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SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT
LEGISLATION COMMITTEE

ESTIMATES

(Budget Estimates)

MONDAY, 26 MAY 2003

CANBERRA

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SENATE
RURAL AND REGIONAL AFFAIRS AND TRANSPORT LEGISLATION
COMMITTEE
Monday, 26 May 2003

Members: Senator Heffernan (*Chair*), Senator Buckland (*Deputy Chair*), Senators Cherry, Colbeck, Ferris and O'Brien

Senators in attendance: Senators Cherry, Colbeck, Ferris, Heffernan, O'Brien and Stephens

Committee met at 9.04 a.m.

AGRICULTURE, FISHERIES AND FORESTRY PORTFOLIO

In Attendance

Senator Ian Macdonald, Minister for Forestry and Conservation

Departmental

Mr Bernie Wonder, Deputy Secretary

Mr Don Banfield, Deputy Secretary

Management Services and Corporate Governance

Mr Bill Pahl, Chief Operating Officer

Mr Allan Gaukroger, Chief Financial Officer

Mr David Mitchell, Acting Chief Information Officer

Ms Cathy Cox, Acting General Manager, People and Strategies

Mr Bill Handke, General Manager, Governance

Mr Peter Moore, Manager, Budgets

Food and Agriculture

Mr David Mortimer, Executive Manager

Mr Richard Souness, General Manager, Food Policy and Safety

Mr Roland Pittar, Acting General Manager, Field Crops, Wine and Horticulture
Business

Mr Greg Williamson, General Manager, Meat, Wool and Dairy Business

Ms Sally Standen, Manager, Wool and Dairy, Industry Operations and Reform

Mr David Williamson, Manager, Field Crops

Market Access and Biosecurity

Mr Paul Morris, Executive Manager, Market Access and Biosecurity

Ms Mary Harwood, Executive Manager, Biosecurity Australia

Mr Craig Burns, General Manager, Trade Policy

Dr David Banks, General Manager, Animal Biosecurity

Dr Melanie O'Flynn, General Manager, Biosecurity Development and
Evaluation

Dr Brian Stynes, General Manager, Plant Biosecurity
Dr Dennis Gebbie, Chief International Agricultural Adviser
Ms Virginia Greville, Special International Agricultural Adviser
Mr Jeff Maldon, Manager, Project Analysis and Coordination

Product Integrity, Animal (including aquatic animal) and Plant Health

Dr Gardner Murray, Executive Director
Dr Graeme Hamilton, Chief Plant Protection Officer
Dr Mike Cole, Deputy Chief Plant Protection Officer
Mr Steve McCutcheon, General Manager- Product Safety and Integrity
Dr Alison Turner, Chief Executive Officer, Australian Pesticides and Veterinary Medicines Authority
Dr Joe Smith, Program Manager, Pesticides Division, Australian Pesticides and Veterinary Medicines Authority
Dr Peter Raphael, Program Manager, Quality Assurance and Compliance, Australian Pesticides and Veterinary Medicines Authority
Mr Tim Roseby, Executive Manager, Emergency Risk Management Unit
Mr Troy Cousins, Assistant Director—Business, National Residue Survey
Dr Bob Biddle, Chief Veterinary Officer
Dr Ian East, Scientific Advisor, Aquatic Animal Health
Dr Eva Marie Bernoth, Manager, Aquatic Animal Health
Dr Fiona Sunderman, Principal Veterinary Officer

AQIS

Ms Meryl Stanton, Executive Director
Mr Greg Read, Executive Manager, Exports and Corporate Group
Mr John Cahill, Executive Manager, Quarantine
Ms Jenni Gordon, National Manager, Animal and Plant Programs Group
Mr Tim Carlton, General Manager, Finance and Information Strategy Group
Ms Cathy Cox, Acting General Manager, People Strategy Group
Mr Steve Bailey, National Manager, Food Services Group
Dr Ann McDonald, General Manager, Market Maintenance Group
Dr Andy Carroll, National Manager, Cargo Management Group
Mr Bob Murphy, National Manager, Border Management Group
Mr Bob Stirling, Airports Program, Border Management Group
Ms Fiona Cornwell, Electronic Documentation, Food Inspection Services Group
Ms Jane Watt, AQIS Finance, Finance and Information Management
Dr Narelle Clegg, Animal Programs, Animal and Plant Programs Group
Mr Robert Langlands, Seaports, Cargo Management Group
Mr Colin Hall, Plant Programs, Animal and Plant Programs Group

Rural Policy and Innovation

Dr Cliff Samson, Executive Manager, Rural Policy and Innovation
Mr Tom Aldred, General Manager, Rural Support and Adjustment
Mr Brian Jones, General Manager, Science and Economic Policy
Mr Bob Calder, General Manager, Drought Taskforce

ABARE

Dr Brian Fisher, Executive Director
Mr Vivek Tulpule, Deputy Executive Director

Bureau of Rural Sciences

Dr Peter O'Brien, Executive Director
Ms Melanie Fisher, Executive Manager
Dr Kim Ritman, Acting Chief Scientist
Mr Ron Levers, Program Leader, Executive and Business Management
Dr John Sims, Drought Taskforce

Fisheries and Forestry

Mr Daryl Quinlivan, Executive Manager, Fisheries and Forest Industries
Mr Mike Macnamara, General Manager, Fisheries and Forestry Environment
Mr Mike Wilson, General Manager, Forest Industries
Mr Frank Meere, Managing Director, Australian Fisheries Management Authority
Mr Les Roberts, General Manager Fisheries, Australian Fisheries Management Authority

Natural Resource Management

Mr Ian Thompson, Executive Manager, Natural Resource Management
Mr Mike Lee, General Manager, Regional Natural Resource Management
Mr Charles Willcocks, General Manager, Landcare and Sustainable Industries
Mr Ross Dalton, General Manager, Water and Murray Darling Basin
Mr Peter Thomas, General Manager, Natural Resource Management Strategies and Climate Change

Secretariat

Ms Helena Redwin
Mr Paul Short
Ms Barbara Andrews
Ms Melanie Williams

CHAIR—I declare open this public hearing of the Senate Rural and Regional Affairs and Transport Legislation Committee. On 13 May 2003, the Senate referred to the committee the particulars of proposed expenditure in respect of the year ending 30 June 2004 for the portfolio areas of agriculture, fisheries and forestry and transport and regional services. The committee will consider proposed expenditure for both portfolios during this week's hearings. The committee is required to report to the Senate by Thursday, 19 June 2003. Answers to

questions taken on notice and additional information should be received by the committee no later than Friday, 11 July 2003.

Committee members and participating members have been provided with the portfolio budget statements for each department. Members have also been given a briefing on the form of this year's portfolio budget statements by both departments as agreed. I propose to call on the estimates according to the format adopted in the printed program. While the Finance and Public Administration Legislation Committee oversees the monitoring and the format of the portfolio budget statements, I remind you that the Rural and Regional Affairs and Transport Legislation Committee is continuing to monitor the format of the PBS presented to it. This is in accordance with the Finance and Public Administration Legislation Committee's recommendation in its third report on the format of the PBSs that legislation committees report in each budget estimates report on the adequacy of the PBSs provided for their use. The committee has authorised the recording and rebroadcasting of its proceedings in accordance with the rules contained in the order of the Senate of 23 August 1990.

I welcome to the table Senator the Hon. Ian Macdonald, Minister for Forestry and Conservation, representing the Minister for Agriculture, Fisheries and Forestry. Senator Macdonald is accompanied by Mr Bernie Wonder, Deputy Secretary, Mr Don Banfield, Deputy Secretary and other officers of the Department of Agriculture, Fisheries and Forestry and related agencies.

Officers are reminded that the Senate is consistently cited by way of continuing resolution:

... there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise.

Officers are also reminded that an officer of a department of the Commonwealth or of a state shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to the minister.

Finally, witnesses are reminded that the evidence given to this committee is protected by parliamentary privilege. I also remind you that the giving of false evidence or misleading evidence to the committee may constitute a contempt of the Senate.

[9.08 a.m.]

Department of Agriculture, Fisheries and Forestry

CHAIR—Would the minister, Mr Wonder or Mr Banfield care to make an opening statement?

Senator Ian Macdonald—Mr Chairman, I appreciate the remarks that you have just made, and they are made every time, but I also feel it is my obligation to indicate to the committee that I do not accept the indication that there is no question that cannot be refused. I think longstanding practice here indicates that matters of policy—although they may relate to matters of expenditure—matters going to cabinet, matters that are commercial-in-confidence and matters that are before the courts are all matters on which I would be instructing the officers not to answer questions. I only say that, Mr Chairman, as I say it every time. You quite rightly read the rules of the Senate, and I just want to put on record my view.

One day I must get together with the committee to see if there is a way we can speed the process of this hearing. We do have two departments out for two or three days in total. There are a lot of their officers involved. It is a very expensive exercise, but it is part of democracy and we accept it. One thing that does concern me, in addition, is that even with all the officers here we still seem to take a hell of a lot of questions on notice. That may be our problem rather than the committee's, but we do record the cost of taking questions on notice, and it is very extensive. Perhaps I should get together with the committee one day to see if there is a way that, without giving away any political knockouts that might be in the way, we could, where there are routine questions, get the committee to indicate to us the general area—and I think to a degree that this does happen—so we can use all of the officers who are here to answer questions on the spot rather than taking a lot of questions on notice. I must say that this committee is much better than other committees that I have had interaction with with regard to questions on notice, but still, if there were some way of cutting down the cost involved for all of our benefits, I would like to explore that. As I say, perhaps some day I should meet with the committee to have a general chat about those things. Thank you, Chair. Mr Wonder would like to say something in opening.

Mr Wonder—Thank you, Minister. A few brief remarks if I could just to open proceedings. First of all, I extend Mr Michael Taylor's apologies for not being available to attend today's hearings. Mr Taylor wrote to you, Chair, on 8 May indicating that he would not be available. He has a longstanding appointment with the director-general from a New Zealand department for some discussions on trade and quarantine and animal health issues and will be attending to those today. Secondly, I also refer to a letter that we provided on 19 May for the committee which is the usual quarterly update, in this case the third-quarter update, of key activities that have been happening in the portfolio over that quarter. I would like to make just a few remarks regarding some aspects of the 2003 budget, and I want to refer to the review of ABARE and BRS as well.

The brief remarks I want to make about the budget measures will be based on the portfolio budget statement, pages 16 to 18, and I will also be drawing on the statement made by Minister Truss and Minister Macdonald: 'Sustaining Agriculture—The Drought and Beyond 2003-2004'. In particular, I am referring to that because of its summary of the budget measures, from page 14 onwards, where the main measures listed are: the \$122.2 million to continue Landcare activities; the \$2.5 million boost for addressing the action agenda for Australian aquaculture; the additional \$5.2 million for addressing the fire ant challenge, which is additional to the \$15 million the government has already provided for 2003-04; the extension of the closing date for Farm Help applications from 30 November to 30 June 2004; the money that the government has made available to fight illegal fishing in the Southern Ocean, some of which is coming to AFFA for the post-apprehension processes, the remainder of which is going to Customs; and, finally, the additional resources that are being made available for continuing the Tuberculosis Freedom Assurance Program and the Tasmanian Wheat Freight Subsidy Scheme. They are the main budget measures.

I obviously have not touched on a whole range of commitments that the government had already made in respect of drought—matters such as exceptional circumstances, the prima facie assessment, the drought relief package—nor have I touched on the National Action Plan

for Salinity and Water Quality or the NHT or the Murray-Darling Basin initiative. Again, they are all commitments that had been made prior to the 2003 budget. That is also the case of course for Agriculture Advancing Australia funding, although it probably is noteworthy to mention that we will, through the course of this year, be developing the options for a successor package for AAA that we hope to bring forward, in the context of the 2004-05 budget, for consideration.

Finally, I have a couple of comments regarding the ABARE-BRS review. The committee would be aware that we have been undertaking a review of the two bureaus. Mr Banfield and I would be happy to address any questions relating to the review of the two bureaus at the beginning of this hearing rather than leaving it to the individual organisation parts of the agenda, if that would be convenient. Pending your decision on how you want to handle questions relating to that matter, we would then be ready to move on to management services. I have Mr Pahl and Mr Gaukroger to help address questions in that portfolio area.

CHAIR—Thank you, Mr Wonder. I think it is the view of the committee that we can deal with ABARE as you request. To start down this wonderful winding road, I call on Senator O'Brien.

Senator O'BRIEN—Thank you for that lead-in, Mr Chairman.

Senator Ian Macdonald—I'm sure he wasn't being personal.

Senator O'BRIEN—Thank you for the advice about Mr Taylor's absence. I have seen the 12 May letter. Is Mr Taylor meeting in Wellington or in Canberra?

Mr Wonder—This meeting is in Australia; it is in Canberra.

Senator O'BRIEN—Is Mr Taylor unavailable all day?

Mr Wonder—Yes, he is unavailable all day. Basically, these meetings have been put in place for some time and, given that they address a range of very significant issues, he felt he had to stay with that commitment.

Senator Ian Macdonald—Senator O'Brien, if there is something you particularly want to ask Mr Taylor, we will get him here some time during the next four days. I assume he is around for the next four days. I am sure that any questions you might have would be equally well handled by Mr Wonder or by any of the other people from the department.

Senator O'BRIEN—Mr Wonder is always very professional in the way he deals with this committee. It was just a concern. If indeed this matter has been arranged for some time, this timetable has also been known for some time. I was wondering why there wasn't the flexibility to fit in perhaps tomorrow the commitment that otherwise occupies Mr Taylor today.

Senator Ian Macdonald—It is a huge impost on a secretary's time to be involved for a number of days in this committee, no matter how important it is, and officers of the department are more than competent to answer questions. If there are specific things you want to ask Mr Taylor, I will make sure he gets here some time over the next four days. There is nothing sinister about it, I am sure, but, as you, Senator O'Brien, would understand more than most, secretaries do have a very busy schedule.

Senator O'BRIEN—Yes, as do we all. I merely make the point that these hearings are programmed well in advance and the opposition certainly has the expectation that departmental officers will put them into their schedule and give them priority. What are the trade, quarantine and animal health issues that Mr Taylor is discussing?

Mr Wonder—I would have to take that on notice. I do not have a list of the detailed discussions he is having. There is a whole range of trade, animal health and quarantine matters that we would discuss from time to time with New Zealand that are of fundamental importance to the portfolio.

Senator O'BRIEN—We discuss things with New Zealand on an ongoing basis. It is not as if this is a one-off discussion about a particular issue: is that how I should understand your answer?

Mr Wonder—We do have an ongoing relationship, of course, in our discussions with New Zealand, but it is not every day that Mr Taylor is able to be in New Zealand or his counterpart in the New Zealand department, Mr Sherwin, is able to visit Australia. He is in Australia today, he has a longstanding appointment that he has made to discuss these matters and, if you would like any further details regarding the subjects they are discussing, I would have to take that on notice. I just do not have any further detail.

Senator O'BRIEN—I am sure the minister will be very unhappy that you have started so early with taking answers to questions on notice, but we will see how you go for the rest of the hearing.

Mr Wonder—If you are happy with my answer, Senator O'Brien, I will not have to take it on notice.

Senator Ian Macdonald—Otherwise, we will get you an answer before tomorrow is out.

Senator O'BRIEN—Thank you, Minister.

Senator Ian Macdonald—So we will not take it on notice; we will do it verbally.

Mr Wonder—Excellent.

Senator O'BRIEN—At the last estimates hearing, we discussed the underreporting of Mr Taylor's salary in successive departmental annual reports. The discussion included the question of whether the underreporting represented a material error. Mr Pahl told Senator Hogg that the Australian National Audit Office issue guidelines that determine whether or not an error is material, but he was not sure if specific advice had been sought about the matter of Mr Taylor's salary. The department took the question on notice and has subsequently told the committee that no advice was sought—why not?

Mr Pahl—I am happy to take that question. At the time when the underreporting came to my notice, it was also brought to my notice that the aggregated accounts themselves—the financial statements—were correct. Notwithstanding that note 21 was incorrect, it was my view that anyone looking at the financial statements for the department would not be misled in any way by the aggregate numbers. There was also the timing issue: that this had occurred a couple of financial years ago. In light of the amount that was involved, having regard to the overall statements, it was my view that it was not a material breach—or whatever the right word is—and that was the advice that I offered to the department at the time.

Senator O'BRIEN—So the reason that no advice was sought was that you gave advice that it was not necessary. Is that how I should understand your answer?

Mr Pahl—We did not seek advice because it was my judgment that, for two or three reasons which I just put to you, it was not necessary to seek any advice about that particular issue.

Senator O'BRIEN—Would it have been difficult to ask the ANAO the question, just for completeness?

Mr Pahl—No, it would not have been difficult, but I did not think it necessary.

Senator O'BRIEN—In relation to the decision not to issue a corrigendum, the answer refers to consultation with the ANAO, the Department of the Prime Minister and Cabinet and the department's legal advisers.

Mr Pahl—That is correct.

Senator O'BRIEN—Does that mean you talked to the Audit Office about the error in relation to Mr Taylor's salary, but you did not seek their advice as to the nature of the breach; that is, whether it required correction?

Mr Pahl—I asked the question, at the time, of some of my colleagues: what was the requirement in terms of correcting the record? To the best of my recollection, there was a variety of advice that came back to me, including the fact that there was no legal requirement to issue a corrigendum. In the case of the Department of the Prime Minister and Cabinet, who are responsible for guidelines for annual reports and so on, their view at the time was that we had corrected this issue on the public record—indeed, via Senate estimates hearings and so on—and that they could not see what was to be gained by issuing a corrigendum for what was, effectively, a mistake that had occurred several years earlier.

Senator O'BRIEN—That was the advice of the Department of the Prime Minister and Cabinet?

Mr Pahl—Yes. And the advice from the Audit Office, I think, was that strictly speaking a corrigendum should be issued, but at the end of the day it was a matter for AFFA management to decide; it was a management decision.

Senator O'BRIEN—I am still curious as to why, if you could consult the ANAO about the issue of the corrigendum, they were not asked about the nature of the breach.

Mr Pahl—As I said, it was my judgment—taking advice from colleagues about the issue—that it was not necessary to seek any further advice.

Senator O'BRIEN—Has work on this year's annual report begun yet?

Mr Pahl—Some preliminary work has started, yes.

Senator O'BRIEN—Do you expect that the executive remuneration will be reported accurately this year?

Mr Pahl—Yes, I do. We have instituted internal procedures to ensure that we will not have a repeat of the error that was made several years ago.

Senator O'BRIEN—Are they in place for the first time this year?

Mr Pahl—The new procedures will be. I think I have said to you on a previous occasion, with respect to the particular underreporting year, that it was a year of transition and some former colleagues have clearly made a mistake—nothing more, nothing less.

Senator O'BRIEN—Mr Wonder, I have just been reflecting on where we are in the program and your desire for us to deal with the ABARE issue this morning but, on reflection, I think I would prefer to deal with it when Mr Taylor is available.

Mr Wonder—As you wish.

Senator O'BRIEN—If you could let us know when that can be, we can schedule it into the program at the appropriate time. I think that would be the best course rather than to be toing-and-froing on the issue.

Mr Wonder—Is there some reason that you see us as being unable to help you? I am a little puzzled as to why we cannot answer your questions.

Senator O'BRIEN—Firstly, the minister said that, if I wanted Mr Taylor here, he would be made available. My view is that the secretary should be here for that particular program.

Mr Wonder—I understand your view, and I heard what you said. Equally, I would like to think that we have come prepared and are able to more than adequately handle your questions. I am unclear as to why we cannot proceed to do so.

Senator O'BRIEN—I would have thought that this is a fairly important area. Mr Taylor is integrally involved in this process, and I would like the opportunity to ask him questions. I do want to ask some questions about the statutory funding agreement between the Commonwealth and Australian Wool Innovation Ltd. As this matter goes to corporate governance and a contractual relationship between a company and the government, I want to deal with it in this section of the program. I expect you will be able to assist, Mr Wonder.

Senator Ian Macdonald—I am sorry—I was not fully concentrating—but why do you need Mr Taylor? As I have indicated, I will get him here if you particularly want him to answer questions.

Senator O'BRIEN—I do.

Senator Ian Macdonald—What is the relevance of the BRS-ABARE thing?

Senator O'BRIEN—I think Mr Taylor is important to the questions I want to ask.

Senator Ian Macdonald—These things are done as a department; they are not done on a personal basis. There are relevant officers allocated to do various jobs.

Mr Wonder—We are prepared to answer those questions.

Senator Ian Macdonald—I have two very experienced deputy secretaries with me who I am sure could answer every question you wanted answered but, if there are some that particularly require Mr Taylor's attendance, we could hold those over. I cannot think of any questions there might be that these officers could not answer.

Senator O'BRIEN—I prefer that we get the range of questions dealt with at once, and Mr Taylor is, in my view, important in the context of getting all those answers together. That is why I would seek to deal with the matter then.

Senator Ian Macdonald—That may be your view, but I am telling you that from the department's point of view any of these officers have as much knowledge as Mr Taylor has. It seems quite inappropriate that the officers who are here and are ready to answer the questions are not sufficient for you. I thought the purpose of the committee was to ask questions about expenditure. We have a range of officers here to answer them. If they cannot answer them, we take them on notice or, if there are any officers with particular individual and personal knowledge, we can get them along—although that would very rarely occur. This is not their own business; this is a department of government.

Senator O'BRIEN—We are not talking about any officer, either. We are talking about the secretary of the department, or a senior officer of the department, and matters which are relevant to a very important area of research within the portfolio arrangements of this department. I understand the secretary to have been intricately involved in those matters. It is in my view preferable that we deal with those matters with the secretary present. I took from your earlier comment that, if I wished to have him present for particular matters, we would carry those matters over and deal with them then. I take that in the context of Mr Wonder's statement, when he said that you wanted to deal with these matters now. I have reflected on that and I am making a comment as early as I can in the process that that is how I would prefer that the matter be dealt with.

Senator Ian Macdonald—I stand by my statement that, if there are things you particularly want to ask Mr Taylor, I will get him here. I had in mind that you might have been on the old goose chase about his salary, where it might be individual to him—although it is not. Perhaps, Senator, you could ask the officers some questions. I do not know the answers, I might say, and it is always dangerous to invite people to ask questions when you do not know what the answers are going to be. Perhaps you should establish whether Mr Taylor is the one who was crucially involved.

Senator O'BRIEN—Mr Truss is reported on the AAP wire of 28 April this year as saying with regard to this matter:

"I think technically the secretary makes the decision, but I'm sure he'd ask me," he said. "I'm sure he would want to get the government's feeling on this, and I'm sure he would to ask my opinion."

The minister said that the secretary was integrally involved in this matter. He is on the record as saying that. You could check the reference. I am happy to, if I can, give you a copy of the wire report which contains those quotes. If you want to look at it further, I am happy for you to do that. I am not proposing to deal with this matter now. I want to go into this other area. Perhaps we can return to this later.

Mr Wonder—We are not suggesting that the secretary of the department is not integrally involved in that matter or, indeed, in a range of other matters. He is, after all, the secretary of the department. What we are saying is that a number of us feel more than adequately qualified and are in a position to answer your questions, and we have come along here to do so.

Senator O'BRIEN—If my questions are for Mr Taylor then I take it I am able to ask those questions of Mr Taylor.

Mr Wonder—As the minister said, it is hard to see why these questions would be of a personal nature.

