact a serious allegation of conflict of interest on the board. Can you point out to me how the second letter retracts that serious criticism?

Mr McCullough—The chairman said it was a criticism amongst friends, I think, not in-house. The point that was being made here is that the theme of the end of the first letter and of all of the second letter indicate a great willingness to cooperate with the Australian wool industry, which we are willing to do on an ongoing basis. We invest a lot of money there and we are continuing to do that, as Senator Fierravanti-Wells would say, as a flagship market.

Senator McGAURAN—But it is a criticism nevertheless, and a serious one. Have you addressed it?

Senator HEFFERNAN—By someone who was not at the meeting.

Mr Merriman—I am sorry, we—

Dr Sheil—Can I address that because again it is a question of conflict of interest which is directed against me. I must say that it is an issue that I am finding particularly frustrating. As you know, I was involved with developing and inventing the product Tri-Solfen. That has always been widely publicised. It was well known before I was elected to the board and I was still voted onto the board, with the second highest vote in the history of the Australian Wool Board elections. I have a very strong understanding of the need to maintain proper corporate governance in managing any interests that I have on the board. I have always fully declared my interest in the matter and, in any discussions or board deliberations on the issues, I always withdraw. I know that the chairman has always, before this committee, confirmed that that is the case.

The letter does not make an allegation of conflict of interest. It does not make any substantial accusation. All it said was that they were disappointed to see people with conflicts of interest appearing before them. Everybody, on any board, has areas in which they have an interest.

Senator Heffernan interjecting—

CHAIR—Sorry, I am going to pull this up. Dr Sheil, I appreciate your answering the question from Senator McGauran. But in good faith we had an agreement on this committee, with the assistance of you all in front of us when you made yourselves available, that the staff would give up their dinner break on the proviso that we would get this wrapped up asap. I am not one to kill debate but, in all fairness, I am not going to sit by and abuse the agreement that we made. That is the last question, Senator McGauran. Senator Adams, I am not going to encourage you to ask a stream of questions. If you have one or two very quick ones to ask, please do. I would encourage the officers from AWI to keep the answers as short as possible so that we can honour the agreement we have with the staff. Thank you.

Senator ADAMS—Thank you very much. Firstly, Mr McCullough, my congratulations on your appointment. I think that you will do well.

Mr McCullough—Thank you.

Senator ADAMS—I have a quick question on the North American market position for Australian wool. Could you tell me where we are going with that at the moment?

Mr McCullough—Yes. I know that market pretty well; I spent three years working in that market for AWI. In my view, we have been very lean on the ground there in terms of not only our operating costs but also the amount of money we have allocated for projects there in the last 10 years. I have allocated a significant piece of money, as part of our new marketing strategy, for a rollout of the marketing program in the North American market in fall-winter this season.

Senator ADAMS—Are they getting better money for the certified non-mulesed wool now? What is the situation?

Mr McCullough—They are not actually getting any premium in the auction system, which makes things a little tough. As you know, the auction system works on interest. If there are two people bidding on a lot of wool the price may not go up, but if there are 10 people bidding on it the price will go up, and that sends a little signal to us. But we certainly encourage people to use the National Wool Declaration.

In the last couple of weeks we had out here in Australia Erik Autor, Vice-President of the National Retail Federation. We did that to show him—so that he can be the conduit, if you like, between the Australian wool industry and North American retailers—the size of the Australian wool industry and the size of this particular problem, flystrike prevention. I do not know whether you have read any of the press or heard some of the exit interviews that he did on his departure to North America, but they certainly looked positive. There is no doubt that, in the latter half of this year as 2010 closes out, these retailers will come under increasing pressure from animal rights groups.

Senator HEFFERNAN—We are still getting flystrike.

Senator ADAMS—Are the activists ramping up their program or are they keeping quiet for a while?

Mr McCullough—I think we can expect it to ramp up a little in the latter part of this year as 2010 closes out.

Senator ADAMS—As far as the mulesing program goes, what has happened with clips and all the rest of it?

Mr McCullough—We continue to invest in this market. I think we have \$3 million allocated in the operating budget against this particular problem. It is No. 1 in terms of our priorities in research and development. We have a commercial product in the market—the clips. We have another product, intradermals, which is getting very close, with registration at the APVMA at the moment, and towards the end of this year or early next year we might be doing some commercial trials. And, of course, the genetic work continues in the background: ultimately that is going to be our solution I think, but it takes time.

CHAIR—Thank you, Senator Adams. Mr McCullough, congratulations. You may be only new to the CEO's role but you sound like a seasoned CEO in your short answers.

Mr McCullough—It is only day 2, Senator Sterle!

CHAIR—And God help us when you have been in the job for a couple of years!

Mr McCullough—The shine might be off me in a few months.

CHAIR—Congratulations on beating 92 people to the job and, on behalf of the committee, thank you. Good luck to Australia's wool producers—they certainly need all the help they can get.

Mr McCullough—Thank you.

CHAIR—You can take this question on notice, because I am keen to wind up: it is reported that your predecessor was on \$350,000 per year. You, Mr McCullough, like us, do not do this job for the money; it is for the love. It does say that you are being paid well below your predecessor. If you can let the committee know that, we would appreciate it.

Mr McCullough—We are just going through some finalisations of that contract, but it will be very public in the annual report, I am sure.

CHAIR—That is fine; take it on notice, Mr McCullough. Mr Merriman, Mr Fletcher and Dr Sheil, thank you very much. Drive safely, and thank you for coming to us earlier than was expected. On behalf of the committee, I do sincerely want to thank the staff. Thank you, Hansard and Broadcasting, as always, and also our committee secretariat, the minister and officials. Dr O'Connell, thank you very much. That concludes today's hearing.

Committee adjourned at 8.06 pm