Senator Ian Macdonald—Although, having heard what Senator O'Brien has quoted and assuming that it is correct, I think I can understand that, if Mr Truss has said, 'Mr Taylor makes the decisions and discusses them with me,' you might want to ask him what he discussed with Mr Truss. But of course I would object to that as advice to the minister, so that is not going to get you very far. I suppose the end result is that he is the decision maker in that instance, is he?

Mr Wonder—Yes.

Senator Ian Macdonald—It would be a minuted decision which Mr Banfield, I understand, was as involved with, although technically I guess the decision is finally Mr Taylor's, isn't it?

Mr Wonder—Technically, many of the decisions in operating AFFA as a department are Mr Taylor's, but as I say we have come here prepared to answer the questions. A number of other officers associated with the issues are attending the hearings. Mr Banfield has worked very closely on the matter.

Senator O'BRIEN—Perhaps I can reflect on what you have said. I am not proposing to deal with it right now. I want to deal with this other matter. Perhaps we can revisit the issue straight after morning tea.

Senator Ian Macdonald—That is fair enough. But, again, this is something we really need to clarify. I thought these committee hearings were so that you ask the questions, we give you the answers and, if we cannot, we take them on notice—which I do not want to do.

Senator O'BRIEN—I am mindful of that.

Senator Ian Macdonald—You are in difficulty, though, Senator O'Brien, because officers are not required to answer questions about their opinions or views, are they?

Senator O'BRIEN—I think my questions will have to stand on their merits when they are asked. If we can proceed.

CHAIR—It is not hard to see why this takes a week, is it?

Senator O'BRIEN—It is the standard of the defence that sometimes delays the process as well as the nature of the questions that are asked.

Senator Ian Macdonald—You mean the high standard of the defence!

Senator O'BRIEN—Don't verbal me! The objective is that I try to verbal you! At the same time as these officers are at the table, could we also have the senior officer responsible for wool at the table? Is that possible?

Mr Wonder—Is that in the context of your questions right now?

Senator Ian Macdonald—For wool?

Senator O'BRIEN—Yes, because I am asking questions about the statutory funding arrangements with Australian Wool Innovation, which is a matter which goes to corporate governance and the contractual relationship between a company and the government.

Mr Wonder—If I could make a suggestion, the appropriate place to deal in general terms with governance matters relating to the statutory organisations that you refer to would be in our Rural Policy and Innovation area, which is in section—

Senator Ian Macdonald—It is not there.

Senator O'BRIEN—I understand that there is, in the ordinary course of events—

Mr Wonder—It is in section H, right on the bottom of page 2 of the program. I understand as well that you might have some questions relating in particular to wool. We would suggest that the officers who could best answer those questions would come under section B, under Food and Agriculture, which immediately follows Management Services and Corporate Governance.

Senator O'BRIEN—I understand what you are saying. What I am suggesting is that the issues that I want to raise go to the issue of corporate governance and the financial relationship between government and a company. I would have thought that, in terms of the issue of corporate governance, we are in the appropriate place now.

Mr Wonder—This is the Management Services and Corporate Governance area. I do not know what your questions are, so I cannot actually tell you the detail. If we have the officer who is responsible for the wool area available in the room next door then by all means we are happy to bring him to the table.

Senator O'BRIEN—If that officer is there, I am sure he is.

Mr Wonder—What I am flagging as well though is that in terms of how we handle the advice on policy issues and institutional arrangements underpinning these bodies in general, the officers concerned are actually in the Rural Policy and Innovation area. It took a little while to find it, apologies for that; it is at the bottom of page 2 of your program. The officers are probably not here because it is much later in the program.

Senator O'BRIEN—We will see how we go. The Commonwealth has a number of funding arrangements in place with industry service bodies involving the payment of considerable sums of public money. The key accountability mechanism in relation to the expenditure of public and grower funds is the statutory funding agreement between the Commonwealth and Australian Wool Innovation Ltd. The AWI funding agreement was finalised in December 2000, as I understand it. Is that right, Mr Mortimer?

Mr Mortimer—I think that is right.

Senator O'BRIEN—And the current minister signed off that funding agreement?

Mr Mortimer—That is right.

Senator O'BRIEN—And funding for AWI is dealt with in clause 31 of the Wool Services Privatisation Act 2000, as I understand it. Is that right?

Mr Mortimer—I do not have the exact reference to the legislation but I am sure you are right.

Senator O'BRIEN—I think that is right, Mr Mortimer, from the information I have in front of me but I am happy to be corrected if there is better advice. There are two categories of payments concerned: category A payments comprise the wool tax and wool levy and

category B payments comprise matching research and development funding, as I understand it. Is that correct?

Mr Mortimer—I think that is right.

Senator O'BRIEN—The act further provides that the minister must satisfy himself that category A payments are spent on research and development or other activities as long as the benefit is derived by Australian wool growers. How do the terms of the funding agreement satisfy this legislative requirement?

Mr Mortimer—The statutory funding agreement provides reporting in a number of respects. A key part of that is the annual report, which the company is required to provide to the Commonwealth every year. In particular, there is a schedule to the statutory funding agreement which specifies a list of particular additional requirements that need to be reported to the Commonwealth in regard to the activities by AWI. These relate, in particular, to those activities that are required by the company to be done on R&D.

Senator O'BRIEN—Are you talking about schedule 4?

Mr Mortimer—No, schedule 3 of the statutory funding agreement.

Senator O'BRIEN—That is part of the agreement?

Mr Mortimer—That is part of the statutory funding agreement.

Senator O'BRIEN—Which would set out how the funding agreement would satisfy the legislative requirement?

Mr Mortimer—Yes indeed.

Senator O'BRIEN—The act provides that the minister must satisfy himself that category B payments are spent on research and development activities for the benefit of Australian wool growers and the Australian community. Again, how do the terms of the funding agreement satisfy this legislative requirement?

Mr Mortimer—It does it essentially through the planning process that the company is required to go through. The company is required to prepare a strategic plan and an annual operating plan which are provided to the minister. As well, the company needs to report against those activities, as I mentioned, through special requirements that are set out in the agreement and that need to be reflected in its annual report.

Senator O'BRIEN—So they have to report to the minister against the strategic plan?

Mr Mortimer—The strategic plan sets the framework for the activities of the corporation and provides the basis for it to undertake its activities. They need to be consistent with the requirements of the legislation, as you indicated, and then those activities and outcomes are reported against in the annual report.

Senator O'BRIEN—Again, that is the key reporting mechanism?

Mr Mortimer—Yes.

Senator O'BRIEN—Can you tell me the quantum of category A and category B payments to AWI in the 2002-03 financial year by category?

Mr Mortimer—I do not have those numbers with me, Senator. I will have to take that on notice.

Senator O'BRIEN—Do you have the estimated quantum of payments by category in 2003-04 available?

Mr Mortimer—I am not sure that it is presented separately in the budget documents. Mr Pahl or one of his advisers might be able to help. Estimates of administered expenses from special appropriations for the Wool Services Privatisation Act are on page 24 of the documentation.

Senator O'BRIEN—Which documentation?

Mr Mortimer—This is the PBS document that you have in front of you—at page 24 under 'Estimates of administered expenses from special appropriations'. That gives a figure for estimated expenses in 2002-03 of \$71 million.

Mr Banfield—If you turn to page 20, you will see the estimated revenue for the wool levy and export charge for 2002-03 and 2003-04—\$55.26 million and \$51.26 million.

Mr Mortimer—The essence of it is that the revenue is the levy, as contributed by woolgrowers. The figure on page 24 is the total that was expended. The funds that are expended on R&D are matched on the spending, not on the receiving.

Mr Wonder—The first amount that Mr Mortimer referred to is the sum of both the levy and the matching government appropriation.

Senator O'BRIEN—That is the amount on page 24?

Mr Wonder—That is right.

Senator O'BRIEN—AWI was separated from Wool Services Ltd on 30 April last year, as I understand it. What impact did that separation have on the funding agreement?

Mr Williamson—None that I am aware of.

Senator O'BRIEN—The initial term of the funding agreement was three years, commencing at conversion. On what date did negotiations commence on renewal of the agreement?

Mr Williamson—The statutory funding agreement is being renegotiated at this point in time.

Senator O'BRIEN—When did negotiations start?

Mr Williamson—I cannot be precise as to the date, but some months ago.

Senator O'BRIEN—Please get us the date.

Mr Williamson—Yes, we can do that.

Senator O'BRIEN—I take it there have been no variations. Nothing new has come into force to date?

Mr Mortimer—That is right.

Senator O'BRIEN—Part 3 of the funding agreement concerns the payment of funds to the company. In relation to matching payments for research and development, schedule 4 of the

agreement imposes certain obligations on the company. How has the minister satisfied himself that Commonwealth matching funding has been spent in accordance with the requirements contained in part 3 of the agreement?

Mr Mortimer—The minister has done that through reporting from the company.

Senator O'BRIEN—So the minister is satisfied on the reports received from the company that Commonwealth matching funding has been spent in accordance with the requirements of the agreement?

Mr Mortimer—The minister has received those reports. To date, those reports have generally been consistent with the nature of the agreement.

Senator O'BRIEN—Does that mean the minister is satisfied that funding has been expended in accordance with the agreement?

Mr Mortimer—I am saying that, in terms of the reports that have been provided to the minister to date, the minister has been satisfied with the activities of the company.

Senator O'BRIEN—But I think you just told us that the basis for his assessment is what the company tells him—the company's reports.

Mr Mortimer—That is the essence of it, yes.

Senator O'BRIEN—Does it follow that he is satisfied?

Mr Mortimer—If you are asking whether the minister has some concern that I am not aware of it, I cannot answer that.

Senator O'BRIEN—You are not aware of any concerns that the minister has?

Mr Mortimer—Not specifically, no.

Senator O'BRIEN—On page 2 of the *Weekly Times* of 2 April, there is a report that says that 50 research and marketing projects worth \$20 million have been funded by AWI without formal contracts. Can you explain why the lack of formal contracts relating to research expenditure does not constitute a breach of part 4 of the funding agreement, in particular part 4.1?

Mr Mortimer—I make two comments: firstly, if that were the case it would be a serious issue; secondly, I understand that the corporation itself is investigating and reporting on a number of matters of activity under the previous board, and the board of the company will determine how it should deal with those.

Senator O'BRIEN—Do I understand the requirements of 4.1 to be such that it would be inappropriate to fund research projects, for example, without a formal contract—that it would breach that clause?

Mr Mortimer—That would seem to be the case.

Senator O'BRIEN—How regularly does the company receive funds from the Commonwealth?

Mr Williamson—I think it is monthly.

Mr Mortimer—We will take that on notice. We are not sure whether it is monthly or quarterly, to be quite frank.

Mr Wonder—We will come back to you later in the day. We will just check that.

Senator O'BRIEN—Under section 4.1(C), AWI is obliged to manage its funds such that an auditor can readily verify their use in accordance with the agreement. Is the annual audit report required in part 22 of the agreement the principle mechanism by which the Commonwealth determines whether the company is spending category A and B payments appropriately?

Mr Mortimer—The provisions of section 22 would seem to cover a whole range of auditing requirements.

Senator O'BRIEN—Would that be the principle mechanism by which the Commonwealth determines whether the company is spending those payments appropriately?

Mr Mortimer—It is certainly a key part of the information base to know whether the company is managing its affairs properly.

Senator O'BRIEN—What are the other parts?

Mr Mortimer—Any other reports that the company may provide. Essentially, the audited accounts form part of the broad annual reporting arrangements, as I mentioned earlier. There is also any information that the company provides there, including on those specific matters required in schedule 3 of the agreement. The three parts come together to form a whole.

Senator O'BRIEN—I presume the department compares the audit reports against the operational plan provided to the Commonwealth pursuant to part 17 of the funding agreement.

Mr Mortimer—I expect so.

Mr Williamson—That is correct.

Senator O'BRIEN—On how many occasions has the Commonwealth required reports additional to the annual report pursuant to part 19 of the agreement or additional audit reports pursuant to part 22 of the agreement?

Mr Mortimer—I have to say I am not aware of any special reports being revised. I will check on that and get back to you if that is not the case.

Senator O'BRIEN—What reports are provided to the minister?

Mr Mortimer—The minister receives an annual report and any other reports that are necessary or that are considered appropriate by the board. He also receives the company's strategic plan and its annual operating plan.

Senator O'BRIEN—So, the minister receives what the department has?

Mr Mortimer—There is a cycle. Essentially, the corporation establishes its planning framework for its activities. It reports against those in the broad and in the most detail on an annual basis, and that sets out the outcomes and major activities of the corporation. Then there is a different level of reporting, undertaken on either a quarterly or monthly basis, which is needed to satisfy the requirements for Commonwealth funds to be paid across. In my experience those typically relate to outgoings—number of projects, listing of projects and

quantum—and there may well be arrangements in terms of establishing cash flow and ensuring that sufficient money is in the accounts of AWI to keep the activities going.

Senator O'BRIEN—So those are the matters reported to the minister?

Mr Mortimer—I am not sure that they actually go to the minister; they may simply come to the department.

Mr Banfield—Senator, you focused on the reporting and accountability arrangements to government. It is worth also making the point that AWI is a Corporations Law company. There is a range of reporting and accountability obligations under the Corporations Law.

Mr Pahl—Also, Senator, the matching payments are made to AWI monthly.

Senator O'BRIEN—Thank you. That has saved one question on notice. Mr Banfield, I understand the Corporations Law requirements, at least generally, but my questions are going to a specific agreement between the Commonwealth and the company about a reporting arrangement. Mr Mortimer, can you tell the committee what the Commonwealth understands the prohibition on agripolitical activity contained in part 5.6 of the funding agreement with AWI to mean?

Mr Mortimer—That is a statement that essentially requires the corporation not to move into activities that get into a more political rather than a research and development frame of activities. There is a further definition of that which I think you will find at the front of the agreement. It says:

'Agri political activity' means political campaigning or funding, developing, designing, resourcing or participating in activities intended to exert political rather than advisory influence on government policies or in activities intended to exert political influence on public opinion;

That is the definition at the front of the agreement.

Senator O'BRIEN—Yes, I have seen that definition. According to a report in the *Financial Review* on 25 October last year, Mr Dorber freely admits to defending the previous board with expenditure of:

\$250,000 of growers' money, including \$100,000 for newspaper advertising, \$12,000 for telephone polling, \$45,000 on public relations and \$80,000 ...

for legal fees. I am told that the expenditure exceeds a quarter of a million dollars. What action did the department take to satisfy itself that the campaign funded by the former board of AWI in the lead-up to last year's board election did not breach part 5.6 of the agreement?

Mr Mortimer—Mr Williamson will take that question.

Mr Williamson—I recall the incident. The department took some legal advice on this matter and, as I recall, under the Corporations Act, the company acted in a proper way. I cannot recall the specifics of the legal advice, but—

Senator FERRIS—Can we have a copy of that legal advice?

Mr Williamson—I assume we can provide that, yes.

Mr Mortimer—Yes, we are happy to provide that.

Senator O'BRIEN—Under Corporations Law?

Mr Mortimer—Under Corporations Law, yes. It is a matter of judgment there, but I think it is fair to say that corporations across a broad range of activities in the private sector can expend money on certain activities relating to managing their affairs around annual general meetings and suchlike. I think the essence of the argument was that this was similar.

Senator O'BRIEN—So you do not think it was agripolitical.

Mr Mortimer—No, it was around conducting the business of the corporation.

Senator O'BRIEN—Those two matters are not mutually exclusive, Mr Mortimer. I am asking a specific question. Do you—does the department; does the minister—not think that those activities were agripolitical in the context of the definition in the agreement which prohibits that activity?

Mr Wonder—I think, Senator, that Mr Mortimer has answered your question. He has said the department took some legal advice, and the answer was that it was not contrary to the terms of the agreement.

Senator O'BRIEN—No, he did not say that but, if he does say that, I would be interested to hear him say that. What he said is you took advice and it was permissible under the Corporations Law.

Mr Williamson—I cannot recall whether we took advice in respect of the funding agreement, but certainly I do recall that it was permissible under Corporations Law. If you look at the—

Senator O'BRIEN—So no advice was sought as to whether it had breached the agreement.

Mr Williamson—I cannot recall whether or not there was advice sought on whether it had breached the agreement; I am not saying it was not. We would need to check that.

Senator FERRIS—Mr Williamson, if you recall, I think Senator O'Brien and I asked questions which were not dissimilar to this last year in relation to whether or not there was a breach of the agreement in the payment that was made to Farm Hand. I think it was decided that it did breach the agreement. Was legal advice taken on that occasion before that decision was made?

Mr Williamson—My area was not responsible for that. We would need to check on that.

Mr Wonder—It was something that was handled outside the Food and Agriculture area, Senator. I am just looking to Mr Banfield.

Mr Banfield—I am testing my memory. I am not sure whether legal advice was taken. Certainly, as you are aware, there were some overtures to AWI about the Farm Hand matter, but, as you will recall, the money was actually returned and repaid. So whether, in the light of the repayment of that money, legal advice was taken, I cannot recall.

Senator FERRIS—But the money was repaid after questions were raised about whether or not it was within the funding agreement. I suppose I am asking the question because the questions of Senator O'Brien seem remarkably similar to questions that were raised by both Senator O'Brien and me last year. I wonder whether this alerted the attention of officers to be

more aware of the link between the funding agreement and the actual expenditure that was being undertaken by AWI at the time.

Mr Wonder—We were very concerned about that at the time, as you will recall, as indeed you expressed yourself. We were very pleased to see, as Mr Banfield pointed out, the return of those funds. So the issue, inasmuch as that particular instance is concerned, was effectively dealt with at the time.

Senator O'BRIEN—Mr Williamson, can you detail for me the inquiries made of AWI and the advice sought in relation to the matter that I have referred to, and which was referred to in the *AFR* article on 25 October, involving expenditure probably in excess of a quarter of a million dollars?

Mr Wonder—We will follow that up.

Senator O'BRIEN—You are not aware of a generality—

Mr Mortimer—I am sorry, we are not in a situation to give you those details. It was essentially managed within the RPI division of this department. We liaised with them on it, but they had the key responsibility, so we would need to check.

Senator O'BRIEN—We will come back to that. Is the department aware of an incident involving the payment of AWI money to a journalist in the lead-up to the board election that resulted in the hostile questioning of Ian McLachlan at a Rural Press Club of Victoria event? I understand that the invoice for that hostile questioning turned up after the new board was installed. I think it would have helped no end the relationship between Mr McLachlan and Mr Dorber!

Mr Mortimer—I am not aware of that.

Senator O'BRIEN—Mr Williamson, is it something you are aware of?

Mr Williamson—I am not aware of it.

Mr Mortimer—If it were an issue, I would expect that the board would be dealing with it.

Senator O'BRIEN—But wouldn't it again go to the question that I raised about the obligation not to expend company funds on agripolitical activity?

Mr Mortimer—Essentially the board of AWI operates under the Corporations Law, consistent with the requirements of that law, and manages its affairs as it sees best, albeit within the framework that I have described to you. It reports—

Senator O'BRIEN—It is required to operate consistent with a funding agreement that it has signed with the Commonwealth, in addition to the Corporations Law requirement.

Mr Mortimer—Exactly, Senator. If there were an issue that we were aware of that contravened that, we would certainly take action. But I have mentioned that we were not aware of any such contravention and, in the absence of that, the corporation manages its affairs consistent with the agreement and what is required in that.

Senator FERRIS—Mr Mortimer, could I draw your attention to a speech that Mr McLachlan made on 31 March to the New South Wales farm writers. On page 3 of that speech, as the transcript was supplied to me, he said that the finance and audit committee of

the board had commissioned auditors PricewaterhouseCoopers to conduct a mid-year review. Mr McLachlan then goes on to outline a couple of matters, one of which Senator O'Brien has touched on—that is, 50 projects worth in excess of \$20 million at AWI without formal completed contracts in place. Did this prompt you to ask for a copy of the review?

Mr Mortimer—The board has commissioned a number of reviews of activities relating to payments and corporate governance under the previous board. The department is aware of those and has discussed the matter with the senior management of the corporation. Those reports have recently been completed and, indeed, are now being considered by the board. My understanding is that they were considered by the board on Wednesday and Thursday of last week and that the board will be advising the minister of the thrust of those reports, what the board concludes from those reports and how the board intends to deal with those reports. Again, that is consistent with the agreement and with all that is required.

Senator FERRIS—Is it possible for this committee to have copies of those reviews?

Mr Mortimer—We have not received those reports at this point. The board met Wednesday and Thursday last week, and the reports will go to the minister. We will speak to the minister about providing those to you.

Senator FERRIS—I will quote to you, specifically, a sentence that Mr McLachlan said:

The Finance and Audit Committee of the Board has been very active and commissioned our auditors, PricewaterhouseCoopers, to conduct a mid-year review.

It is clear that that is in the past tense: 'commissioned'.

Mr Mortimer—Yes.

Senator FERRIS—Mr McLachlan continued:

As a result of this commissioned work, AWI has implemented initiatives to ensure that, amongst other things—

and he then goes on to make those points. It is quite clear, from what he said on 31 March, that these reviews had been commissioned. I am asking you, and I am sure Senator O'Brien is also—

Senator O'BRIEN—I had intended to.

Senator FERRIS—whether, under the funding agreement, you have copies of those reviews. Is it possible for this committee to have them?

Mr Mortimer—I am saying that we have not received them. I am sure Mr McLachlan was entirely right in his reference. Indeed, it is perfectly appropriate for the finance and audit committee of that corporation to undertake those activities. The finance and audit committee of any corporation will oversee those sorts of reports, form a view on them and then take them to the board of that corporation, which in this instance is the AWI board. That board will then determine what needs to be done. A finance and audit committee of itself cannot actually take the necessary action.

Senator FERRIS—But this is not an ordinary board, Mr Mortimer; this is a board that receives millions of dollars in taxpayers' funds. It is a board which, under its funding agreement with the Commonwealth, has certain responsibilities—and you as an officer of the

Commonwealth also have them. Two months ago, Mr McLachlan talked about this in the past tense. If you make these payments monthly, I am wondering why, when you saw that amongst other things he talked about projects worth more than \$20 million without formal implemented contracts in place, red lights did not go on in your mind such that you made sure there was an appropriate reporting mechanism back to the department as a matter of urgency.

Mr Mortimer—Essentially, the management of the corporation lies with the corporation. We were satisfied that the corporation was addressing the issues in a proper way and, indeed, it would not have seemed appropriate for the department to do anything else. I am not quite sure what you are suggesting we do—stop the funding?

Senator FERRIS—What I am asking for is copies of these corporate governance reviews. I do not think it is unreasonable that I should be interested in them, and I find it extraordinary that you did not ask for them as a matter of urgency, given that you have made two payments to AWI since Mr McLachlan himself raised this in a public forum.

Mr Mortimer—As I said, we discussed the matter with the executives of the corporation. They are getting the reports to the minister as soon as they can but, essentially, the board had to consider its position, determine what it thought needed to be done, tell the minister what it was going to do and also tell the minister of any other issues or actions that it thought the minister needed to be advised of. As I said, that board meeting finished on Thursday afternoon last week. It is Monday now, so it may be on the minister's desk as we speak. I am not in a situation to comment on how it was provided, but we simply do not have it with us. It simply has not got to that stage.

Mr Wonder—But we will refer your request to the minister, Senator.

Senator FERRIS—It would be very reassuring if it were on the minister's desk so that this estimates committee was able to consider the answers and the issues raised this week.

Mr Mortimer—I appreciate that.

Senator O'BRIEN—Was the spending that we have just been discussing detailed in the company's operational plan for the year 2002-03? If it was not, what action has the Commonwealth taken in respect of this failure?

Mr Mortimer—I cannot comment on that. I will have to investigate the reporting through the year.

Mr Wonder—Are you asking whether or not those projects were in the operational plan?

Senator O'BRIEN—Yes. Does that mean the department has not looked?

Mr Mortimer—No, I am not saying that. That is actually managed within the RPI part of this portfolio. We are consulted on those reports, but I really cannot give you detail on that here and now.

Mr Wonder—Senator, I think I forewarned you earlier that some of the questions you asked would not be able to be answered in this segment of the program. I refer to section H of the program, where these matters are addressed. We will have the relevant officers there at the time, if you would like to repeat those questions at that time.

Senator O'BRIEN—Perhaps you could tell us how the election spending I referred to, which was referred to in the *AFR* last year, satisfied the requirement of the Wool Services Privatisation Act relating to wool growing and community benefit.

Mr Mortimer—As I understand it, boards of corporations have the capability to expend funds on the matters relating to the elections of directors of those corporations.

Senator O'BRIEN—Is that a sufficient link, in the department's view?

Mr Mortimer—That is a matter of judgment at the end of the day.

Senator O'BRIEN—I understand that. That is why I am asking the question.

Mr Banfield—Senator, it might be better to take that question in the RPI section of the program, because the issues that you raise regarding the investigations the department undertook about the funding in relation to the AGM were done in the RPI area of our department. When RPI come on, they will be better equipped to answer that question.

Senator O'BRIEN—I want to go to the circumstances surrounding the resignation of Dr Andrew Vizard from the board last year. When was the department first advised of his intention to resign?

Mr Wonder—Again, Senator, that is a question for the Rural Policy and Innovation section of this program.

Senator O'BRIEN—Given that corporate governance is at the heart of part 5.3 of the funding agreement, the company is required to expend funds in accordance with the grower poll, the strategic plan, the operational plan and the guidelines established by the government, and the expenditure must be 'efficient, effective and ethical'. Is the department satisfied that the company has always behaved in accordance with part 5.3 of the agreement?

Mr Mortimer—The department examines the reports and, as I indicated earlier, it is kept in liaison with the corporation as it has reviewed activities over the last period of time. Essentially, the department will deal with those issues in the most businesslike way.

Senator O'BRIEN—Yes. And the answer to my question is?

Mr Mortimer—At this stage, I have to say I have nothing in front of me that suggests they have not done that.

Senator O'BRIEN—In relation to part 5.3 of the agreement, and specifically that the company have regard to grower poll results, in the same speech that Senator Ferris referred to, Mr McLachlan says the annual operational expenses of the company are near \$20 million—yet I understand that when growers voted in Wool Poll 2000 the two per cent service model indicated there would be unallocated overheads of just \$6 million. How does the department account for this difference, when the funding agreement specifically requires the company to have regard for the grower poll results?

Mr Mortimer—I think that may be a question best asked of RPI; they manage those parts of the contract.

Senator FERRIS—Mr Mortimer, instead of just telling us what you cannot answer, perhaps Mr Wonder could arrange for the appropriate officers to come up here so that we can

have all the officers at the table at the same time. Is there any way that those other officers could come up here after morning tea?

Mr Wonder—We could arrange that. I did forewarn you earlier that the relevant officers may be scheduled later in the program. We had no indication that you wanted to change the program in this manner, so we had not made those arrangements. We were not alerted to the questions that would be coming forward, so we were unable to have those people here at this time. We can make arrangements for that to happen.

CHAIR—This will be after morning tea.

Senator FERRIS—As soon as the officers are made available. It seems unfair to the officers who are at the table if they are being asked questions that they are not able to answer. Rather than have the situation continue, I think that would be a satisfactory way of resolving it.

Mr Wonder—Would you be happy if we did this after morning tea then?

CHAIR—Yes, that will save a lot of doublespeak.

Mr Wonder—I would appreciate that.

CHAIR—Thank you very much for that.

Mr Wonder—So you have finished on that matter for now and you will return to that after morning tea?

Senator O'BRIEN—I can do that. While we are on the subject of statutory funding agreements in this section, can the department provide the committee with a schedule detailing when funding agreements with each industry service body are subject to renewal?

Mr Wonder—A list of dates?

Senator O'BRIEN—Yes.

Mr Wonder—Yes, we could.

Senator O'BRIEN—In relation to the Hewitt matter, the department has an independent assessor, Mr Kennedy, who has been on the job for some time I believe.

Mr Pahl—He was appointed almost a year ago to the day. I believe it was 27 May 2002.

Senator O'BRIEN—There are not any issues that he might become permanent with the department because of the length of his tenure, are there?

Mr Pahl—I do not believe—

Senator O'BRIEN—Do not answer that. The last time we discussed this, the committee was told that Mr Kennedy had produced a summary of the facts as he understood them but that they were not agreed with the Hewitts. The department said the Hewitts had consulted a former minister and the department was in the process of establishing what had to be done to provide access to the documents that they wished to see. That was on 10 February. It was you who told us that.

Mr Pahl—That is correct.

Senator O'BRIEN—Have the facts been agreed?

Mr Pahl—I do not believe so. There has been a further meeting between Mr Kennedy and the Hewitts in Melbourne, which took place on 9 May. The claimants made further extensive submissions to Mr Kennedy both at that meeting and subsequent to the meeting. Assuming that there are no further submissions or additional material presented to Mr Kennedy, I would expect him to be in a position to deliver a report by the end of June. But I hasten to add that, if there are further submissions from the Hewitt brothers, that time frame may be extended again.

Senator O'BRIEN—In February you told us that the external costs associated with this matter had reached \$161,492, comprising \$139,492 for the Australian Government Solicitor and \$22,000 for Mr Kennedy. Can you update those numbers for the committee?

Mr Pahl—I do not have them with me but I can get them in the course of this morning. I will give them to you after the morning tea break.

Senator O'BRIEN—Okay. Perhaps you can give us this number after the morning tea break as well: I wanted to know what the overall cost might be to date incorporating internal and external costs.

Mr Pahl—It would be an estimate.

Senator O'BRIEN—I think some numbers will be known and some will be an estimate.

Mr Pahl—Yes.

Senator O'BRIEN—Thank you for that; I look forward to that information. Last year's portfolio budget statement estimated revenue from the milk levy at \$30 million in the current financial year. It is in this year's PBS on page 19.

Mr Wonder—What page of last year's statement are you on?

Senator O'BRIEN—I am on page 94. Tell me, have I got it right that the number has increased this year—page 19 of the PBS—to \$35.509 million?

Mr Wonder—So you are looking at page 94 for the figure for 2002-03. What page are you on for 2003-04?

Senator O'BRIEN—I am on page 19.

Senator Ian Macdonald—What was the figure you said?

Senator O'BRIEN—It was \$35.509 million. That is the estimated revenue for the current financial year. More than three months ago I asked the minister a question on notice about the revised estimate in the portfolio additional estimates statements, but I have not received an answer. Can you explain the basis for the revision?

Mr Pahl—My understanding is that the revision was due to a couple of things. One was the low actual collection figure at the time the estimate was put together. There were also some timing issues and late payments that overlapped between months and so on, which meant that the estimate was not as accurate as it might otherwise have been. But factored in there was a view by the relevant staff that there would be lower production due to the drought and so on. That did not actually come to pass. Regarding the revised estimate of \$35 million, I am told that we are on the money in terms of collections so far in the year to date for that

higher level. So it was a combination of three or four issues that came together that had the estimate revised upward from \$30 million to \$35 million.

Senator O'BRIEN—So you would put your money on the accuracy of the current estimate?

Mr Pahl—I am not a betting man, Senator, when it comes to estimates. These are very difficult issues to estimate accurately in advance and, as I am sure you know better than me, things like droughts and so on can have very profound effects upon forward estimates. On this occasion some of my colleagues thought that they had factored those things in correctly. As it has turned out, it just has not come to pass in the way in which they thought it would.

Mr Wonder—It requires an estimate of volumes of production, as you would appreciate, and it is hard to anticipate precisely just what the impact of drought will be on production and, hence, on the revenues from the levy.

Mr Pahl—That is true.

Senator O'BRIEN—So have we got the issue of the time that the payments come in settled, so that we can rely on the history of payments to—

Mr Pahl—Yes. My understanding is that we have learnt some lessons from history in respect of the way in which this estimate was undertaken.

Senator O'BRIEN—Can we take the fact that the drought has not reduced production in the way that the department thought it would as an indication that there is likely to be further growth in production when the drought is over?

Mr Pahl—I do not know that I could comment on that. It is not an area that I have any expertise in. I am sorry, Senator, but it may be something that we would have to deal with later in proceedings.

Mr Wonder—It is fair to say that productivity in the dairy industry has been very impressive over the last couple of decades. Indeed, of the rural industries that one might look at, I do not know that you would find any industry growing at the same productivity rates as the dairy industry. The dairy industry's growth has been very impressive.

Senator O'BRIEN—There probably are smaller sectors that have grown exponentially and may outstrip dairy. I accept that the growth in production has been phenomenal over the last two decades. Are we over 11 billion litres?

Mr Wonder—Yes.

Senator O'BRIEN—Thank you for that. According to the answer to question on notice No. 807, costs in relation to this department's executive and ministerial support services have grown from \$4,014,994 to \$4,882,164—which is roughly 20 per cent, or a bit more than that really—in the past three years. Can you explain this significant escalation in costs? It is in the table with the answer to question No. 807, signed off by Senator Macdonald.

Senator Ian Macdonald—Over what period was this? Four years?

Senator O'BRIEN—The first period is 1999-2000, and we have the actuals for items Nos 7 and 8 in that answer. It runs through 2000-01 actuals, 2001-02 actuals and 2002-03 estimates.

Senator Ian Macdonald—We cannot blame inflation, I guess, because inflation is so low under our government. So there must be some other reason.

Mr Wonder—Are you looking at this table that has figures across the top?

Senator O'BRIEN—Yes.

Mr Pahl—Just so that I am sure I am on the same wavelength as you, are we talking about items 7 and 8 in the table that was attached?

Senator O'BRIEN—Yes.

Mr Pahl—You have added the two together?

Senator O'BRIEN—Yes.

Senator Ian Macdonald—That is a big increase. What is that all about?

Senator O'BRIEN—It is a big increase, Minister.

Senator Ian Macdonald—If that has gone to ministerial offices, I have not seen any of it.

Senator O'BRIEN—I see. So it is in Mr Truss's office.

Senator Ian Macdonald—No. It is ministerial support in the department. Our is probably so miniscule it is not even reported.

Senator O'BRIEN—Can you give us a breakdown of those costs?

Mr Wonder—I am just having a bit of trouble with your numbers, if you have added the two together. In which year was that first figure, the \$4.014 million?

Senator O'BRIEN—In 1999-2000. You add \$2,054,182 and \$1,960,812.

Mr Wonder—With regard to the areas of functionality these items cover, item 7 in relation to the remuneration of departmental executive and chief executive officers is perhaps obvious enough. The ministerial support services will not be so obvious. That covers a whole range of aspects that the department covers in terms of how it supports ministers.

Senator O'BRIEN—Item 7 is below the average and item 8 is above the average. It is about 15 to 25 per cent—

Mr Wonder—The point I am making is that assuming those are exactly the same functions over a period of four years is probably not a valid assumption. We are probably comparing apples with oranges here in terms of just exactly what we are covering.

Senator O'BRIEN—It is your answer. And now you are telling me they are not consistent reflections.

Mr Wonder—If you let me finish my answer to your question, Senator, I will be able to give you more detail. My answer was to be that I would like to be able to spell out in more detail precisely those areas being covered in order to do justice to your question. I am happy to do so later on in the course of this hearing and to give you that information. I do not have that detail before me now.

Senator Ian Macdonald—Extra staff are probably needed to answer all the questions on notice these days.

Mr Banfield—We are endeavouring to contact the officers from Rural Policy and Innovation. They have not arrived yet and it is possible that they may not arrive immediately after morning tea but they will be here as soon as possible.

Proceedings suspended from 10.30 a.m. to 10.48 a.m.

Mr Wonder—If you compare 2001-02 and 2002-03 it is the ministerial support services area that has grown. You compared 1999-2000 but I am looking at some of the other columns in that table. This is line 7.

Senator O'BRIEN—Your estimate is that they have grown since 1999-2000 to the end of 2002 but they will fall?

Mr Wonder—Yes, that is right.

Senator O'BRIEN—If the trend were to continue, it would be a lot worse.

Mr Wonder—All I am saying is that whilst they are greater than 1999-2000, they have fallen since 2001-02. That is not the case for line 8.

Senator O'BRIEN—No, but the trend changes in your estimate year, not in your actuals. It may be that you have moved some costs from line 7 to 8 in the estimate year.

Mr Wonder—We are trying to chase that down in more detail.

Mr Pahl—There has been some restructuring in the area as well and some additional people brought in under that general umbrella. I am waiting on some more accurate information. I can also update you on the Hewitt costs. Prior to the break, you asked for the new figures. Mr Kennedy's costs now stand at \$26,951, all other costs remain the same and the total is \$166,443.

Senator O'BRIEN—That is including departmental estimated costs?

Mr Pahl—No, that is the actual costs. I will have to do some more work before I can provide the other figure to you.

Senator O'BRIEN—Okay. Will we wait for the additional officers to arrive before we continue questioning?

CHAIR—I think we can continue cautiously without them.

Mr Wonder—One is on his way. Regarding the research and development matter, we will have those people up here as soon as possible, but they are not actually in the room as yet. As soon as they arrive we will give you an indication that they are here and you can fit them into the hearing at a convenient time.

Senator O'BRIEN—You are going to give us some more figures on the executive cost breakdown. We have noted that the increase trend has changed.

Mr Wonder—I am not sure whether we were broadcasting or not when I made those remarks, but I am happy to make them for the record. In respect of lines 7 and 8 of the table in question 7, we noted that the estimate for 2002-03 showed a significant reduction in line 7 but a significant increase in line 8. You asked whether there were some reclassifications. We are looking at the detail that underlies those two lines, and as soon as we have some information available, which hopefully will be later this morning, we will be happy to provide that to you.

Mr Pahl—I will just add to that. My recollection is that there have been some new computing systems commissioned in both areas in recent times, but I cannot recall in which financial year. Those systems would also have had an impact on the costs in those areas.

Senator O'BRIEN—How can you explain the increase of over 25 per cent in the ministerial support services costs?

Mr Wonder—That is what we are looking into. As you mentioned yourself, Senator, there may have been some reclassification of items between lines. There may have also been a lumpy item or two, such as Mr Pahl has indicated, whether it be computers or whatever. We just need to look at the detail a little more and come back to you.

Senator O'BRIEN—Why would there be an inconsistency in those matters between items 7 and 8?

Mr Wonder—It is not an inconsistency.

Senator O'BRIEN—If there is an additional cost—a lumpy cost—in one area, why wouldn't it be reflected in the other?

Mr Wonder—If it was computers, as Mr Pahl was indicating, it may have only been applicable to the ministerial support services line. I just do not have that information available now.

Senator O'BRIEN—How many officers are reflected in the ministerial support services number?

Mr Pahl—We would have to get the actual numbers. I do not have them with me.

Senator O'BRIEN—Can you get them for each of the years that we are talking about in that answer?

Mr Pahl—Yes.

Senator O'BRIEN—There are four year periods.

Mr Wonder—These are departmental officers, you realise. These are not ministerial officers is what I am getting at.

Senator O'BRIEN—No. Ministerial support services means departmental officers.

Mr Wonder—Correct. We can provide that information.

Senator O'BRIEN—Would those officers be located in the minister's office?

Mr Wonder—No. Are the DLOs in that line or not?

Mr Pahl—I would have to check to see. It may be that the DLOs—departmental liaison officers—are in that line, but I need to get the detail before I could give you that sort of information. I will certainly get that.

Mr Wonder—As you know, the department has departmental liaison officers in the minister's offices but, whether or not they are classified in that line 8, we would need to check. Other than those, they would be people within the Edmund Barton Building working for the department, not ministerial staffers.

Senator O'BRIEN—So you would be able to tell me whether there has been a change in the number of DLOs in the minister's office over that four-year period?

Mr Wonder—Yes, we could look at that.

Senator O'BRIEN—To the extent that they are contained in these figures?

Mr Wonder—Yes.

Senator O'BRIEN—Would there be other DLOs not contained in these figures?

Mr Wonder—That is what we need to check. We are talking about a couple of people here. It is just a question of whether they are in that line or not and we just need to clarify that.

Senator O'BRIEN—When do you think you will be able to clarify that?

Mr Pahl—I asked some officers during the tea-break to attempt to find the very fine information that underpins each of those numbers so that we can respond to you comprehensively. I would hope we could do that later on this morning.

Senator O'BRIEN—Perhaps we can return to that then. In February, we also discussed the department's customer service line, which costs \$1,300 a year to run. The answer to question on notice 983 says that there was one call received in 2002 and that there were just 11 calls in five years. Has any thought been given to reallocating these resources?

Mr Pahl—Yes; given the very small number of calls, we are proposing to actually close down that line.

Senator O'BRIEN—When do you propose to close it?

Mr Pahl—I think it is to be disconnected at the end of this financial year basically. I would have to check the exact date, but the issue there is to ensure that we do not close it down until we have reissued a whole range of publications, including client service charters and so on, because we would not want a situation where people are attempting to utilise the service and it is no longer there—notwithstanding the small number of people.

Senator O'BRIEN—I suspect the level of customer dissatisfaction as reflected in those numbers is going to be almost immeasurable.

Mr Wonder—We note your observation, Senator.

Senator O'BRIEN—It is on the record.

CHAIR—I am informed that the officers that we requested are here. Is that correct?

Mr Banfield—I will check.

Mr Pahl—That toll-free line will close in September after a new client service charter has been issued.

Senator O'BRIEN—There are three administered expense items in table 1.4 on page 21. Can you provide the committee with a list of organisations related to these expense items with a breakdown of estimated contributions for 2002-03 and 2003-04?

Mr Wonder—Which line are you referring to?

Senator O'BRIEN—The 'International Organisations Contributions'.

Mr Wonder—We can. We can provide you with what organisations they are referring to. Typically, they are international organisations like the International Sugar Organisation and the like, but we are happy to detail them for you.

Senator O'BRIEN—Thank you. Can you tell me on what date the department's contract list for the Senate autumn sitting was loaded on your web site?

Mr Pahl—I believe that was 20 March.

Senator O'BRIEN—What time period do those contracts relate to?

Mr Pahl—I am not quite sure. I will get that detail for you.

Senator O'BRIEN—In terms of progress from here, the two matters that remain are the matter that we postponed waiting for the research and development officers and the—

Mr Wonder—Have you made a judgment about the ABARE and BRS matter yet and whether you are going to ask those questions?

Senator O'BRIEN—There are questions that I would want to ask of Mr Taylor, but I am happy to ask some questions now, if that is acceptable.

Mr Banfield—That would be good. The officers have arrived and are happy to talk about Australian Wool Innovation, but it would be appreciated if you could give them five minutes or so to gather their breath before they come in.

Mr Wonder—Mr Banfield and I can start with your ABARE and BRS review questions, if you like.

Senator O'BRIEN—I guess the first question is with regard to the department's review of its research activities. I looked at the coalition's electoral platform, and perhaps the minister can tell us where we would find a pledge to abolish ABARE.

Senator Ian Macdonald—I do not think we pledged to abolish ABARE. They are administrative decisions that are made in the fullness of time. I do not know that we are abolishing ABARE in actual form, are we?

Mr Banfield—It is as the minister said. The current structure of ABARE and BRS are basically administrative matters for the Department of Agriculture, Fisheries and Forestry.

Senator O'BRIEN—So the minister does not have a say?

Mr Banfield—No, I did not say that. I said that the structure of them is not embodied in legislation or the like. The structure of the bureaus is an administrative decision for the portfolio. The ultimate responsibility for making those judgments rests with the secretary of the department but, in exercising any decisions about those, he would of course consult with major stakeholders, including ministers but also including more broadly other key stakeholders, both externally through the R&D network and other key stakeholders; for example, the National Farmers Federation.

Senator O'BRIEN—So they have been consulted about this?

Mr Banfield—Yes, that is correct.

Senator O'BRIEN—Who else has been consulted?

Mr Banfield—There was a consultation process which involved in excess of 60 stakeholder consultations and focus groups. A number of those were internal, obviously—

Senator O'BRIEN—Focus groups?

Mr Banfield—There were focus groups with ABARE and BRS staff, so obviously the staff themselves were consulted but, in addition to that, there were a wide range of consultations with external stakeholders. I have indicated that that included the National Farmers Federation, some of the R&D corporations and some of the users of the services provided by ABARE and BRS. For example, the Department of Industry, Tourism and Resources were consulted as well because they are a major stakeholder. So it was a broad cross-section of external and internal stakeholders.

Senator O'BRIEN—Was the review of the department's research activities initiated by Mr Taylor?

Mr Banfield—Yes, that is correct.

Senator O'BRIEN—Was Mr Truss consulted about that review?

Mr Banfield—I am sure he was.

Senator O'BRIEN—You know that he was or you suspect that he was?

Mr Banfield—I understand he was, put it that way.

Senator O'BRIEN—Who comprised the review team?

Mr Banfield—The review was actually undertaken by a former AFFA senior officer, David Banham, and was overseen by a reference group which was chaired by Geoff Gorrie, a former deputy secretary of the department, and included a number of other participants—most notably, the executive directors of ABARE and BRS were both on that reference group.

Senator O'BRIEN—Can you take the committee through the review timetable, including the formation of the review team, the reference group, the interview period, the draft report, and staff and stakeholder consultation processes?

Senator Ian Macdonald—The officer can do that, but you asked me where the election policy was to abolish ABARE. I am just wondering what you are referring to.

Senator O'BRIEN—ABARE is an organisation at the moment. I understand there is consideration being given to winding it up and including its functions in some other body.

Senator Ian Macdonald—I just want to get this correct at this time. There was a review conducted. I was briefed on the review and I am sure Mr Truss would have been, but it is something that the secretary initiates. As far as I am aware, there has been no decision made at this stage to do anything. The review has been had, a report has come out—and it has been available to those entitled to it—but, as I understand it, no decision has been made yet. So, as of today, there is ABARE.

Senator O'BRIEN—While there is life there is hope.

Senator Ian Macdonald—I would not—

Senator O'BRIEN—You would not put it that way?

Senator Ian Macdonald—Life and hope are a bit emotive for this. There was a review of part of a department done by the secretary as part of his normal administrative functions. He is always looking at ways to improve the output of the department as a whole in all its forms, in all its branches—

Senator O'BRIEN—And to save money?

Senator Ian Macdonald—We are always out to save money. Fewer questions on notice would save us a hell of a lot. We are always looking at ways to save money and be more efficient, but my understanding of the briefing was that that was not a prime goal of this particular review. As I said, I do not know if any decision has been made yet and, if it has, I am not privy to it.

Mr Wonder—Just on that matter, I would like to point out that, whatever happens as a result of the review, the provisions for both ABARE and BRS in 2003-04 so far as appropriation resources are concerned—and I highlight 'appropriation resources' because, as you know, both of those organisations have relied significantly in their history on external funding as well—are estimated to be higher than they were in 2002-03. So there is no suggestion of saving money. There is a suggestion of more appropriation resources, albeit by a little amount.

Senator O'BRIEN—Can I make a point, Mr Wonder, with regard to that. For example, in the table you referred to us at the start of today's proceedings—

Mr Wonder—Sorry? Which table are you referring to?

Senator O'BRIEN—The table on pages 16 and 17 involves, and let us use this for want of a better example, the 'Tuberculosis Freedom Assurance Programme—continuation' for \$1 million, and the next item is the 'Tuberculosis Freedom Assurance Programme—reprioritisation of funding', minus \$1 million. It is quite possible that, in the next additional estimates portfolio budget statement or the next budget statement, the funds that have been provided in the out years could be reprioritised, and that could be the outcome of this review, couldn't it?

Mr Wonder—I will refer you to page 71 of the PBS, where that reprioritisation of funding is given in some detail and the programs I mentioned are quite explicitly from where those resources were reprioritised from, and there is no mention of ABARE or BRS.

Senator O'BRIEN—I did not use it for the purpose of mentioning ABARE and BRS.

Mr Wonder—I am sorry. I did not understand your intention.

Senator O'BRIEN—I used it for the purpose of saying that there is nothing preventing the funds which are allocated in the out years from being reprioritised to another area.

Mr Wonder—That is always the case.

Senator Ian Macdonald—That could happen to everything.

Senator O'BRIEN—Mr Wonder made a point of saying that there was money in the out years for the program. The program is the subject of review. The only point that I am making in drawing attention to that line item in the current PBS is the fact that it appears in the out years does not guarantee that it will be there when it comes to be spent.

Senator Ian Macdonald—But neither does anything in the out years.

Senator O'BRIEN—Exactly. I agree with you. We agree.

Senator Ian Macdonald—Okay. I would not draw too much from that, but you are right—but so might salaries, ministerial support.

Senator O'BRIEN—So might the ministerial allocations and the like.

Senator Ian Macdonald—Yes, all of these things.

Senator O'BRIEN—The portfolios that exist; all of that could change.

Senator Ian Macdonald—Indeed. I would not take too much from that.

Senator O'BRIEN—So, Mr Banfield, back to my question.

Mr Banfield—I do not have precise dates. If you want the precise dates, I will take it on notice and come back to you. The review itself was initiated in early March. The reference group obviously was put in place at the same time as the review kicked off. There was, as I said earlier, a series of consultations with ABARE and BRS staff and, importantly, with external stakeholders as part of that. A draft report was prepared and, again, I cannot from memory recall the precise date but early April is my recollection. That was circulated, again, to ABARE and BRS staff and to some of the key stakeholders. It was made available for a period of a couple of weeks—slightly over two weeks as I recall—in the lead-up to Easter for comments. Those comments were taken on board and the review was then modified in light of the consultations that were undertaken.

As part of that process also, the secretary, as I have indicated, has undertaken a round of consultations with key stakeholders, including ministers but also including key organisations. He has also spoken to staff of both ABARE and BRS literally within the last week or so to say that, as the process of consultations is nearing completion, he is giving staff an opportunity to make any final comments they wish to before finalising the matter and announcing what decision he intends to take in the matter.

Can I just say in finalising my answer that it is a fact that the vast bulk of stakeholders, external and internal, that have been consulted overwhelmingly support the merger of ABARE and BRS as a bureau to provide better and more targeted advice to government and better integrated advice in the years ahead. So the review very much is about positioning the new bureau for the years ahead.

Senator O'BRIEN—So the farm groups consulted were presumably the NFF, the New South Wales Farmers Association, AgForce, the Western Australian Farmers Federation and the Pastoralists and Graziers Association?

Mr Wonder—No. I am not aware that there were specific consultations with the New South Wales Farmers Association in a formal sense or with AgForce. Certainly, the NFF—and, as you know, there is representation from state bodies on the NFF—were consulted, and I know that the secretary of the department actually spoke to the NFF economics committee about the matter a couple of weeks ago. I should say that there were no issues of concern raised as part of that consultation.

Senator O'BRIEN—Apart from the NFF, which other farm organisations were consulted, or were there none?

Mr Banfield—To my knowledge, it was the NFF as the umbrella organisation for farm groups but, as you know, the NFF and certainly the NFF economics committee have representatives from other farm bodies.

Senator O'BRIEN—You are suggesting that the NFF has ticked the model that is in the mind of the secretary?

Mr Banfield—Let me put it this way, Senator: the secretary spoke to the NFF economics committee and explained the rationale and the process. To my understanding, no issues or concerns were raised as a result of that discussion.

Senator O'BRIEN—Is the review process now in the hands of the secretary, or is it still in the hands of the review person?

Mr Banfield—I have indicated that the secretary is undertaking some final consultations on the matter before a decision is announced one way or the other.

Senator O'BRIEN—When did David Banham's role finish; or has it not yet finished?

Mr Banfield—To an extent, the report has not been absolutely finalised. I mentioned to you that ABARE and BRS have been given the opportunity to make any final comments they want to make. If any additional comments come out of that, there would maybe be some tinkering with the report. So, in a formal sense, his involvement has not yet finished, but it has largely been finished. He is now an officer of Transport and Regional Services.

Senator O'BRIEN—I am just a bit curious: you have a review process that has not finished and the secretary is now taking over the role that one might have thought the person conducting the review would fulfil.

Mr Banfield—The central thrust of the review is quite clear. It is quite clear as to what the core recommendations are. There does not seem to be a major objection to that.

Senator O'BRIEN—From the limited consultation that has taken place.

Mr Banfield—That is a matter of judgment. We would have thought that having in excess of 60 consultations in the early stages, plus many more subsequently, was quite extensive consultation.

Senator O'BRIEN—Is there a list of the organisations consulted? When you say 60, do you mean that 60 organisations were consulted, or were there multiple consultations with a more limited number of organisations?

Mr Banfield—I indicated that the 60 included some ABARE and BRS staff, quite properly. They also included R&D corporations.

Senator O'BRIEN—Which R&D corporations?

Mr Banfield—Again, you are testing my memory, Senator. I think RIRDC, the Rural Industries Research and Development Corporation, was consulted. I will come back to you on this if what I am telling you is not absolutely correct. The approach was to take a large R&D corporation such as the Grains Research and Development Corporation—it was consulted—

and a smaller one. We tried to pitch the consultations to address the breadth of views that might be about.

Senator O'BRIEN—So there were probably three research and development organisations?

Mr Banfield—There were at least two.

Senator O'BRIEN—So it involved the RIRDC, the GRDC and one smaller one; is that right?

Mr Banfield—I think it was the RIRDC, in the nature of a smaller R&D corporation. If you want the precise list of consultations, I would be happy to take that on notice and come back to you.

Senator O'BRIEN—I would appreciate that. Apart from those organisations and the NFF, which other farm type organisations were consulted in the 60 consultations?

Mr Banfield—I have indicated to you that, because of the nature of the NFF as the peak body for farmers, the consultations with the NFF embraced quite a number of other farm organisations as well. Again, I will come back to you if there were additional organisations, but my sense is that the consultations occurred with the NFF rather than separately with other, state based organisations.

Senator O'BRIEN—So you would rely upon them to express the views of their constituent organisations?

Mr Banfield—Yes, that is correct; although, as I indicated, when the secretary spoke with the NFF economics committee there were—just as a case in point—representatives from the Cattle Council present at that briefing, so they obviously heard the story direct.

Senator O'BRIEN—So we can add the Cattle Council. Apart from the organisations that you mentioned, which other organisations have been directly consulted?

Mr Banfield—Certainly some of the major R&D organisations; I understand that the likes of the CSIRO were consulted. I will get you a list of them, Senator. Also consulted were government departments and major users of the products of ABARE and BRS, so there were consultations with Industry, Tourism and Resources, Environment Australia and other government departments.

Senator O'BRIEN—Were they consulted with a view to seeing whether they would contribute to the costs of the research and development program?

Mr Banfield—No, not explicitly. They were consulted principally about what their views were of ABARE and BRS in terms of the provision of services to them and what their views would be on how they might be best positioned into the future. Currently the Department of Industry, Tourism and Resources has a service level agreement with ABARE under which ABARE provides economic analysis on resources and energy issues—in particular, some climate change modelling work that it does for Industry, Tourism and Resources—and that work will of course continue.

Senator Ian Macdonald—I do not know whether this will help you, Senator, and I do not always understand these administrative arrangements, but when I was briefed on this my only

concern was that I wanted to make sure that the high-quality advice that I get from both ABARE and BRS would not in any way be diminished. That was my main concern, and I would suggest that anyone consulted would have the same view. Whether the administrative arrangements are different is not really something that I am terribly interested in as long as the quality of the work and the advice available to government is maintained. More and more, from government's point of view, the advice we need has both an economic and a science element to it, and very often if you ask one part of the department—namely, ABARE—to do something then you also have to ask BRS to do something as well.

Senator O'BRIEN—I respect your views on the matter, Minister, in terms of how you interact with those organisations. In terms of the integrity of the organisations, I would have thought that their integrity was held in high esteem at the moment.

Senator Ian Macdonald—Absolutely.

Senator O'BRIEN—One of the issues would be how the perception of integrity might be affected by any change.

Senator Ian Macdonald—Again, this is all a bit hypothetical because no decision has been made. I cannot speak for other stakeholders, but I am sure that they would all have the same view—that is, we want to make sure that that body of experience and expertise is forever there to advise, in my case, the government or, in the case of others who use them, other entities, and that the quality and integrity remain. If that were not the case, if whenever the decision came out it did not have that result, then I would be against it and I am sure that most in government would be if it did not maintain the quality, the integrity and the reputation of those involved.

Senator O'BRIEN—What has the review cost to date?

Mr Banfield—I would have to take that on notice, Senator. As I indicated, a senior officer, David Banham, was working full time on the review for a couple of months. Other than that, there was the reference group, which was a part-time oversighting exercise. I do not have the precise number, but I suspect it is substantially less than \$50,000.

Senator Ian Macdonald—Is that in staff time otherwise allocated?

Mr Banfield—Yes.

Senator Ian Macdonald—Were any outside consultants paid?

Mr Banfield—No. I will take it on notice and come back to you with a more definitive cost, but it is basically the salary costs of the individuals at the time.

Senator O'BRIEN—No travel costs?

Mr Banfield—There may be some, but they would be quite minor, I think. I do not think there was interstate travel, for example. Not to my knowledge.

Senator O'BRIEN—Okay. My other questions will go to Mr Taylor.

Mr Banfield—I have indicated staff costs. Obviously there was the issue of Mr Gorrie as an ex-officer. Obviously he received some remuneration so I would need to add that to the staffing costs.

Senator O'BRIEN—Okay. I am happy for you to supply that information on notice.

Mr Banfield—Sure.

[11.25 a.m.]

CHAIR—Now, if it is possible, we call the cheerful crowd from Rural Policy and Innovation to the table.

Mr Wonder—The officers have arrived, Senator. Senator O'Brien has finished in regard to the ABARE-BRS matter, has he?

Senator O'BRIEN—No, I said I have some questions for Mr Taylor.

Mr Wonder—You had some additional questions? There are some questions you do not think we can answer?

Senator O'BRIEN—Yes.

CHAIR—Good morning, ladies and gentlemen. Thank you for your attendance at short notice. If we could continue the line of questioning that Senator O'Brien has embarked upon this morning.

Senator O'BRIEN—I want to go back over a couple of things. We are dealing with funding for AWI, which I think we are satisfied is provided for in clause 31 of the Wool Services Privatisation Act, and two categories of payments are concerned: category A payments comprising the wool tax and wool levy and category B payments comprising matching research and development funding. Is that a correct understanding?

Mr Cattnach—Yes.

Senator O'BRIEN—The act further provides that the minister must satisfy himself that category A payments are spent on research and development or other activities as long as the benefit is derived by Australian woolgrowers. That is accurate also, isn't it?

Mr Cattnach—Yes.

Senator O'BRIEN—How do the terms of the funding agreement between the Commonwealth and AWI satisfy this legislative requirement? I think Mr Mortimer attempted to answer that earlier—and I do not put him at a disadvantage—but perhaps you could give us your understanding.

Mr Cattnach—The statutory funding agreement provides the basis for the Commonwealth to pay both the wool levy and the matching payments to AWI. In return, AWI is required to provide the Commonwealth with how it plans to spend the money and to report against its planned activities in its annual report.

Senator O'BRIEN—There is a reporting process in schedule 3 which, I take it, requires the company to satisfy the Commonwealth that it has applied funds in accordance with, for example, clause 5 of the agreement.

Mr Cattnach—Yes, Senator.

Senator O'BRIEN—We are told that schedule 3 I think contains the relevant material that needs to be supplied to satisfy the Commonwealth of that.

Mr Cattanach—I am just trying to find the relevant section. Schedule 3 is the annual report—

Senator O'BRIEN—Are there other parts?

Mr Cattanach—No, it is my understanding that that is the relevant part.

Senator O'BRIEN—The act provides that the minister must satisfy himself that category B payments are spent on research and development activities for the benefit of Australian wool growers and the Australian community generally. Can you point to the terms of the funding agreement that satisfy this legislative requirement?

Mr Cattanach—I think that the whole funding agreement is set up to achieve that.

Senator O'BRIEN—It may be the aim but I am looking for specific provisions that I should go to to understand where the specific requirement has been dealt with in the agreement.

Mr Mortimer—Could I add here that schedule 4 to the statutory funding agreement actually sets out the R&D activities that the company should pursue.

Senator O'BRIEN—It says that it will be a research and development activity, as I said, related to the wool industry, for the benefit of Australian wool growers and the Australian community generally. And then 1.2 is a set of examples which start with the words 'without limitation to paragraph 1.1'. So it is not an exclusive test but a series of examples. Are there any other parts of the agreement which deal with the issue, or is that the sole reference?

Mr Mortimer—Section 5 of the agreement refers to an application of funds, a listing of those activities that are eligible to be funded under the agreement.

Senator O'BRIEN—So we can rely on section 5 of the agreement to see what funds can and cannot be spent on?

Mr Mortimer—I will read the introduction to section 5:

The Company may spend or otherwise apply the Wool Levy Funds only for or in relation to ...

It then runs through a series of activities. As I referenced earlier, the R&D activities are set out more expansively in schedule 4.

Senator O'BRIEN—Okay. Mr Cattanach, can you tell us what the quantum of category A and category B payments to AWI in 2003-04 have been by category?

Mr Cattanach—No, I cannot at this stage.

Senator O'BRIEN—Can you tell us the estimated quantum of payments by category for 2003-04?

Mr Williamson—We have that information. The estimated levy receipts for category A payments for 2002-03 are \$55,260,000; and paid-to-date category B payments are \$16,170,000.

Senator O'BRIEN—So is the first figure estimated or paid to date?

Mr Williamson—Estimated levy receipts.

Mr Mortimer—They are estimated because the year has not finished yet.

Senator O'BRIEN—Mr Cattnach, a report in the *Weekly Times* in April says that 50 research and marketing projects worth \$20 million have been funded by AWI without formal contracts. Can you explain why the lack of formal contracts relating to research expenditure does not constitute a breach of part 4 of the funding agreement?

Mr Cattnach—We are aware of that report. We are also aware that AWI have commissioned a review of those activities. We will await their report and their views on how they are going to rectify it, if in fact there are problems there.

Senator FERRIS—Mr Cattnach, given the seriousness of this matter and the fact that Mr Wonder and other officers have already told us that this report was considered at a board meeting last week, have you requested formally copies of those documents to be given to you as a matter of urgency?

Mr Mortimer—The request was not made in writing but I had a conversation with the CEO of AWI and raised the matter with him.

Senator FERRIS—When did you do that?

Mr Mortimer—Some time last week. I do not have the exact day and date with me.

Senator FERRIS—Did you ask him to supply this review document as a matter of urgency?

Mr Mortimer—I asked the CEO of the company what action the board was taking and planned to take on it. He indicated that the board would be considering the issue at the board meeting of Wednesday-Thursday last week. We then discussed the fact that it should go to the minister in light of the board's consideration.

Senator FERRIS—When did you ask him to send it to you so that it could be given to the minister?

Mr Mortimer—It goes directly to the minister not to me. I do not have the exact date of the conversation. I will have to check my records or diary.

Senator O'BRIEN—An earlier report in the *Financial Review* of 25 October states:

Dorber freely admits to having strongly defended the board's position with the help of about \$250,000 of growers' money, including \$100,000 for newspaper advertising, \$12,000 for telephone polling, \$45,000 on public relations costs and \$80,000 in legal costs.

Are you aware of any action the department took at or around that time to satisfy itself that the campaign funded by the former board of AWI in the lead-up to last year's board election did not breach part 5.6 of the agreement?

Mr Cattnach—Yes. We sought formal legal advice from our corporate lawyers on both the question of whether it met the statutory funding agreement and whether it was appropriate under Corporations Law. They provided us with advice that it was in accordance with the statutory funding agreement and that it met Corporations Law.

Senator O'BRIEN—They were of the view that it was not agripolitical activity, which is specifically precluded by the agreement in 5.6?

Mr Cattnach—That is my understanding of it. I have not read the advice this morning but I am happy to provide the advice.

Senator O'BRIEN—We would greatly appreciate that advice.

Senator FERRIS—Are you going to table it now?

Mr Cattnach—Yes. I was just going to read paragraph 6, which apparently relates to the question of agripolitical activity. It says:

None of these activities, in our opinion, fall with the definition of 'agri-political activity'. This definition (as set out above) clearly, in our view, is concerned with party political matters rather than internal elections to the Board of Directors. The word 'political' is itself defined in the Macquarie Concise Dictionary (3rd edition) as 'relating to or connected with a political party, or its principles, aims, activities etc'.

Senator O'BRIEN—But it is not political activity. That advice ignores the term 'agri' in the activity. That is peculiar advice. I assume it is advice from the government solicitor; they have ignored part of the terminology to arrive at a conclusion.

Senator FERRIS—Do you believe that has satisfied the criteria of the funding agreement in terms of agripolitical? I am thinking back to the campaign that was run by the Pork Council some two years ago now, which was clearly agripolitical, and the ensuing fallout from that. I think \$1 million was spent at a time when the pork industry was asking for government assistance to cope with problems in its industry. I have never forgotten—I am sure I speak for other members of this committee—the amount of money that was spent, and that was considered to be agripolitical. It has always been my understanding, both before and since then, that everybody was well aware of what 'agripolitical' meant as distinct from 'political', which could be interpreted to be party political. In this case it certainly was not, but it was very much agripolitical, surely.

Mr Cattnach—All I can say is that we sought advice and that was the advice.

Senator FERRIS—Can you tell us who that advice came from?

Mr Cattnach—It came from Minter Ellison, our corporate lawyers.

Senator FERRIS—I would be happy to have a look at that advice if it was possible to have it tabled.

Senator Ian Macdonald—I do not think there is any problem with that. I would just repeat, in the officer's defence, that I find it unusual advice but the officer has got it and has relied on it so I do not know that we can take that much further. Perhaps, in fairness, we as a department might ask for some further clarification from the lawyers in view of what you have said, Senator, and your understanding would be mine, although I hasten not to give any legal opinion. It would not be worth much if I gave it, but it does seem—

Senator FERRIS—Curious and puzzling.

Senator Ian Macdonald—But there may be an explanation. We will ask our counsel to perhaps elaborate on it in view of what has been said here.

Senator FERRIS—Thank you.

Senator O'BRIEN—There are two provisions in the funding agreement and one legislative requirement relevant to election spending in my view. Was the proposed spending

that I have just referred to detailed in the company's operational plans for the year 2002-03? If not, what actions has the Commonwealth taken in respect of this failure?

Mr Cattanach—I do not honestly know. I have not read the operational plan for a while. I will have to have a look at your question and provide some advice on that.

Senator O'BRIEN—So does that mean that the department has not looked at that issue?

Mr Cattanach—That is right.

Senator O'BRIEN—How does election spending satisfy the requirement of the Wool Services Privatisation Act relating to wool grower and community benefit?

Mr Cattanach—My understanding is that the cost of running an election is part and parcel of running a company and that is one of the—

Senator O'BRIEN—The cost of running an election? What do you mean by 'running an election'?

Mr Cattanach—The cost of holding the election. For any board election, there is a cost—this is just one of those costs and it is part of the normal activities of a company.

Senator O'BRIEN—Public relations surely is not part of the cost of running an election? Are you saying that \$45,000 was spent on a public relations campaign?

Mr Cattanach—As I said, we sought—

Senator O'BRIEN—On the campaigning it might be, but not running an election.

Mr Cattanach—We sought advice as to whether this was an appropriate use of moneys and I have tabled the advice that we got.

Senator FERRIS—Did you actually ask to have a look at the public relations advice to satisfy yourself that the view of the legal advice was in fact compatible with what you understood to be the arrangement?

Mr Cattanach—No, we did not.

Senator FERRIS—Or did you seek the legal advice to see what it was that AWI had been spending growers' money on in relation to legal advice?

Mr Cattanach—No, we did not.

Senator FERRIS—Is it possible for you to request those pieces of information?

Mr Cattanach—Yes, we can request them.

Senator FERRIS—And then make them available to the committee?

Mr Cattanach—That is entirely up to the company whether they give it to us.

Senator O'BRIEN—How is expenditure on telephone polling consistent with the advice that you have received? Have you specifically asked that question?

Mr Cattanach—No, I did not specifically ask that question. We asked the general question in relation to the newspaper report—and I cannot remember which newspaper it was; I think it was *The Land*—where it detailed—

Senator O'BRIEN—It was the *Financial Review* actually.

Mr Cattnach—Sorry, I thought it was *The Land*. It detailed what they proposed to spend the money on. So we sought advice on the information that we had, but the advice we got back does not specifically deal with each of the issues. It deals with them in general.

Senator O'BRIEN—This potentially has ramifications for every area in which the Commonwealth has made an agreement with an industry body—which precludes agropolitical activity, does it not?—and there are quite a number.

Mr Cattnach—That is right.

Senator O'BRIEN—What action has been taken, given the implications of this incident for all of those particular funding agreement arrangements?

Mr Cattnach—We are currently negotiating with AWI for a revision of the statutory funding agreement. We started that process about two months ago. In fact, I am due to have discussions with the CEO of AWI tomorrow about the statutory funding agreement. We were proposing that it be a reasonably minimal review, but in light of the board and commission reviews and the Commonwealth's assessment of those reviews, the Commonwealth may want to further negotiate to make it a stronger agreement.

Senator O'BRIEN—Going to the advice from Minter Ellison, it does not detail the type of expenditure. What information did you give Minter Ellison to form the basis of their advice because this does not make any reference to that? It does refer to the cost of holding an annual general meeting, maintaining a record of names and addresses and voting entitlements and conducting a poll, but it does not refer to newspaper advertisements, telephone polling, public relations and legal fees which may or may not be connected with the activities they refer to in item 3 under the heading 'Background'.

Mr Cattnach—We provided the newspaper article. I cannot remember what else we did, but I certainly remember providing them with the newspaper articles.

Senator O'BRIEN—The advice does not detail any of those items but it refers in paragraph 5 to:

The cost of printing, publishing and distributing an annual report, shareholder election guide and proxy forms.

Running a share registry inquiry line to provide advice to shareholders.

Funding the cost of direct communication ... to ensure that they are aware of the importance of either attending the AGM or appointing proxies.

Funding the cost of advertising directly relevant to issues that will be the subject of debate at the annual general meeting.

It does not imply to me that activity which would appear to have been directed in a very partisan way towards affecting the outcome would be permissible. Is that a fair assessment of what this advice says?

Mr Cattnach—It does not pick up the point you have raised.

Senator O'BRIEN—Did you seek further clarification? This advice, in my view, is deficient as to some very important questions that the article would have raised.

Senator Ian Macdonald—What date is the advice?

Senator O'BRIEN—The date of the advice is 28 October 2002, which is three days after the article appeared in the newspaper.

Senator FERRIS—It might be useful, Senator O'Brien, if we sought the letter that was written by Mr Cattnach to Minter Ellison, so that we can see what he asked for specifically and how it has been responded to.

Senator O'BRIEN—That would be useful. I would make the point that, in reciting the background, the article is not referred to at all.

Mr Cattnach—Senator Ferris, I am not sure that I actually wrote to them. They have an office on the same floor.

Senator FERRIS—Yes. I was just going to make that point. Do you have a contract with Minter Ellison to supply a staff member? I noticed that they describe themselves as Minter Ellison at the top of the letter but at the bottom it says 'Corporate Legal Unit' and gives the department's address.

Mr Wonder—We have an outsourced relationship with Minter Ellison for provision of legal services, as we do with a number of other services the department requires. Minter Ellison are our corporate lawyers.

Senator FERRIS—Thank you for that clarification Mr Wonder.

Senator O'BRIEN—Frankly, Mr Cattnach, the jump between points 5 and 7 in this advice is extraordinary. There is no reference to what appeared in the article in point 5, but then there is a leap in point 7 to say:

It would be possible to categorise most, if not all, of the expenditure referred to in media reports as expenditure ordinarily ancillary or incidental to the conduct of the annual general meeting and to be for the benefit of the company rather than any individual group of directors.

That is an extraordinary leap between the issue of agri-political funding and Corporations Law, I would have thought. The advice has chosen not to refer to that matter in relation to agripolitical activity, but makes the jump into Corporations Law, which may point to a deficiency there. You did not choose to question that?

Mr Cattnach—No.

Senator Ian Macdonald—Paragraph 7 clearly refers to the media, of course.

Senator O'BRIEN—Yes, it does.

Senator Ian Macdonald—I must say this was not something I was personally following, but I assume the media reports were full and frank in what they reported.

Mr Cattnach—Yes, they were.

Mr Mortimer—I have just had a chance to look through the operating plan for AWI for 2002 and 2003, which I think is a public document.

Mr Cattnach—I am almost positive it is.

Mr Mortimer—That does reference on page 30 and 31 that a couple of the activities of the company relate to shareholders knowing what AWI is doing and why. It sets out a corporation communication strategy which includes dealing with the annual general meeting and related

forums, levy payers database, et cetera. There are also references on page 31 to the budget for those activities. That includes setting out an item for communicating to shareholders what the corporation is doing and I gather that covers the annual general meeting.

Senator O'BRIEN—Do you think that is broad enough to cover this sort of activity that is reported in the newspaper article?

Mr Mortimer—No, I am not saying that. I am just explaining that the AWA board set out in its annual operating plan the nature of what it was going to do in terms of communications of running the AGM. This is in reference to your question earlier about the extent of information on this matter that was available.

Senator FERRIS—Why would the department accept the Macquarie Dictionary's definition of 'political' under point 6 of this letter, as applying to something which was an agreement struck with an agricultural organisation, which intrinsically could never have been considered to be political. Why did the department accept the Macquarie Dictionary's definition of 'political' as meaning connected with a political party, when this was a funding agreement struck between an organisation and the department, which could never have fallen into the category of the definition of the word 'political' as party political? Why was it that you accepted that definition as being sufficient and appropriate in this case? I am intrigued and puzzled as to how you could ever define that when party political is expressly outside of the funding agreement.

Senator Ian Macdonald—In the officers' defence, the points you make are reasonable but the officers get legal advice from a very well respected organisation. I guess it is not up to them to double guess that. I must say that, in having a closer look at this, perhaps we should have followed the normal practice in not releasing legal advice to government. I was feeling generous when I thought about the agripolitical activity, which in itself has an understanding.

If you look at this closely apparently agripolitical activity is actually defined in the agreement. It says:

'agri-political activity' means political campaigning or funding, developing, designing, resourcing or participating in activities intended to exert political rather than advisory influence on government policies or inactivities intended to exert political influence on public opinion.

That then does take it into the paragraph 7 definition of party political at government level. It would seem to me almost that the definition in the agreement is a bit wonky because agripolitical means something to all of us and it is certainly not what that agreement defines it as. On a closer look, and seeing what the agreement says, perhaps I can better understand now why Minter's have come to that conclusion.

CHAIR—This is, of course, why lawyers get a lot of money for a lot of mumbo jumbo. It was clearly a very political campaign that was contested between two groups of people who were fighting over where the wool went; it was clearly a political exercise. These are the wonderful words of the lawyers.

Senator Ian Macdonald—It is the wording in the agreement. By all means we can we continue this but, if I can just suggest that there has quite obviously been a concern to the department to the extent they have relied on legal advice which we said we will get something of an update of. I guess the relevant thing as far as we are concerned is; did the department or

the government discharge its duties in what it is required to do under the agreement in overlooking this? I do not know that in that regard we can add much more to where we are now. It is obviously something that after the event it is pretty clear but I am not quite sure that the department erred at the time.

Senator O'BRIEN—How much do we pay Minter Ellison to provide the service they provide to the department?

Senator Ian Macdonald—A lot more than I used to get paid when I was a lawyer but then the advice is probably much better.

Senator O'BRIEN—I really think you are talking down your ability.

Senator FERRIS—The reason I asked the question of you before Mr Cattanaach was to try to establish whether when this advice came in you simply accepted it and did not use it as what it was—advice, which would be part of your thinking in looking at what was in fact a very well publicised and very well understood campaign, closely followed for many months by two different groups within the wool industry. I suppose legal advice is only advice and I just wonder if that was the end of the matter as far as you were concerned?

Mr Cattanaach—I am trying to recall what further action I took but I essentially accepted the advice that I was given. The premise on which we operate is to try and let the company get on with its activities and the premise that we negotiated on a number of the statutory funding agreements is that the companies do not get involved in the broader political debate. That is why agripolitical has been defined the way that it has. The advice that I got was consistent with my understanding of the premise on which we were negotiating the funding agreements, that is, that they were not involved in political campaigns.

Senator FERRIS—Nevertheless, this was 28 October. Presumably, it went to material that was published backwards from that date. As I recall, the campaign got more public, more expensive and more acrimonious in the lead-up to the actual vote. Did you take the view that the advice given on the material published or made available to Minter Ellison at that time in fact covered the entire subsequent weeks of campaigning? My recollection is that it was certainly much more acrimonious and public towards the end than it was at the start.

Mr Cattanaach—Yes, we relied on that advice.

Senator O'BRIEN—How does the election spending that is detailed in the article satisfy the requirement of the Wool Services Privatisation Act relating to wool growers and community benefit?

Mr Cattanaach—As I said before, the activities of conducting an election are a normal part of the activities of a company.

Senator O'BRIEN—But this is not the activities of conducting election; this is activities of fighting an election. I think they are quite different issues. If someone is using the funds to pursue an outcome rather than a process—and that is what we are talking about here—how does that relate to benefits to wool growers and the community?

Mr Cattanaach—I relied on the legal advice that said that it was part of it.

CHAIR—It would raise the question of whether the opposing party should have got some wool funding money too, for their campaign.

Mr Cattanach—That is something that I cannot answer.

CHAIR—But what is good for the goose is good for the gander, as it were.

Mr Cattanach—That is something that the company would have to have decided. It is not something that the Commonwealth would have—

CHAIR—I understand that. It was a rhetorical question.

Senator Ian Macdonald—Does anyone know when the election was held? The advice was on the 28th. I understood, or I was told, that the election was in October, although we are not sure about that—31 October. So the time between the receipt of the advice and the actual election would not have allowed much to be done at that time.

Mr Mortimer—I think the date was 31 October.

Senator O'BRIEN—You might take a different view, Minister, but, if the department had indicated concerns about the expenditure of that money under the agreement, that might have been very relevant to the considerations of shareholders at that time.

Senator Ian Macdonald—The department asked for legal advice on what is obviously a legal question and got that advice, but it only got it on the 28th. In the end result, I guess, the shareholders made up their own minds on what was happening and tossed out the old board comprehensively, so I guess that, in the end, the voters are usually right. Certainly they have been at the federal level in the last three elections.

CHAIR—When did the department seek the advice?

Mr Cattanach—I really cannot remember that, but I will take that on notice.

CHAIR—Was it a month before or two months before?

Mr Cattanach—No—

Senator O'BRIEN—It was between the article of 25 October, I think, and the supply—probably the same day.

Mr Cattanach—It would have been that day or the next day.

Senator O'BRIEN—I want to go to the circumstances surrounding the resignation of Dr Andrew Vizard from the board last year. When was the department first advised of his intention to resign?

Mr Williamson—Andrew Vizard resigned on 14 June 2002. Our records indicate that the department was given no prior warning of this resignation.

Senator O'BRIEN—So you heard on the day?

Mr Williamson—Essentially, yes

Senator O'BRIEN—One of the issues connected with Dr Vizard's resignation was the quality of AWI's corporate governance. What action did the department take to address concerns aired at the time of his resignation relating to AWI's corporate governance?

Mr Mortimer—I am not aware of any, but I will check that when I get back to the department.

Senator O'BRIEN—Isn't good corporate governance at the heart of 5.3 of the funding agreement?

Mr Mortimer—Yes, Senator.

Senator O'BRIEN—Wouldn't it be prudent, where a board member resigns over the issue, that an alert department would make its own investigations?

Mr Cattnach—I don't remember the issue. As I said, I will check it out and provide some advice.

Senator O'BRIEN—As well as requiring the company to expend funds in accordance with the grower plan, the strategic plan, the operational plan and guidelines established by the government, expenditure must be efficient, effective and ethical. Is the department satisfied that the company has always behaved in accordance with part 5.3 of the agreement?

Mr Cattnach—We have not received anything to the contrary, but we believe that what we have been given has satisfied the funding agreement.

Senator O'BRIEN—You believe that, therefore, the material you received and the information you are aware of tells you that the company has always behaved in accordance with part 5.3 of the agreement?

Mr Cattnach—That is my understanding.

Senator O'BRIEN—Part 5.3 of the agreement says in part that the company must have regard to the grower poll results. Mr McLachlan says that the annual operational expenses of the company are near \$20 million, yet when growers voted in WoolPoll 2000, the two per cent service model indicated there would be unallocated overheads of just \$6 million. How does the department account for this difference, when the funding agreement specifically requires the company to have regard for the grower poll results?

Mr Cattnach—I cannot answer that question, I am sorry.

Senator O'BRIEN—Does that mean you have not considered that matter?

Mr Cattnach—I haven't.

Senator O'BRIEN—Is it the case that the new AWI board commissioned an audit of the company and a copy of this audit report has been provided to the department?

Mr Cattnach—We have not received a copy of the audit.

Senator O'BRIEN—Do you know whether the audit has been conducted?

Mr Cattnach—My understanding is that the audit has been conducted—they are just finalising it.

Senator O'BRIEN—Have you requested a copy, when it is finalised—or would that come as a matter of course?

Mr Cattnach—It comes as a matter of course. It is something we receive under the statutory funding agreement.

Senator O'BRIEN—Do you know when it is due to be completed?

Mr Cattnach—I do not. I have not been advised of a specific date. I understand it is very shortly.

Senator FERRIS—I am intrigued by the fact that when Mr McLachlan himself made the speech on 31 March, he said:

... in December 2002 there were in the order of 50 projects worth in excess of \$20 million at AWI without formal completed contracts in place.

Were you aware of that statement?

Mr Cattnach—I wasn't.

Senator FERRIS—It was fairly well publicised at the time. It is puzzling as to why you would not have made a request for the material, given that that was disclosed such a long time ago.

Mr Cattnach—I understand that the new board has taken action to commission a review. We think it is appropriate that the new board investigate the matter and bring its findings to the Commonwealth. We will look at how they have attempted to address the issue.

Senator O'BRIEN—This information was in the WoolPoll voter information brochure under the table 'Indicative breakdown of expenditure'. There was no consideration of that information from that source by the department?

Mr Cattnach—That is not an area that had responsibility. The WoolPoll is Mr Mortimer's and Mr Williamson's.

Senator O'BRIEN—No. You might not have responsibility. Are you saying you were not aware of—

Mr Cattnach—No. I am not personally aware.

Mr Wonder—What in particular are you now asking in relation to the WoolPoll?

Senator O'BRIEN—It is, again, the same matter. But I am saying that the information that Mr McLachlan refers to in his speech, as I understand it, was in the WoolPoll voter information brochure.

Mr Mortimer—Are you referencing the amount of payments?

Senator O'BRIEN—Yes.

Mr Mortimer—That may be the case, yes.

Senator O'BRIEN—That didn't raise any issues for the department at the time it became aware of that, Mr Mortimer?

Mr Mortimer—Essentially, that material sets out how the board expects to spend its funds in the interest of advising levy payers and members of the company.

Senator O'BRIEN—So the answer is no?

Mr Mortimer—It is information that is provided by the company and it is there for everyone to see. Essentially, the wool growers had that information in front of them. That was part of the information available to help them make their decision.

Senator O'BRIEN—But if that information indicates a breach of an agreement between the Commonwealth and the company, surely the department would act upon it.

Mr Williamson—The reference having regard to the wool levy poll really is a broad reference in the context of the quantum of levy that was voted on and the purposes for which the levy was voted for. In the case of WoolPoll 2000, growers voted for a two per cent levy that was to be expended on R&D. That is the real purpose of the reference, as I understand it, within the statutory funding agreement.

Senator O'BRIEN—But when growers voted in WoolPoll 2000, the two per cent service model indicated there would be allocated overheads of only \$6 million—that was publicly available information—and then the expenditure rose to \$20 million. Having regard to WoolPoll, I would have thought meant having regard to the stated intention of voters based on the information they were given.

Mr Williamson—I don't think that was intended to fix overheads at that level, but—

Senator O'BRIEN—It might have given you an idea of expenditure, mightn't it?

Mr Mortimer—That is right. That was the intention. The result was different.

Senator O'BRIEN—Over 300 per cent different.

Mr Mortimer—The board had to justify that. They put that in front of voters and they made their decision.

Mr Williamson—The agreement actually provides for a performance review, which is intended to be undertaken prior to the subsequent levy poll which is due to take place later on this year. Levy payers will have a say on whether those overheads are too high.

Senator O'BRIEN—What we are seeing are deficiencies in the model, I take it?

Mr Mortimer—No. Arguably, one could say that the model is working quite reasonably in the sense that there are issues in front of the members of the company and levy payers and they are being dealt with according to an agreed set of arrangements. While there has been some argy-bargy in terms of different persons, at the end of the day there is a new board in place, a new board dealing with issues. Later this year levy payers will get an opportunity to vote on the level of funding they want to put into R&Ds. So, in a broad sense, all that is happening as it was intended to happen.

Senator O'BRIEN—Can I refer you to a story that appeared in the *Australian Financial Review* on 31 October 2002. In the story the then AWI chair, Ms Maree McCaskill, referred to 'several independent reviews finding no fault in the government's processes'. Did the department, the minister, or the minister's office seek and/or receive any copies of these independent reviews?

Mr Cattnach—I am not aware of any. I do not remember seeking them, but I will check to make sure.

Senator O'BRIEN—It would be you that would seek them?

Mr Cattnach—Yes.

Senator O'BRIEN—And you don't recall them.

Mr Cattanach—I did not request them.

Senator O'BRIEN—Do you recall the statement by the then chair?

Mr Cattanach—No, I don't.

Senator O'BRIEN—I guess that is contemporaneous with the poll. I take it that you would have been watching the media at that time; you all picked up the earlier articles.

Mr Cattanach—I was certainly watching the media, but I do not recall that particular one.

Senator O'BRIEN—So you made no requests and received no copies of those reviews? That you recall?

Mr Cattanach—I certainly do not remember making any requests and I do not remember being—

Senator O'BRIEN—Will you check whether anyone else did, and can you also advise us whether the minister's office did?

Mr Cattanach—Yes.

Senator O'BRIEN—I referred earlier to up to 50 informal research and marketing contracts worth \$20 million—that is, they were not formal contracts—has the department received full details of these informal contracts or arrangements?

Mr Cattanach—No, not yet. As I indicated earlier, we understand that AWI has investigated this, that they are the subject of a review. We want to see what the company wants to do about it and how it plans to rectify the issue, and we will provide advice to the minister when we receive the report.

Senator O'BRIEN—Do you know how much of the \$20 million was paid in initial payments or in advance?

Mr Cattanach—No, I do not.

Senator O'BRIEN—Is that something you rely on the company to advise you about?

Mr Cattanach—Yes.

Senator O'BRIEN—I presume the term 'informal contract' means that there is no written contract.

Mr Cattanach—I would only be guessing, but my understanding would be that it would be in the process of making a formal contract. That is what I would hope, anyway.

Senator O'BRIEN—We had better not guess on that; we had better get some more information. Is there a significant possibility that grower funds may be at risk or that intellectual property may be at risk under these contracts?

Mr Cattanach—I could only speculate on that until we receive a report from the company.

Senator O'BRIEN—This information indicates that there has been some quite scandalous behaviour. Has the department a view on that?

Mr Cattanach—That is something that I cannot comment on.

Senator O'BRIEN—Do you know how many projects worth more than a million dollars are included in this lot of informal contracts?

Mr Cattanach—I have no details of the contracts.

Senator O'BRIEN—So it is possible that the total value may exceed \$20 million.

Mr Cattanach—I have no details.

Senator O'BRIEN—What legal cover do growers and taxpayers have in relation to these contracts? Is there any?

Mr Cattanach—I cannot answer that one because I do not know the nature of the agreements. It would be something that, when we know the nature of the agreements or lack of agreements, we would pursue with the company.

Mr Mortimer—A helpful reference may be in sections 6 and 7 of the statutory funding agreement, which deal with the issues of suspension or termination of fund payments. Indeed, section 7 references repayments of funds and goes on to say:

... if any of the Funds have been used or expended by the Company otherwise than in accordance with this Agreement, the Commonwealth may, by written notice to the Company, require the Company to repay, and the Company must repay ...

Senator O'BRIEN—Would the growers have to fund that?

Mr Mortimer—The company would.

Senator O'BRIEN—Yes, but how would the company fund it?

Mr Williamson—From reserves.

Senator O'BRIEN—From grower reserves.

Mr Williamson—No, from company reserves.

Senator O'BRIEN—Where do they come from?

Mr Mortimer—They come from the levy poll. They are levied from growers, you are quite right, but under a corporate company model the company essentially has responsibility and has to manage those moneys and to draw on both an ongoing levy stream and on any reserves that it might hold.

Senator O'BRIEN—I take it that you have not heard whether any of these informal contracts or incomplete contracts have been rescinded?

Mr Cattanach—We have not heard.

Senator O'BRIEN—Have you taken advice on whether a consultancy entered into in breach of the statutory funding agreement is able to be vitiated at law?

Mr Cattanach—Sorry, Senator?

Senator O'BRIEN—Have you taken advice on whether consultancies entered into by the board—old or new—which are a breach of the statutory funding agreement can be negated at law?

Mr Cattanach—No, we have not taken any advice.

Senator O'BRIEN—Can you tell me when the department, the minister or his office were advised that directors of the old AWI board were prepaid their annual board fees in June last year for the whole of the 2002-03 financial year?

Mr Cattnach—I am not aware that we had been advised of that.

Senator O'BRIEN—I take it that you do not know whether shareholders were advised, then.

Mr Cattnach—No.

Senator FERRIS—Is it possible that you could clarify that to ensure that that is a statement of truth?

Mr Cattnach—Yes, I will check. I do not remember that issue, but I will check.

Senator O'BRIEN—Going back to one of your answers, on 2 April this year Mr McLachlan—referring to the up to 50 contracts—said:

We have also terminated contracts that the Board has judged to be inappropriate or where it was not clear what the objects of the contracts were. Several lucrative consultancies have been terminated on this basis.

He also said:

In future, any project worth more than \$500,000 will require board approval.

Were you aware of that article in the *Weekly Times* of 2 April? 'Audit cans AWI contract process' is the heading. Unfortunately I do not have the page but I think it is page 2.

Mr Cattnach—I do not remember the specific article that you refer to, but I would expect that the reviews that the company has undertaken would provide advice to the Commonwealth on what actions they propose to take.

Senator O'BRIEN—So is it fair to say that the department is not aware of any prepayments of board fees or repayment of board fees or other fees or payments by previous directors?

Mr Cattnach—That is my understanding.

Senator O'BRIEN—You are not aware of any.

Mr Cattnach—I am not aware.

Mr Mortimer—We were certainly aware of the speech by Mr McLachlan that you reference and the press articles that flowed from that. I think that what is essentially being said is that the board was dealing with those issues within the government framework that was established.

Senator O'BRIEN—So you are not aware of any action that the current board has taken to recover money from former directors?

Mr Cattnach—No.

Senator O'BRIEN—The Statutory Funding Agreement requires the company to undertake a performance review and issue a report prior to a wool levy poll, according to section 20(a) to (d). What role does the department have in this review process?

Mr Mortimer—Essentially, section 20 says that the board will undertake a performance review, as you said, and procure the audit of the report by the company's external auditors. That report, together with the audit opinion, is provided to the Commonwealth and to levy payers prior to the poll. I think you were previously advised by Mr Cattnach that that process has now been initiated by the current board and the company has put in place arrangements to see that through. As far as we know, the company is pursuing that.

Senator O'BRIEN—And you have not received any material in relation to that review?

Mr Mortimer—No, we have not.

Senator O'BRIEN—Has the department had cause to use the access powers available to it under section 21 of the funding agreement?

Mr Cattnach—No.

Senator O'BRIEN—Has the department given consideration to exercising them?

Mr Cattnach—I do not believe that we have actively considered using section 21.

Senator O'BRIEN—What action, if any, was taken by the department or the minister or the minister's office to test whether AWI's wood lot investment complied with the obligations of the company under the funding agreement?

Mr Cattnach—I am not aware of any action that we took. I would have to take that one on notice.

Senator O'BRIEN—I am happy if you do, in complete context of the question. This project received a lot of publicity, including a negative grower poll result in *The Land* on 14 March. Did the department even seek any advice from AWI about this project?

Mr Cattnach—I cannot remember what actions we took. I remember the issue, but I cannot remember exactly what actions we took.

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

Mr Cattnach—Yes, I can.

Senator O'BRIEN—Section 22 of the funding agreement provides for audit arrangements. Has the department received AWI's audited financial reports, have they been provided on time and have all of these reports been adequate, in the view of the department?

Mr Cattnach—Yes.

Senator O'BRIEN—The answer to all questions is yes?

Mr Cattnach—Yes.

Senator O'BRIEN—Perhaps you can provide the committee with a schedule to the reports received and other material relating to the operation of AWI since its creation.

Mr Cattnach—Yes.

Senator O'BRIEN—Has all of this material been provided to the minister?

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

Senator O'BRIEN—Can you confirm for me that none of this material or the AWI annual report has been tabled in parliament?

Mr Cattanach—I believe that it has not, but I would have to check that.

Senator O'BRIEN—Can you confirm for me that the initial board appointments to Australian Wool Services were made by Mr Truss?

Mr Williamson—That is correct.

Senator O'BRIEN—And that the boards of both Woolmark and AWI flowed from those appointments by Mr Truss?

Mr Williamson—That is correct, yes.

Senator O'BRIEN—The membership of AWI grew from the base put in place by Mr Price?

Mr Williamson—In terms of the membership of the company?

Senator O'BRIEN—Yes, the board.

Mr Williamson—That is my recollection, but we would have to check.

Senator O'BRIEN—Mr Price appointed Mr Dorber?

Mr Williamson—That is correct.

Senator O'BRIEN—It is clear, then, that Mr Dorber was Mr Price's man?

Mr Williamson—I think he was appointed by that person.

Senator O'BRIEN—The first opportunity growers had to look at the AWI board was the last election, and the board was removed?

Mr Williamson—The board appointments made by the minister were ratified by the membership prior to that election, as I recall.

Senator O'BRIEN—Can you give us those details? They escape me.

Mr Williamson—Certainly.

Mr Mortimer—I think there was a process, which we will have to confirm, whereby the initial board was ratified in some shape or form, but I have to say I wasn't around at the time and I can't remember exactly what it was.

Senator O'BRIEN—Doesn't the existence of a statutory funding agreement place a considerable obligation on the minister to protect the interests of taxpayers and growers in terms of the proper use of levies?

Mr Mortimer—Yes.

Senator O'BRIEN—So the minister has a definite role, right in the middle of this, does he not?

Senator Ian Macdonald—Well—

Senator O'BRIEN—It is an understanding of the model, Minister.

Senator Ian Macdonald—There is an agreement there which you can interpret as well as the officers. You make up your own mind on what responsibilities there are. I don't think it is appropriate to ask this officer to give legal advice on what different people's obligations were under an agreement or an arrangement.

Senator O'BRIEN—I am content with the answers I have received so far, Minister. But I should say that it is my view that, on material provided today and if other material I have alleging that there has been a maladministration of AWI by the former board is accurate, we are confronting a situation where significant woolgrower and taxpayer funds have been misused. In the light of this material and the answers provided today, I will be seeking to refer the matter of the administration of AWI to the Rural and Regional Affairs and Transport Committee so we can call witnesses other than departmental officers and get to the bottom of this mess.

Senator Ian Macdonald—That would seem to me to be a far better idea.

Senator O'BRIEN—That is what I intend to do. Obviously, other members of the committee may want to ask other questions.

Senator FERRIS—I guess what we will need to do is have a meeting to determine that. Before Mr Catanach goes, could I draw to his attention what looks like page 59 of the annual report of 2001-02. Do you happen to have a copy of that with you?

Mr Cattnach—No, I do not.

Mr Wonder—Whose annual report is this, Senator?

Senator FERRIS—It is AWI's annual report.

Mr Mortimer—We have a copy with us.

Senator FERRIS—Could you look under note 18, remuneration of directors? I draw your attention to the column for 2001, which indicates that there were directors in various salary categories. It indicates that there was one director in the salary category of \$100,001 to \$110,000 in the year 2001 but, by the year 2002, there was one director in the salary category of \$410,001 to \$420,001. Did any of the officers at the table look at that entry, and was any action taken to clarify, firstly, who that director was and, secondly, under what circumstances one director got a pay rise from between \$100,001 and \$110,000 up to between \$410,001 and \$420,000. Is that something that would concern you, Mr Cattnach?

Mr Cattnach—Issues of directors' remuneration are something that the department has an interest in, but it is essentially a matter for the boards to determine. The difference between 2001 and 2002 would reflect the fact that that was the start-up of the company and that there was not a chief executive officer or managing director, as I think Mr Dorber's title was. The payment of \$410,000 to \$420,000 reflects his salary.

Senator FERRIS—It showed that in the year 2001 someone was acting as the chief executive of the company, and presumably that person who was the director was earning between \$100,000 and \$110,000—let us round it off. But by the time that person had been confirmed as a permanent officer his salary had gone to between \$410,000 and \$420,000. I would have thought that that would be something that the department would take something of an interest in, given that the position was never advertised, the appointment was made

without the position ever being advertised and that represents an increase of a substantial amount of money—from the person who was carrying out the job as an acting CEO to the person who was finally able to negotiate a salary package.

Mr Cattanach—As I said, that is essentially a matter for the board of the company.

Senator FERRIS—Under the funding agreement, you are satisfied that it was not something that attracted your attention to the extent that you would ask any questions about it?

Mr Cattanach—No.

Senator FERRIS—Dear, oh dear.

Senator CHERRY—As I understand the way the arrangements between the department and AWI work, the strategic plan from the company is approved by the government.

Mr Cattanach—No, the plan is provided to the Commonwealth but it is not approved by the Commonwealth.

Senator CHERRY—Does the Commonwealth have a view on future levy rates? Is that a matter which is left entirely to AWI or is that a matter in which the government deal?

Mr Mortimer—That is essentially dealt with in the levy poll, which we have referenced earlier. All levy payers have the opportunity to vote on that. I think it has had a three-year period, with reference that another poll is due to be held towards the end of this year.

Senator CHERRY—What will be the role of the department in organising that poll or checking the materials sent out to growers?

Mr Mortimer—That is essentially done by AWI and that is set out, I think, in the terms of the statutory agreement. Mr Williamson will correct me if I am wrong. In terms of doing the levy poll this year, AWI has established a broadly based panel to oversee the preparation of material and the conduct of the process.

Senator CHERRY—Has that panel been approved by the department?

Mr Mortimer—I do not think it is the department's to approve. I think AWI actually settles that panel in consultation with, I guess you would say, the stakeholders—whoever they think is relevant to it.

Mr Williamson—There are wool poll levy regulations currently before the parliament which set out how the wool levy poll will be conducted.

Senator CHERRY—Under those regulations, when the WoolPoll result is known does the government then determine a rate based on that poll or does that poll automatically determine the rate?

Mr Williamson—The former. The government is able to determine the rate ultimately, but the levy poll is a clear indicator to the government of the preference of levy payers.

CHAIR—Have we finished with A as far as the committee is concerned?

Senator O'BRIEN—I have. That does not mean everyone has.

Mr Wonder—Can I just clarify something? Senator, you asked a question earlier this morning about the international organisations that make up the entries in our portfolio budget statement—who those contributions are to. I am in a position to clarify that.

In the food and agriculture area, the recipients of those contributions are the International Grains Council, the International Sugar Organisation, the International Cotton Advisory Committee and the International Office of Wine and Vine. In the fisheries and forestry area, the contributions are to the Commission for the Conservation of Southern Bluefin Tuna and the Indian Ocean Tuna Commission. In the rural policy and innovation area, the contributions are to the International Union for the Protection of New Plant Varieties. Finally, in the areas of product integrity and animal and plant health, the contributions are to the OIE and the International Vaccine Bank for FMD.

Senator O'BRIEN—Do you have a breakdown of the estimated contributions for those organisations, or would you rather provide that on notice?

Mr Wonder—I do not have the individual amounts. They obviously sum up to what is in the book.

Senator O'BRIEN—Could you supply that on notice.

Mr Wonder—Yes.

Mr Pahl—You also asked about the Senate order for contracts. That order requires us to report on contracts over \$100,000. The web site and our response include contracts up to and including 3 February 2003.

Senator O'BRIEN—So it is all that are in operation, entered into, up to and including that period?

Mr Pahl—That is my understanding, yes.

CHAIR—We will now move to B, Food and agriculture.

Senator O'BRIEN—Page 22 of the PBS shows an increase in the estimated expenses for the sugar industry reform package from \$29.5 million in 2002-03 to \$39.4 million in 2003-04. Do I have that right?

Mr Mortimer—That is what the figures show, yes.

Senator O'BRIEN—Does this figure represent only assistance given to growers via income support, loan subsidies, exit grants and access to professional help in the preparation of sugar enterprise activity plans and sugar enterprise viability assessments?

Mr Mortimer—The figure in the budget paper represents the totality of expenditure for assistance to sugar growers.

Senator O'BRIEN—What aspects have I missed out?

Mr Mortimer—I presume you are asking for detailed information about the estimated expenses for 2003-04?

Senator O'BRIEN—Yes, and 2002-03.

Mr Mortimer—Essentially, the figures for 2002-03 are revised estimates for that year and they reflect experience so far in the program. They are also of the nature of estimates in that

they were put together before the financial year had finished. So there were some changes to some elements.

Senator O'BRIEN—Given that the closing date has now passed for a number of components of the sugar package, I would like to examine the take-up of various pieces. You would be aware of a question on notice about this package, but I am looking for the most up-to-date data that you can provide at the moment, please. The cut-off for lodging an income support application was 31 March. How many applicants will receive income support?

Mr Mortimer—In terms of income support, the number of successful applications—

Senator O'BRIEN—No: how many were received?

Mr Mortimer—I think the number in total, if I add up successful, unsuccessful and the rest, is of the order of 1,840.

Senator O'BRIEN—How many were approved?

Mr Mortimer—The number of successful applications is 1,437.

Senator O'BRIEN—And how many have been formally rejected?

Mr Mortimer—395.

Senator O'BRIEN—So there are still some pending?

Mr Mortimer—There is a small number, but assessment of those applications has still not been completed.

Senator Ian Macdonald—There are eight.

Senator O'BRIEN—What is the expenditure to date?

Mr Mortimer—Expenditure to 16 May was \$9,252,980.

Senator O'BRIEN—Applications for the exit packages closed on 30 March. How many applied?

Mr Mortimer—Applications for exit assistance do not close until the year 2005. They remain open for a number of years, if I am correct, so we are a long way off getting towards the end of that one.

Senator O'BRIEN—How many have applied to date?

Mr Mortimer—The number of applications so far is seven.

Senator O'BRIEN—How many have been approved?

Mr Mortimer—None at this stage; they are still being considered.

Senator O'BRIEN—So nil expenditure?

Mr Mortimer—So far, that is right; yes.

Senator O'BRIEN—In answer to a question on notice on 10 February, the department advised that the figure of \$60 million for regional adjustment mentioned in a media release of the minister on 25 September seemed to cover both the regional projects and exit assistance under the sugar package, and pages 25 and 28 of the Portfolio Additional Estimate Statement for 2002-03 suggest that \$30 million was allocated to each. I cannot find a corresponding total

detailing projected expenditure in the 2003-04 PBS. Is it there somewhere or does it not appear because there has been no change of allocation to these two components of the package?

Mr Mortimer—Essentially, that material is not provided in the budget papers. I do not think I have got the forward estimates with me that far out, so I cannot comment on what they might be in further years.

Senator O'BRIEN—In 2003-04?

Mr Mortimer—My apologies; I thought you were talking about years beyond 2003-04. Can you repeat the question, please.

Senator O'BRIEN—Is there somewhere in the 2003-04 PBS where there is a table detailing the projected expenditure?

Mr Mortimer—No, it is not set out.

Senator O'BRIEN—Does that mean that the reference in the Portfolio Additional Estimate Statement of \$30 million allocated to each of those two programs remains the projected expenditure?

Mr Mortimer—I think that is right.

Senator O'BRIEN—So, to spend the full \$30 million on-exit package, 660 growers or thereabout would need to take up their full entitlement. And you would say we have had seven applications to date? And that is to run for another two full years?

Mr Mortimer—That is to run through to 2005-06 financial year.

Senator O'BRIEN—So, a bit over two years.

Mr Mortimer—I think I said earlier the applications close early in the year.

Senator O'BRIEN—2005, I thought you said.

Mr Mortimer—That is right, yes.

Senator O'BRIEN—March 2005; so it doesn't go into the financial year 2005-06?

Senator Ian Macdonald—The applications close but it depends how long it takes to—

Mr Mortimer—It depends on the assessment and when the payment is made.

Senator O'BRIEN—The expenditure would have gone to 2005-06?

Mr Mortimer—Yes, and provision has been made for that, I expect.

Senator O'BRIEN—Interest rate subsidy applications for 2002-03: when do they close?

Mr Mortimer—There are two closing dates. There is the closing date of March for interest rate subsidy support for two years and there is a closing date in late September—I think it is—for the support for 2003-04 only.

Senator O'BRIEN—How many applications have been received to date? Those that closed for the two-year funding: how many were received for that?

Mr Mortimer—At this stage there are 844 successful applications. The number rejected is 88 and the number pending is six, which comes to 938, I think.

Senator O'BRIEN—How much has been expended to date?

Mr Mortimer—Expenditure up to 16 May was \$1,000,223,499.

Senator O'BRIEN—What period does that cover? I cannot remember; I think it was backdating of the assistance.

Mr Mortimer—It essentially covers the period up to 16 May.

Senator O'BRIEN—Starting from?

Mr Mortimer—When the applications were available. I do not have the date in my memory, but I think it was late last year.

Mr Pittar—The period of commencement was from October last year, so applications could be backdated to October 2002.

Senator O'BRIEN—Is there a simple calculation we can make to project the total expected expenditure for the current financial year?

Mr Mortimer—Do you mean in terms of amount paid on a unit basis, so to speak?

Senator O'BRIEN—Not necessarily on a unit basis, but the total expenditure.

Mr Mortimer—I cannot really say much more. It depends on the number of applicants and their assessment against the criteria.

Senator O'BRIEN—So \$1.5 million will see it out?

Mr Mortimer—I do not know.

Senator O'BRIEN—How many applications have been received to date for the 2003-04 year, assistance only, that was the other category?

Mr Mortimer—I expect that would be the bulk of applications to date. I cannot give a definitive answer on that, but my expectation would be that the bulk of applications coming in would be those for the two years assistance. I do not have the information in front of me as to which is which.

Senator O'BRIEN—Perhaps you can tell us how many applications, if there are any, have been received for the 2003-04 year, assistance only. I take it none will have been processed yet. When will you process them—as received?

Mr Mortimer—Yes; absolutely.

Senator O'BRIEN—Perhaps you can tell us how many have been received, how many have been approved, how many have been rejected and how many are pending.

Mr Mortimer—I do not have that information separately provided at this point.

Senator O'BRIEN—Do you have any idea of the estimated expenditure on those applications approved to date?

Mr Mortimer—I cannot really say.

Senator O'BRIEN—Perhaps you could take that on notice.

Mr Mortimer—Yes.

Senator O'BRIEN—How much is budgeted for expenditure for the 2003-04 year, subsidy only?

Mr Mortimer—In terms of the subsidy, it is exactly the same amount as was reported in the additional estimates: 3.5 million.

Senator O'BRIEN—The provision of income support or an exit grant is dependent upon the claimant completing a sugar enterprise viability assessment within four months, as I understand it.

Mr Mortimer—That is right.

Senator O'BRIEN—How many SEVAs have been completed to date?

Mr Mortimer—A number of 224 have been fulfilled.

Senator O'BRIEN—How much has been spent on those assessments to date?

Mr Mortimer—The current expenditure for those activities is \$429,287.

Senator O'BRIEN—How much is it estimated will be expended for those assessments in the coming financial year?

Mr Mortimer—\$2.5 million.

Senator O'BRIEN—Are there instances of claimants who fail to complete their SEVAs within the four-month period?

Mr Mortimer—I have in front of me the number of successful applicants and those pending and those who have fulfilled the needs. You will appreciate that there is a four-month period of time available to complete this assessment. I do not have any figures reflecting anyone who failed to complete or fulfil the requirements.

Senator O'BRIEN—Can you take that on notice? I would like to know if there are any for whom the four months has elapsed and who have not provided the SEVA.

Mr Mortimer—That is fine.

Senator O'BRIEN—Can you tell us what steps will be taken to either cease or recoup payments made under the income support or exit grant packages in those circumstances?

Mr Mortimer—Yes.

Proceedings suspended from 1.00 p.m. to 2.04 p.m.

CHAIR—We will start this afternoon's hearing. Mr Mortimer has a correction he would like to make.

Mr Mortimer—Senator O'Brien, I read the wrong number out earlier when I misread a paper in front of me. The number of sugar enterprise viability assessments that have been submitted is actually 742. I read the number, which was for the farm enterprise viability assessments, which was 224, and so that gives you a total of 966. You might remember, Senator, that under the arrangements for the viability test, it was agreed that farm enterprise viability assessments, which were essentially done for the purposes of people who had applied for Farm Help assessment, could be used in the interests of getting income support under the sugar industry support package.

Senator O'BRIEN—Has the expenditure to date changed?

Mr Mortimer—No, the expenditure to date has not changed.

Senator O'BRIEN—Is that on both or just the SEV?

Mr Mortimer—It is for the sugar enterprise viability assessments, I think.

Senator O'BRIEN—So it is for the 742?

Mr Mortimer—That is right, yes.

Senator O'BRIEN—Have you got a number for the farm enterprise viability assessments?

Mr Mortimer—In terms of the cost of doing the assessments, no, I do not have that with me. I am sorry, I cannot help on that.

Senator O'BRIEN—So it is eight months since the package was announced. There may not be much to tell here, but can you update the committee on the take-up of the sugar enterprise activity plan in this part of the package—the numbers completed, the cost to date and the total expected expenditure?

Mr Mortimer—My understanding is that that is yet to happen, in the sense that the sugar enterprise viability assessment is the first part of a two-step process and then, depending on how the farmer is adjudged at the end of that, they can then move on to a sugar enterprise assistance plan if they move on, for example, to exit assistance.

Senator O'BRIEN—Do I presume correctly that if they do not return their sugar enterprise activity plan, they are ineligible for further assistance?

Mr Mortimer—I cannot say definitively, but my expectation would be that would be the case.

Senator O'BRIEN—In answer to a question on notice at our last hearing, we were advised that in determining the make-up of the IGG, a number of stakeholders were consulted. What was the purpose of consulting the Prime Minister's office and what was the Prime Minister's contribution to the consultation?

Mr Mortimer—The purpose of consulting the Prime Minister's office, I expect, was to see whether there were any views from that quarter. The extent to which those views were taken up I cannot really say, Senator.

Senator O'BRIEN—Why not?

Mr Mortimer—Because essentially the composition of the groups was agreed by discussion and negotiation.

Senator O'BRIEN—Your answer states that members and senators from sugar producing regions were consulted: who were they?

Mr Mortimer—I do not have the names in front of me.

Senator Ian Macdonald—I would be disappointed if they were not Ms Kelly, Mr Entsch and me.

Senator O'BRIEN—Was Mr Katter consulted?

Senator Ian Macdonald—I doubt it. I do not know, but I would doubt it.

Senator O'BRIEN—Was Ms Livermore consulted?

Senator Ian Macdonald—I do not think she is in a sugar growing area.

Senator O'BRIEN—Senator McLucas?

Senator Ian Macdonald—I would doubt that.

Senator O'BRIEN—So you meant to say coalition members and senators from sugar producing regions were consulted?

Senator Ian Macdonald—We better make absolutely sure of that because obviously it was not me doing the consulting. If I am wrong, I will come back to you and tell you that, but otherwise you can take what I said as—

Senator O'BRIEN—You would find that out pretty quickly, I imagine.

Senator Ian Macdonald—Yes.

Senator O'BRIEN—Was there consultation with the Democrats?

Mr Mortimer—That is actually said in the answer, I think, Senator.

Senator O'BRIEN—What was the exact nature of that consultation?

Mr Mortimer—I cannot say anything very specific.

Senator Ian Macdonald—Again, we probably should get a more concise answer from Mr Truss, but there are probably discussions on the passing of the package, and I suspect you might have been approached as well, Senator, for a departmental briefing and what you thought about it and what you did not think about it.

Senator O'BRIEN—So we are referring here to a departmental briefing on the legislation, are we?

Senator Ian Macdonald—A general discussion between the department and the minister's office on the legislation. I think that sort of thing is pretty normal, isn't it?

Senator O'BRIEN—Were they consulted on the membership of the IGG?

Senator Ian Macdonald—Yes, we were and we actually said that to you in the answer, Senator.

Senator O'BRIEN—I presume it was a note to enable them to ensure that the IGG had enough environmental representation to make sure their deal with the government on the sugar tax would deliver environmental outcomes they required—unlike the last time the Democrats made a deal with the government on tax.

Senator Ian Macdonald—That is your assumption and you are entitled to any assumption you want to make.

Senator O'BRIEN—Is that correct?

Senator Ian Macdonald—No, I would not have thought—

Senator O'BRIEN—What was the purpose?

Senator Ian Macdonald—We consult with a wide range of people who have an interest in these things.

Senator O'BRIEN—So the Democrats had input into the make-up of the IGG.?

Senator Ian Macdonald—They were consulted.

Senator O'BRIEN—Does that mean they had input or there was just a sham consultation?

Senator Ian Macdonald—There were discussions with them. I was not involved so I cannot say what the discussion was. I do not think, even if I was involved, it is appropriate to discuss at this committee meeting advice the government takes from various groups and the advice that is given to the government—

Senator O'BRIEN—Advice that is given to the government by the Democrats.

Senator Ian Macdonald—Advice given to the government by anyone.

Senator O'BRIEN—I thought only legal advice and departmental advice was privileged.

Senator Ian Macdonald—I am not talking about this particular interest but, generally, people speak to ministers in the expectation that their conversations are not going to be broadcast around the world. If that were the rules, then obviously the whole machinery of government would stop; no-one would want to speak to us.

Senator O'BRIEN—I can think of some circumstances where it would be in the public interest as to what was discussed between a person and the government. For example, unconnected with this, if there was a decision of government which had commercial ramifications and a company had lobbied for that outcome, it would be in the public interest for that to be revealed, wouldn't it?

Senator Ian Macdonald—I did not quite understand the example, but if a company comes to us with some advice or with a view—

Senator O'BRIEN—Like Manildra, or something.

Senator Ian Macdonald—If they knew that anything they said to government was going to be splashed around the world, they would not come near any government.

Senator O'BRIEN—Are you saying that companies, for example, would not lobby governments for assistance if they knew that the fact they had lobbied for assistance was known?

Senator Ian Macdonald— If every single word that they spoke to the government was going to be repeated to outside they would not come near us, I would not have thought. They would not go near the Queensland government or the New South Wales government or any other government, I would have thought, if you could not approach a minister with a view that—

Senator O'BRIEN—I do not think that that can be correct. How many times has the IGG met since its first meeting in February this year?

Mr Mortimer— The IGG has held four meetings to date, Senator.

Senator O'BRIEN—That is since its first meeting in February or including?

Mr Mortimer—I think that probably includes the first meeting.

Senator O'BRIEN—Will the IGG present a draft report to the minister or the department prior to presenting the final version by the end of June?

Mr Mortimer—My understanding is that the IGG has authority to provide its own report and it will finalise its report in the light of what it develops and then present it to the minister.

Senator O'BRIEN—So there will not be a draft report process that goes to the minister?

Mr Mortimer—I am not aware of that, Senator. It has certainly not been required.

Senator O'BRIEN—Can you check that and confirm it?

Mr Mortimer—Yes.

Senator O'BRIEN—Once the minister receives the final IGG report, what is the process and time line for approval and start of implementation of the IGG plan?

Mr Mortimer—Essentially, the minister will get the report, he will assess that in light of meeting the government's requirements, and then, if he assesses it to be fulfilling the requirements of the IGG and the government's expectations, the activities that might flow from that then can move to being funded.

Senator O'BRIEN—What is the time line for that process?

Mr Mortimer—I cannot say anything more specific than that. Certainly, the IGG is working to bring its report in on 30 June. After that, it should not be a particularly lengthy process to assess that report and then the minister makes his decision and it can be implemented.

Senator O'BRIEN—Will the Prime Minister need to sign off the IGG plan as well, as was the case with the make-up of the IGG?

CHAIR—Minister, you may choose to take it on notice.

Senator Ian Macdonald—Mr Mortimer will answer it.

Mr Mortimer—There are no formal requirements for the report to be taken to the Prime Minister; that is a matter for the minister's judgment. Essentially, the report goes to the minister. As you will appreciate, the report is important in terms of its acceptance and it is a requirement before any funding for regional projects can be agreed and funded. Whether the minister chooses to take it to the Prime Minister or to senior ministers is his decision.

Senator O'BRIEN—Going back to the matter of the make-up of the IGG, Mr Truss, in his statement of 26 January, stated that he hoped to announce the food industry representatives to the IGG soon. I have not seen an announcement yet. Has an appointment been made by Mr Truss or is Mr Truss's choice awaiting the approval of the Prime Minister, as was the appointment of the rest of the IGG?

Mr Mortimer—The minister has appointed a food industry representative; it is Mr Barry Kelly, who is CEO of Golden Circle. That appointment has been made, although I understand there has been no formal press release announcement of that.

Senator O'BRIEN—When was it made?

Mr Mortimer—I have here in my notes February 2003 when Mr Kelly accepted the minister's invitation to that position.

Senator O'BRIEN—Was the Australian Food and Grocery Council approached?

Mr Mortimer—I do not know, to be quite frank.

Senator Ian Macdonald—I think they were. We did have someone else. In fact, we announced, I think—

Mr Mortimer—John Claringbould was originally announced to fill that spot but he withdrew because he could not meet the time commitments, and then Barry Kelly came in behind him.

Senator O'BRIEN—Can you give us an update on the selection and appointment of the regional guidance groups?

Mr Mortimer—The regional guidance groups have not been finalised. There have been discussions between the Commonwealth and Queensland governments on this, but at this stage there has been no agreement reached.

Senator O'BRIEN—Have the offices of the Prime Minister and Deputy Prime Minister been consulted on the make-up of the regional guidance groups?

Mr Mortimer—I cannot answer that question, I do not know.

Senator O'BRIEN—Can you find out?

Mr Mortimer—Yes.

Senator O'BRIEN—Page 64 of the PBS says that the regional guidance groups must successfully facilitate a regional focus for industry operations. Presumably, this is integral to the role of the IGG which is the 'development and implementation of Industry Reform Plan and regional Business Plans that improve the long-term sustainability and competitiveness of the sugar industry.' Can I interpret this to mean that the IGG and the RGGs have a role to play in ensuring the environmental sustainability of the sugar industry?

Mr Mortimer—The IGG and the RGGs are looking at a broad range of issues in front of the industry, and environmental issues are certainly one of those, Senator.

Mr Pittar—We would add to that too that one of the key tasks for the IGG is to commission an environmental audit to look at environmental issues associated with the industry. The IGG has recently called for tenders for that work and is in the process of assessing the tenders that came forward as part of that exercise.

Senator O'BRIEN—In relation to that environmental sustainability of the sugar industry, will this include protection of the Great Barrier Reef?

Mr Mortimer—I guess the IGG will consider all relevant issues. As Mr Pittar commented, they are commencing an environmental audit that will look at all the issues in front of it.

Senator O'BRIEN—When is it expected that funding will begin to flow under the plan being developed by the IGG?

Mr Mortimer—We are certainly hopeful that can be done as soon as possible. The money has been provided to be available from the beginning of the 2003-04 financial year. As I mentioned earlier, the IGG are looking to bring in a report by the end of June. They are working as hard as they can to deal with the issues in front of them.

Senator O'BRIEN—Are you telling us that their work is well advanced or at a formative stage?

Mr Mortimer—I think they are well into it is fair to say, Senator. I am aware that—and Mr Pittar referenced the environmental audit—they are doing work in terms of the use of cooperatives as a mechanism for managing farming in the sugar industry. I gather there have been recently seminars on that through parts of Queensland, and they are also looking at issues to do with diversification for the sugar industry. So while I cannot speak definitively, certainly there is evidence that they are well advanced on their job.

Senator O'BRIEN—Given the interrelationship between the RGGs and the IGG, just how long has the process of selection and appointment of those regional guidance groups been proceeding?

Mr Mortimer—It has been proceeding for some months, I guess it is fair to say. As I mentioned earlier essentially—

Senator O'BRIEN—All of this year?

Mr Mortimer—I am not sure exactly when it started, but essentially it depends upon getting agreement between the Commonwealth and the Queensland governments.

Senator O'BRIEN—What is the process for putting names forward? Who puts the names forward for the guidance groups?

Mr Mortimer—I am not sure—

Mr Pittar—Essentially, as I understand it, it has been a process of informal consultations and interactions between the Commonwealth—

Mr Mortimer—Sorry, I think I can answer that more explicitly. I see in my notes that advertisements were placed in regional newspapers inviting applications for the membership, and those expressions of interest were then considered by the Commonwealth and Queensland ministers.

Senator O'BRIEN—When was the advertisement?

Mr Mortimer— November 2002.

Senator O'BRIEN—Was there a period by which expressions of interest had to be made?

Mr Mortimer—I do not have that detail with me, Senator.

Senator Ian Macdonald—I think there was.

Senator O'BRIEN—It is well past, I would think.

Senator Ian Macdonald—It is well past.

Senator O'BRIEN—So presumably there is a list of names for each of the regional guidance groups sitting there awaiting selection/approval?

Mr Mortimer—There is a list of names there that has not been finalised.

Senator O'BRIEN—Has the size of each regional guidance group been agreed? How many people will sit on it?

Mr Mortimer—I expect there is some sense of that.

Senator Ian Macdonald—More or less, I do not think it is a hard and fast rule. Different regions will be different, depending on good people who make themselves available.

Senator O'BRIEN—How many consultations have there been with the Queensland government over the issue of the composition of regional guidance groups?

Mr Mortimer—I do not have a number in front of me, Senator.

Senator O'BRIEN—A lot, a few?

Mr Mortimer—There has been quite a number.

Senator O'BRIEN—On each of the groups? Are they individually dealt with or do you have a meeting where all the applications are considered?

Mr Mortimer—I think it was done jointly, in the first instance, and then those listings have been revisited from time to time.

Senator O'BRIEN—What is the process? Is there a formal face-to-face meeting or do you send an email or get on the telephone?

Mr Mortimer—I think expressions of interest with a CV would have been provided.

Senator O'BRIEN—Yes, but I mean between the Queensland and the federal governments.

Mr Mortimer—I do not think interviews were part of it. No, interviews were not conducted.

Senator O'BRIEN—Which department is handling it from the point of view of the Queensland government?

Mr Mortimer—The Department of State Development.

Senator O'BRIEN—Is it AFFA from—

Mr Mortimer—Yes, it is AFFA from the Commonwealth.

Senator O'BRIEN—Which officer in AFFA is handling that matter?

Mr Mortimer—It essentially has been handled in the branch managed by Mr Pittar, and Mr Williamson has been working with him on that.

Senator O'BRIEN—Mr Pittar, how often is there consultation with the Queensland department about the matter?

Mr Pittar—I have not been involved in the discussions directly, but there is essentially a working relationship between members of my branch and members of the Queensland department who interact informally over these sorts of matters.

Senator O'BRIEN—So there have not been face-to-face meetings about this matter?

Mr Pittar—I suspect there may have been face-to-face meetings earlier in the piece, but less so in recent times on this particular matter.

Senator Ian Macdonald—Senator, I think I know where you are going but I am not going to help you, but I think the personnel have been more or less agreed between the two governments. What the groups would actually do to a degree depends upon the passage or

otherwise of the legislation currently before the Queensland parliament. I understand that the state has not been prepared to finally sign off until some resolution of that legislation is worked out in the Queensland parliament.

Senator O'BRIEN—The state is not prepared to sign off, or the Commonwealth?

Senator Ian Macdonald—That is my understanding.

Senator O'BRIEN—That is to do with the MOU between the state and the Commonwealth, is it?

Senator Ian Macdonald—No, there is legislation before the Queensland parliament—

Senator O'BRIEN—Yes, I understand that, but is the pursuit of that legislation the subject of a memorandum of understanding between the Commonwealth and the state governments?

Senator Ian Macdonald—No, that is a matter for the Queensland parliament.

Senator O'BRIEN—So that legislation is irrelevant to this process?

Senator Ian Macdonald—As I said before, it is relevant to what some of the things the groups might do. A lot of what the groups will do is pretty well organised. Depending on what happens with that legislation, it may need to have a focus one way or the other. But they are things—

Senator O'BRIEN—If the Queensland government does not pass the legislation you are referring to, which is to do, I take it, with regulation of the sugar industry—that is the legislation you are talking about, is it?

Senator Ian Macdonald—Yes.

Senator O'BRIEN—If it does not pass that legislation, what is the Commonwealth's view with regard to its financial commitment to the sugar industry assistance package?

Senator Ian Macdonald—We are wanting to reach agreement with Queensland, but my understanding—I hasten to add it is not my responsibility—is that Queensland do not want to finalise these things until they determine what happens with their legislation.

Senator O'BRIEN—What is the Commonwealth's commitment to the sugar industry assistance package in the absence of passage of that legislation?

Senator Ian Macdonald—We have always had a view—and you can see from the work the IGG is already doing—that we want to assist the sugar industry to become more able to cope with the pressures that are put on it from time to time by any range of factors of which you would be well aware.

Senator O'BRIEN—Is the package of legislation before the Queensland parliament a package of measures which are relevant to the IGG process in terms of whether they recommend funding to assist the sugar industry?

Senator Ian Macdonald—To the IGG process, I would not have thought so.

Senator O'BRIEN—Is it relevant to the government's decision as to whether they commit their funding to the assistance of the sugar industry?

Senator Ian Macdonald—We are already—as you have heard from the figures before—quite heavily involved in assistance to the sugar industry to date. There are quite some large sums of money and more to come.

Senator O'BRIEN—What is the total financial commitment to the sugar industry in the assistance package we are talking about?

Mr Mortimer—Essentially, over the life of the package, there is some \$120 million. I think that figure has been expressed previously.

Senator O'BRIEN—Is any of the payment of that money conditional upon the Queensland government passing the legislation that we have just been discussing?

Mr Mortimer—The government has not said that, Senator.

Senator O'BRIEN—Is the answer 'yes' or 'no' or 'maybe'?

Mr Mortimer—The government has made its commitment. It has announced its intentions in terms of the support it is funding, and the figures are there in the budget statement.

Senator O'BRIEN—If the legislation is not passed, that funding will still be there and made available to the sugar industry?

Mr Mortimer—That is my expectation. I have no reason to think otherwise.

Senator O'BRIEN—Is that right, Minister?

Senator Ian Macdonald—I think you would have to go back to the original announcement. My recollection is probably no better—probably worse than others— but I think the whole package was dependent upon the Queensland government actually putting in a sum of money and it was a joint package. Were Queensland tomorrow to say, 'No, we are out,' the Commonwealth would have to review its position. The original announcement—I have it here, I can make it available to you—was by both Mr Truss and Tom Barton, the Queensland state development minister, and that sets out the basis upon which it would work.

Senator O'BRIEN—We might come back to that. I note a story on the wire dated 23 May that 'The Prime Minister recognises, in the wake of the release of the draft reef water quality plan, that assistance is needed to encourage farmers to embrace environmentally friendly practices to save the Great Barrier Reef.' I understand the draft plan will address the issue of water quality over 10 years, whereas the sugar industry reform package is funded for a life of four years. Is there a role for the IGG and RGGs in contributing specifically to this plan, or is it the case that the reef water quality plan is to be a completely independent and separately funded program?

Mr Mortimer—It is probably reasonable to say that there is not a direct compliance requirement there. The two initiatives are of related but separate tracks in the sense that what we are talking about here is a package of assistance measures designed to help the sugar industry to make it more competitive, sustainable et cetera. In reference to the reef water quality initiative, by virtue of its dealing with the reef which adjoins sugar producing areas, it is likely to deal with similar issues, but one is not dependent upon the other. Clearly they may well link, but at this stage there is no requirement that one link with the other.

Senator O'BRIEN—Is it the case that cane farmers will have to comply not only with the IGG and RGG plans, but with the reef water quality plan as well?

Mr Mortimer—That is not what I said, Senator. I said it is not possible to say how the two will interlink. They are both determined with a view to getting outcomes, which may well be complementary in some regards, but how that is done and what the outcome will be is not entirely settled.

Senator O'BRIEN—What steps is the department taking to ensure the plans are coordinated from a grower perspective?

Mr Mortimer—My expectation is that when the IGG's plan is settled, that will be looked at in terms of how it might potentially assist any other related activities, but it is already doing that effectively by undertaking an environmental audit that was referenced earlier.

Senator O'BRIEN—So that is the step you have taken: the conduct of an environmental audit.

Mr Mortimer—The IGG is doing that, yes.

Mr Wonder—More generally, we recognise the point you are making, that it would be not only a burden upon the industry but somewhat uninformed and inappropriate to let these things unfold in splendid isolation from one another. That would not be our intention. We would be looking for the opportunities to make the necessary connections.

Senator Ian Macdonald—Remember that the MOU involves a lot of other people besides sugar growers. There are a lot of other stakeholders and contributors to what some call the damage and what some say are the solutions. The MOU, the 10-year plan between both governments, is a broad thing that goes beyond the sugar industry, but obviously this arrangement will dovetail in with that and will be working towards the same goals.

Senator O'BRIEN—This is the reef water quality plan MOU?

Senator Ian Macdonald—Yes, I think that is it. It was announced by the Prime Minister and the Premier 10 days ago, I think it was.

Senator O'BRIEN—In regard to—as you term it—the sugar levy, it shows that you collect \$40 million in the 2003-04 year; \$3 million will be collected in 2002-03. When did collections actually begin?

Senator Ian Macdonald—I am sure we have been through all of this before.

Mr Mortimer—Yes, I think we have. The levy commenced on 1 January, Senator.

Senator O'BRIEN—Is the \$3 million collection amount on target?

Mr Mortimer—To date, Senator, the levy has collected, as at 23 May, \$648,741.

Senator O'BRIEN—That was the period 1 January to when?

Mr Mortimer—23 May.

Senator O'BRIEN—So it is not on track then?

Mr Mortimer—Probably the key issue that is determining the levy pace is the government's decision that the levy would not apply to existing contracts where the price was

written into the contract until it expired, so that has had the effect of slowing down collection of the levy. Our advice is that most contracts where the price is written into the contract will expire within 12 months of the commencement of the levy, and so the pace of levy collection will accelerate after then.

Senator O'BRIEN—Are you expecting a 40- to 50-fold increase in collections for the next financial year?

Mr Mortimer—We will have to wait and see. At this stage what we are saying is a significant amount of what would have been otherwise leviable product has been exempted because the government decided not to interfere with those contracts where a price had been set.

Senator O'BRIEN—I have got more questions on this but, if Senator Cherry is desperate, he can jump in.

Senator CHERRY—My questions went to the Queensland legislation Senator O'Brien was talking about and the MOU. The MOU, as I understand it, in clauses 9 to 12, talks about the Queensland and federal governments being of a broad view that some form of deregulation is needed in areas cane production land. Could you detail for me the consultation that the Queensland government went through with the federal government about the content of its state legislation.

Mr Mortimer—Essentially, there has been some discussions, both between governments and also with industry, as to the nature of what might be changed. I do not have dates in front of me in terms of actual meetings et cetera, but it is fair to say that there has been broad ranging consultation, particularly within Queensland between the government and the sugar industry.

Senator CHERRY—I am interested in your department and the Queensland government: have you inputted into the development of that legislation?

Mr Mortimer—I would not say inputted; we were consulted at a couple of points about the nature of what was proposed.

Senator CHERRY—At what points were you consulted?

Mr Mortimer—I think it is fair to say it was late in the piece.

Senator CHERRY—So those meetings would have been in April or March?

Mr Mortimer—That is probably about right.

Senator CHERRY—At that point the Queensland government had a fixed view and they were seeking your views or were you asked to comment on them?

Mr Mortimer—We were asked our views.

Senator CHERRY—What were your views?

Mr Mortimer—Our views essentially are related to the consequences of any changes and what that might mean in terms of reform for the industry. We gave comments but we did not actually say 'yes' or 'no,' or anything like that; that was not consistent with our role.

Senator CHERRY—Has the department done any analysis of the CIE report?

Mr Mortimer—Yes.

Senator CHERRY—Is that able to be made available to the committee?

Mr Mortimer—I will take that on notice in terms of whether it is appropriate to provide departmental advisings.

Senator CHERRY—What was the broad view in the department's analysis of the CIE report? Was it broadly supported?

Senator Ian Macdonald—I do not know that the department has a view. The department would have read it for the purpose of giving advice to the minister and, as such, it is not something we normally talk about in the estimates committees. The officer was saying he would take on notice, which I would do as well, but I would be doubtful that we would release publicly the department's advice to the minister.

Senator CHERRY—An analysis of the document would be fairly significant in terms of determining what were the views presented from the government to the Queensland government. I am interested in exploring what those views were, particularly as to the extent to which the department was supportive of the propositions in that particular legislation.

Mr Mortimer—What the minister is noting is that the department does its analysis, and that is fine to consider what would be the case before and after and it can give any views, but, at the end of the day, that is an issue for the minister.

Senator CHERRY—The MOU makes it clear that there should be a further memorandum of agreement—I forget the proper term; is that correct?

Mr Mortimer—Communique is the language you are looking for, Senator.

Senator CHERRY—Yes. Is there a draft of that floating around or have discussions started on a formal communique?

Mr Mortimer—At this stage we do not have a communique and essentially one has not been developed.

Senator CHERRY—So the Queensland government release of its legislation is technically in breach of that MOU?

Mr Mortimer—No, the MOU actually says that the governments agree that, once all the necessary changes are identified, a communique will be signed between the Commonwealth and Queensland reflecting a joint position on the issue. I think what they are signifying is that there is not a joint position on the issue.

Senator CHERRY—But Queensland is acting anyway.

Mr Mortimer—That is right.

Senator CHERRY—I know you discussed this to some extent with Senator O'Brien, but does that decision impact on any funding decisions under the sugar assistance package? If Queensland does proceed with legislation without a signed communique, does that affect funding decisions from the government?

Mr Mortimer—It certainly does not in terms of things like the interest rate subsidy, income support and such like. I think the minister has indicated earlier that in terms of its assessment beyond that, it is really a matter for the government to decide.

Senator CHERRY—Have you got any analysis of the CS First Boston report released by cane growers which was in response to the CIE report?

Mr Mortimer—Again, the department has done analysis of that.

Senator CHERRY—Again, I will take it on notice, but I would not mind getting your detailed views on both of those reports. That will do me for the moment. I will see what comes up from Senator O'Brien's next lot of questions.

Senator O'BRIEN—The department took a question on notice in February relating to work on determining sugar tax compliance costs. Your answer refers to two emails received on 17 December and 24 December from Sugar Australia. Those emails refer to year 1 costs to that one business of between \$350,000 and \$500,000, with an ongoing annual cost of around \$1 million. Has the department sought a confirmation from Sugar Australia of their actual set-up costs?

Mr Mortimer—I think we say in the answer that we have not undertaken any independent assessment to verify these claims.

Senator O'BRIEN—Have you done any further work on the compliance costs, or do these two emails represent the full extent of your analysis?

Mr Mortimer—I am not sure whether any more has been done. I would have to check with our levies people as to whether there were any more discussions with companies about that.

Senator O'BRIEN—How many applications for sugar tax export rebate have been received?

Mr Mortimer—Six applications for refund have been received.

Senator O'BRIEN—What is the average processing time?

Mr Mortimer—I would have to take that on notice, I do not have that detail in front of me.

Senator O'BRIEN—If you can tell me what is the average time between receipt of the application and the receipt of the rebate or effectiveness of the rebate, whichever is more appropriate.

Mr Mortimer—Okay, that is fine.

Senator O'BRIEN—Are you able to advise the average claim size?

Mr Mortimer—I have some information about that here. The total amount refunded is \$1,504.

Senator O'BRIEN—Over six claims?

Mr Mortimer—Over six claims. I am not sure whether there is any consistent trend there or whether they vary.

Senator O'BRIEN—Is there an assessment of the expected rebate for 2003-04?

Mr Mortimer—I do not think I have that, Senator. I am not sure whether that is being done—it is a difficult one to assess.

Senator O'BRIEN—Going back to the MOU of 25 September 2002 between the Commonwealth and the Queensland government, it identifies three areas dealt with by the Sugar Industry Act in 1999 which seemed to impede change. They are the cane production area system, the compulsory bargaining system and the compulsory acquisition of raw sugar for marketing and selling within the domestic market. Can you tell me what discussions this department has had with the Queensland government at a departmental level in relation to the form of this legislation?

Mr Mortimer—I have effectively answered that in response to Senator Cherry's questions a minute ago.

Senator O'BRIEN—In relation to the form of the legislation?

Mr Mortimer—As I said earlier to Senator Cherry, Queensland had discussions with us about the nature of the legislation as they proposed it and we provided some comment to them on that.

Senator O'BRIEN—Which of those three areas is the legislation relevant to—the cane production area system, the compulsory bargaining system and the compulsory acquisition of raw sugar for marketing and selling within the domestic market?

Mr Mortimer—I think the legislation is relevant to all three, Senator.

Senator O'BRIEN—Which were the three areas identified in the MOU of 25 September 2002.

Mr Mortimer—That is exactly right, Senator.

Senator O'BRIEN—There was a high degree of consultation between the Commonwealth and the Queensland government about the structure of the sugar package before the MOU was signed. That is fair to say, isn't it?

Mr Mortimer—That is fair comment, yes.

Senator O'BRIEN—When did the department see the Queensland sugar industry legislation, particularly the Queensland Sugar Industry Other Legislation Amendment Bills 1 and 2 of 2003?

Mr Mortimer—I do not have a date with me on that—possibly March or April, but I am not entirely sure. I have just been advised that we saw it after it was tabled.

Senator Ian Macdonald—After it was introduced into the Queensland parliament.

Senator O'BRIEN—When did they first appear on the Queensland government web site?

Mr Mortimer—I do not know, I am sorry—I do not have that detail.

Mr Banfield—Senator, the point that Mr Mortimer is making is that we did have broad discussions with Queensland officials about aspects of the legislation but, to my knowledge, we did not actually see the specifics of the legislation until after it was introduced into the Queensland parliament.

Senator O'BRIEN—We have established that the legislation addresses the three issues we have referred to that were the subject of a memorandum of understanding between the Commonwealth and the state on 25 September last year. Are there any sections in the legislation to which the federal government objects? Senator Macdonald might care to answer that.

Senator Ian Macdonald—No, I would have to take that on notice, Senator.

Mr Banfield—It is fair to say that one aspect that certainly Minister Truss has been concerned about in relation to this is the consultation with the industry. He has been quite concerned that the industry be fully consulted in terms of the changes of the legislation, so that has been certainly uppermost in his mind.

Senator O'BRIEN—Can you confirm a statement by Minister Truss to an industry forum last week that, if there is no deal with Queensland on the legislation, the minister will terminate the sugar tax subject to current liabilities?

Mr Mortimer—I have to say I am not aware of that statement.

Senator O'BRIEN—Can you take that on notice?

Senator Ian Macdonald—I will take it on notice.

Senator O'BRIEN—If the Queensland legislation passes, will the federal government fund the sugar package to the full extent of its promise?

Mr Mortimer—We have referenced this in some previous comments, Senator. Essentially, it is a government decision; Senator Macdonald has taken you through the issues.

Senator O'BRIEN—Has the government made such a decision?

Senator Ian Macdonald—As I said before, there is a joint agreement and it is conditional upon Queensland making a contribution to the money.

Senator O'BRIEN—Thirty million, which I think they have committed.

Senator Ian Macdonald—I am not aware that that has been absolutely committed or budgeted for.

Senator O'BRIEN—In this year's budget it was announced that ethanol producers—I am not sure if the plural really applies—will receive a production subsidy to fully offset the excise of 38.143 cents per litre until 30 June 2008. What work has the department done on sugar cane and its by-products as feedstocks for ethanol?

Mr Banfield—This is really an issue that is handled under our natural resource management business output, so it might be better to take those questions up under that.

Senator O'BRIEN—Any questions about work the department has done in relation to the subsidy effect on different feedstocks would be appropriate to be asked there and not now?

Mr Wonder—Yes, that is any questions you have relating to ethanol or the like, to the extent that our department can assist you with those—bearing in mind that these are not responsibilities that AFFA is involved in overall. We do have some involvement, as you will see from our estimates, in some aspects such as the ZeaChem grant and the like, but to the

extent that we can address the ethanol question we could do so in the natural resources management part of the program.

Senator O'BRIEN—Touching on ZeaChem on page 21 of the PBS, why is the funding listed on output 1 and not output 3, Industry development?

Mr Wonder—For the reason I just said. It is part of the natural resources management part of the portfolio—output 1 is natural resources management.

Senator CHERRY—Senator, before we go on to ethanol, I have one more question on sugar. Shall I put that now?

Senator Ian Macdonald—Yes, do it now.

Senator CHERRY—Just coming back to the issue of the Queensland legislation and the funding through the IGG process, you indicated that funding for interest subsidies and other assistance measures will not be affected by the Queensland legislation. You can take this one on notice if need be, but what proportion of funding could in fact be linked to the Queensland government's legislation?

Mr Mortimer—It is probably about half, Senator, because, as we have indicated in the previous discussions with Senator O'Brien—it may not be half—it is essentially the activities relating to IGG-RGGs that are of a long-term nature and also the exit assistance, but there is a question about whether it will make sense to change at this point in time. Let me just revise that. But as the minister has indicated, the regional projects will comprise about \$30 million, which is about a quarter of the \$120 million package.

Senator CHERRY—So you are saying a quarter of the package?

Mr Mortimer—What I am saying is that the regional projects element comprises a quarter of the package.

Senator CHERRY—Are there any meetings planned at this point in time with Queensland to sort through whether there is agreement on this legislation?

Mr Mortimer—As indicated earlier, there have been meetings; there may be further meetings. It really depends on the Queensland government, I guess.

Senator CHERRY—So the Queensland government is waiting for the federal government to formally tick off on its legislation and will not proceed with discussions of the RGG appointments and processes until that has occurred.

Mr Mortimer—Sorry, could you repeat that?

Senator CHERRY—Would that be where we are up to at the moment—just summarising your comments today—that Queensland is still waiting to hear back from the Commonwealth about the Queensland legislation?

Mr Mortimer—I would not say 'waiting to hear back'. There have been discussions, but essentially the legislation—it has been introduced—is a Queensland government responsibility but, in the absence of settling a shared position on that, the RGGs have not been established.

Senator CHERRY—I am just thinking of Premier Beattie's comment that he is happy to withdraw the legislation if the Commonwealth asks him for further discussions. Is the Commonwealth proposing to do that at this point in time?

Mr Mortimer—I think that is of the nature of a political challenge, but I will not comment on that.

Senator Ian Macdonald—Do not ask me; you will have to ask Mr Beattie.

Senator CHERRY—I think the question was to Mr Truss.

Senator O'BRIEN—It is a good question to Mr Truss. Can we have an answer on notice?

Senator Ian Macdonald—I will put it to him, yes.

Senator STEPHENS—Gentlemen, my questions relate to the South Johnstone Mill, and I understand from the *Cairns Post* last week that settlement has been reached between South Johnstone and cane farmers and respondents of their claims of the \$2.58 million lent to the South Johnstone Mill before it went into receivership—I am reading from the article itself. Having underwritten that \$3.375 million loan, was the Commonwealth a respondent in that claim?

Mr Mortimer—The Commonwealth is a party to the current case before the court, yes.

Senator STEPHENS—Has the department provided any funding towards that \$3.375 million?

Mr Pittar—Senator, you are correct in saying that a mediation hearing took place last week. Details of any settlement arrangement between the parties are still subject to a confidentiality agreement between all parties, so we are not in a position to talk about any details of the settlement at this stage of the game.

Mr Mortimer—If I can expand on that, the mediation hearings were heard last week. They now need to be put formally to the Commonwealth minister and the minister needs to indicate acceptance or otherwise, and that is the situation we are currently in.

Senator STEPHENS—Do I understand from what you just said it still needs to have the approval of the minister?

Mr Mortimer—That is right, yes.

Senator STEPHENS—When is that expected to take place?

Mr Mortimer—The mediation agreement asked for a settlement within four weeks of the date of the mediation hearing, which I think was last Wednesday. There is a clause there it could be on another date if agreed to the mutual satisfaction of all parties.

Senator STEPHENS—I am referring to the article again in the *Cairns Post*:

It is believed an earlier offer made to all 290 growers by the Commonwealth government and repeated at the application hearings is a key factor in the settlement.

Is that the case?

Mr Mortimer—All factors are important. The Commonwealth had put an offer on the table, as the newspaper article indicates, and that would have been part of the discussions at the mediation, I expect.

Senator STEPHENS—Did the department contribute to the legal and mediation costs?

Mr Mortimer—I guess the costs will be settled as part of that arrangement. In the first instance, we need to be funding the lawyers representing AFFA, but how the costs go is the question I cannot answer.

Senator STEPHENS—Perhaps you could check, please.

Mr Mortimer—Yes, absolutely. It depends on the outcome, essentially.

Senator STEPHENS—Yes. So you anticipate, as you say, that the minister will sign off within four weeks?

Mr Mortimer—The minister has four weeks to settle the position as to whether or not he agrees. My apologies, I am being corrected, it is actually two weeks.

Senator STEPHENS—It is two weeks?

Mr Mortimer—Yes, or, as I said earlier, a date otherwise agreed.

Senator STEPHENS—I would imagine it is not likely that the minister would not agree to the terms.

Mr Mortimer—I will not express an opinion, Senator.

Senator STEPHENS—Fair enough. I am just concerned that if the terms and conditions of the settlement are all subject to a confidentiality agreement, and if the government—and therefore taxpayers—has actually contributed significantly to the settlement, don't you think that the taxpayers have a right to know?

Senator Ian Macdonald—It is not a question of what these officers think. If it involves some expenditure of Commonwealth money, any confidentiality agreement would understand that those financial payments would appear in the budget papers every year, so I would assume any confidentiality agreement would take that into account. What I am saying is the figure will be available somewhere in all of these papers you get every budget time, so obviously it cannot be kept absolutely secret.

Senator O'BRIEN—Which means this committee is going through the budget process and could be advised.

Senator Ian Macdonald—That is correct, that is what I am saying.

Mr Mortimer—Although, in respect to your question, Senator O'Brien, it has not been actually finalised by the minister. Until the minister has made a decision, it has no particular status in terms of what expenditure it might trigger for the Commonwealth.

Senator STEPHENS—Mr Mortimer, can you outline the due diligence and the analysis that would have been undertaken by the department in terms of assessing the financial situation of the South Johnstone Mill?

Mr Pittar—Senator, I believe that on some of those issues we have been advised we should not be going into publicly, given the matter is still to be settled before the courts. So I am afraid we cannot go into any details, on the basis of the legal advice that we have been given.

Senator O'BRIEN—The minister will be pleased to hear we are generating a whole series of questions on notice because we cannot get answers here.

Mr Mortimer—I have to say that is a relatively serious issue in the sense that there is a number of parties to that disputation at law, and they would have different views as to what happened in terms of settling the arrangements around South Johnstone. That is the whole point of it being taken to court, so I think there is a fair case that, if it is still being settled as a point of law and also a point of mediation, it is not possible to answer it now.

Senator O'BRIEN—I understand that. The point I am seeking to make is that if it is possible to say that you could provide the answer on notice—which gives you until 19 June, if I recall the date that the chairman announced at the start—that might be a way of responding to these questions.

Senator Ian Macdonald—That is right and that is what we will do. But it may be that on 19 June we will be still barred from doing it. But at some time in the future I would say, if there is a figure, it will form part of the budget record.

Senator O'BRIEN—So the answers might be 'If we can respond within the time line provided, we will give you the information you are seeking. Given the court processes, the government will.'

Senator Ian Macdonald—It will either tell you what it is before 19 June or it will tell you that we cannot tell you and that you should ask again later.

Senator STEPHENS—Can I just remind the minister that Senator McLucas still has a question on notice in which several of these issues are raised. One issue that is not raised there that perhaps could be or should be is that now that the mill has gone into voluntary administration, what steps are being taken to actually recoup any of the Commonwealth's funds that are outstanding?

Mr Mortimer—After going into voluntary liquidation, the South Johnstone Mill was sold to Bundaberg Sugar; I think that is a fact. In terms of the other issue about recovering Commonwealth money, that is a matter that you referenced earlier and was picked up in the article that you quoted from the press about the offer the Commonwealth put on the table to growers. Essentially what happened was that that was overtaken by the legal action taken by some growers in the South Johnstone Mill area.

Senator STEPHENS—It is my understanding that you are saying that when the Commonwealth called up the outstanding amount of \$1.026 million this has now become part of the settlement details.

Mr Mortimer—Can you just repeat that?

Senator STEPHENS—I am quoting from the article, which suggests that, when the mill went into administration, the Commonwealth called up the outstanding amount of \$1.026 million.

Mr Mortimer—Yes.

Senator STEPHENS—My question was whether or not the Commonwealth received any of those funds or is that now part of a settlement?

Mr Mortimer—No, the Commonwealth has not received any of those funds.

Senator STEPHENS—I look forward to the answers on notice.

Senator O'BRIEN—I want to ask about the US beef quota. Earlier this year, beef exporters who paid out of quota duty for shipments cleared in 2002 were invited to submit quota certificates for refunds on the duty; we discussed this briefly in February. The department's notice to exporters dated 4 February 2003 warned that AFFA could not guarantee that all 2002 quota certificates would be accepted by US Customs for the purpose of issue of refunds. Why did the department deliver this warning?

Mr Williamson—As I understand, the department looked at the difference between what the Australian government statistics were saying in terms of entry into the US and what the US Customs statistics were telling us, and there was about a 5,500 tonne difference. We had then to allocate this. We sought the agreement of US Customs to provide for 2002 entry certificates, in effect post-entry claims after 1 January 2003. US Customs agreed to that. We looked then at how we would allocate those post-entry certificates to exporters, and it was agreed with industry that it would be allocated on a pro rata basis, with essentially the post-entry claim at 5,500 tonnes pro rataed against the over-quota of shipments at the time of 7,900 tonnes. Post-entry claim certificates were issued to exporters on that basis. They were issued to exporters on the basis that US Customs had agreed to honour those post-entry claims—that was essentially based on US Customs data and it was a matter for the US Customs, not the Australian government, to honour those certificates.

Senator O'BRIEN—Did the allocation proceed smoothly?

Mr Williamson—As far as I am aware, yes.

Senator O'BRIEN—In February, the department advised us that beef exports to the US for January were on a par with previous years. MLA statements recently say that beef exports to the US were down by as much as 20 per cent in April compared to last year. Is Australia likely to fill its quota this year?

Mr Williamson—The quota tracking so far is a little down on this time last year. The latest statistics from US Customs, as of 19 May, indicated that 117,883 tonnes of Australian beef had entered the US, compared to 127,858 tonnes for the same period last year. As to whether or not we will fulfil our quota, that is a matter for speculation, Senator.

Senator O'BRIEN—Given the rate of cattle turn-off prior to rains arriving in parts of Australia, particularly Queensland, are there any figures that show that the availability of cattle will impact on our ability to fill the quota?

Mr Williamson—That may be best directed to ABARE, Senator. I am aware that MLA have predicted that there will be some difficulty in fulfilling the quota. However, I would say that whether or not we fill the quota is really subject to a whole range of factors, not the least being the market in Japan, US demand, the whole issue of BSE in Canada and so on. Quota management will not be an impediment.

Senator O'BRIEN—Why is that?

Mr Williamson—It is a tradeable quota.

Senator O'BRIEN—You can trade it permanently?

Mr Williamson—You can trade it permanently if you so choose.

Senator O'BRIEN—Has the discretionary quota been allocated for this year?

Mr Williamson—Not as yet, Senator. Certainly applications are being called for discretionary quota and applications are being considered now by the quota management panel.

Senator O'BRIEN—What is the relevance of that process this year? It was relevant in the first year but what is the relevance this year?

Mr Williamson—Essentially, 15,000 tonnes of quota was set aside for discretionary. The purpose was really to take into account any adverse impacts as a result of moving from processor of record to shipper of record. That was one of the considerations. Another consideration was whether or not the choice of base years—we were looking at 2001-02 base year—was another factor in disadvantaging particular exporters. They were the key criteria for discretionary quota allocation.

Senator O'BRIEN—I am wondering how companies are disadvantaged this year, given that presumably everyone knows the system.

Mr Williamson—The system did change from a process of record allocation—in other words, the quota was allocated to a processor as opposed to an exporter per se. There are a significantly larger number of exporters than there are processors, so in effect the people who receive the quota—in some cases, not in all—were different this year than they were last year. That, in theory, created some disadvantage.

Senator O'BRIEN—In February we discussed a number of unresolved claims by dairy farmers for assistance under the dairy industry adjustment package. According to the answer to a question on notice, four dairy structural adjustment applications and three supplementary dairy assistance applications were outstanding, with another 176 entity claims submitted in a class action application. Can you provide the committee with an update on what is happening with those matters?

Mr Williamson—Senator, I will deal with the last section for a start. To clarify that, the class action is in relation to an application by 176 farmers or entities, as we refer to them, for a discretionary payment under the Supplementary Dairy Assistance Scheme. The Dairy Adjustment Authority first considered this application for a discretionary payment on 17 February 2003. This was reconsidered on the request of the 176 by the Dairy Adjustment Authority on 19 May and a decision was mailed out to these farmers on 22 May 2003, and I am not aware of the decision that was made by the DAA. I understand that farmers should be receiving that mail-out today or tomorrow. I am sorry, Senator, what were the other questions that you were asking?

Senator O'BRIEN—I just wanted an update on the four Dairy Structural Adjustment Program and three Supplementary Dairy Assistance applications that were outstanding, as well as the 176 entity claims for class action.

Mr Williamson—In terms of the Dairy Structural Adjustment Program, there are still two yet to be completed. They are subject to probate.

Senator O'BRIEN—Two have been dealt with. What were the outcomes?

Mr Williamson—I would have to take that on notice, Senator.

Senator O'BRIEN—So, in other words, estates have been wound up?

Mr Williamson—Yes. It is a complex legal matter. Regarding the Supplementary Dairy Assistance Scheme, in terms of reviews under a supplementary market milk payment criteria, 492 reviews have been completed. In terms of discretionary payment right applications, a total of 285 reviews have now been completed if you take into account the 176-member class action. Excluding the class action, of the 119 that were completed, 20 were resolved in favour of the applicant. In proportional terms, the original decision was confirmed in 82 per cent of the cases and varied in 18 per cent of the cases. I emphasise that this is not including the 176.

Senator O'BRIEN—What happened with the Martin case, which we were told was the sole appeal lodged with the Federal Court in relation to the Dairy Structural Adjustment Program.

Mr Williamson—The Martin case is still before the courts. I understand the hearing is scheduled for August and, beyond that, I am not able to provide any further information. I am happy to provide DAA legal costs in respect of the Martin case.

Senator O'BRIEN—Yes, perhaps you could tell us those.

Mr Williamson—In total, it is \$61,407.

Senator O'BRIEN—To date?

Mr Williamson—To date.

Senator O'BRIEN—Without the substantial hearing?

Mr Williamson— That is correct.

Senator O'BRIEN—Is there any change to the position with regard to costs? I understand Ms McPherson told the committee the DAA would not seek a costs order against the Martins and would not oppose an application by the Martins for a costs certificate for payment of their costs if their appeal was unsuccessful.

Mr Williamson—I have received no information that would contradict that statement, Senator.

Senator O'BRIEN—Thank you for that. Expenditure details for the National Food Industry Strategy are on page 21 of the PBS. In last year's PBS, estimated expenditure for the National Food Industry Strategy Centres of Excellence Program in 2002-03 was \$2.1 million, yet in this year's PBS the estimated expenditure for 2002-03 is \$900,000. Why is there an estimated underspend of \$1.2 million this financial year?

Mr Souness—There appears to be an underspend for centres of excellence—I think that was the subject of your question, Senator—due to the start-up of the program. There are a number of reasons. The resolution of the contract with the company NFIS Ltd was resolved on 24 October this year.

Senator O'BRIEN—This year?

Mr Souness—Sorry, last year—2002. Guidelines for that program were developed and eventually signed off by Minister Truss on 13 March. Subsequent to that, on centres of excellence there was consideration last week by an assessment panel of five applications and that has been narrowed down to a tentative two, and there are some final negotiations with the bidders for that program.

Senator O'BRIEN—How will that impact on the amount of money to be spent? We are near the end of the financial year and tenders have not yet been accepted.

Mr Souness—Over the five-year life of the program, it is not anticipated that there would be an impact. There has been agreed rephasing and reprofiling of the program funds, such that this year's \$1.2 million will be carried over to years 2003-04 and 2004-05. The total amount will not change.

Senator O'BRIEN—So the \$900,000 will be committed to some of the tenderers that are subject now to consideration?

Mr Souness—Yes, Senator.

Senator O'BRIEN—All of it?

Mr Souness—Yes.

Senator O'BRIEN—Even if not spent this year?

Mr Souness—It is anticipated that the two successful bidders will be finalised next month and that the \$900,000 will be committed to those two programs.

Senator O'BRIEN—Will they receive a cheque or just sign a contract?

Mr Souness—There will be an initial payment with the finalisation of the contract as well.

Senator O'BRIEN—That which is not paid to them this year will be carried forward into next year?

Mr Souness—As part of the agreed rephasing and reprofiling, yes.

Senator O'BRIEN—In addition to the \$1.2 million?

Mr Souness—No, not in addition. It is anticipated that \$900,000 will be committed to the centres of excellence this year; \$1.2 million will be carried over to 2003 and 2004-05.

Senator O'BRIEN—With regard to the NFIS Food Innovation Grants Program, according to the PBS just \$1.9 million of its \$4.7 million allocation will be spent in 2002-03, yet Mr Truss announced grants worth \$5.7 million on 28 April. Can you clarify the Food Innovation Grants Program spending?

Mr Souness—Yes. We have an agreed rephasing and reprofiling of \$2.8 million from the 2002-03 budget across to 2003-04 and 2004-05. The first round of food innovation grants, or FIG grants, was announced in April for nine grants. A second round has closed and is currently being assessed for grants as well, but we are advised by the company that \$1.9 million approximately will be passed on this financial year for grants.

Mr Mortimer—In terms of the minister's comment, what he was doing in the press release was announcing the total commitment of funding for those projects over more than one year.

Senator O'BRIEN—How were the other programs funded while this strategy is proceeding?

Mr Souness—We are advised that the programs are on schedule and are expected to expend their funds for the financial year.

Senator O'BRIEN—So that is the Food Chain Program, Food Management Development Program, Food Market Development Program, as well as the food innovation grants and centres of excellence initiatives.

Mr Souness—Yes.

Mr Mortimer—Yes, essentially there are much smaller amounts of funding there, Senator, and they have not had to face the same development steps that need to be done for programs of the significance and extent of the centres of excellence and the Food Innovation Grants programs.

Senator O'BRIEN—I want to ask you about the Tasmanian Wheat Freight Scheme which offsets the cost of transporting bulk and containerised wheat from mainland Australia to Tasmania. Page 60 of the PBS says:

The scheme will continue at the present level of funding until 2004–05, at which time a review will occur to consider future funding.

Did the budget extend the scheme or merely confirm the previous commitment by the government to fund until 2004-05?

Mr Mortimer—Essentially there was a previous commitment to fund for the next two years. The government has confirmed that and that is why you will notice that the money is not shown as a new measure under this year's budget. What you have said is right, and the government has reaffirmed that commitment and made the decision that is set out in the budget papers.

Senator O'BRIEN—Why then did Minister Truss's budget statement about the scheme use the title 'Budget extends Tasmanian wheat shipping program'?

Mr Mortimer— I think the minister was simply drawing attention to the government's commitment.

Senator O'BRIEN—To extend the program or to—

Mr Mortimer—To provide the funding.

Senator O'BRIEN—I see. So that was misleading.

Mr Mortimer—I would not say that, Senator.

Senator O'BRIEN—It did not extend it, did it? It was already committed.

Mr Mortimer—It did in the sense that the government could have not extended it.

Senator O'BRIEN—It did not extend it; the money was already committed. Where does the word 'extend' come into it?

Mr Mortimer—Because they confirmed it, and previously –

Senator O'BRIEN—They confirmed, not extended, it. That is true, isn't it?

Mr Mortimer—I am not sure what I can say to that, Senator.

Senator O'BRIEN—I know it is embarrassing to have to say that it is misleading, but it is misleading, isn't it?

Mr Wonder—We did not say that.

Mr Mortimer—No, I am not saying that at all. I am simply saying it is—

Senator O'BRIEN—I know that I said that, because it is misleading, isn't it, Mr Wonder?

Mr Wonder—I just wanted to make sure that you understood that the office did not say it was misleading.

Senator O'BRIEN—It is misleading, isn't it, Mr Wonder?

Mr Wonder—That is your suggestion, Senator, not mine, and I am not commenting on your stuff.

Mr Mortimer—The essence of the issue is that previously the numbers were provisional. They could have been changed or taken out but they were confirmed, so essentially the government made that decision.

Senator O'BRIEN—The Tasmanian Wheat Freight Scheme was subject to a comprehensive review in 2000 and 2001. The Centre for International Economics published an issues paper, consulted with industry and government and provided Mr Truss with a report, which Mr Truss released for feedback, and this department held consultation meetings in the ACT, Victoria and Tasmania. The deadline for written submissions was 31 August 2001. How much did that review cost and what has happened since it was conducted?

Mr Mortimer—We do not have that figure in front of us so it is not possible to say.

Mr Wonder—This is the cost of the previous review, Senator?

Senator O'BRIEN—Yes.

Mr Mortimer—We simply do not have that information in front of us.

Senator O'BRIEN—What has happened since it was conducted?

Mr Mortimer—The review has been considered by the government and it has at this stage decided not to vary the current arrangements.

Senator O'BRIEN—Will you have another review at the end of 2003-04. Is that the decision?

Mr Mortimer—The paper, at page 60 of the PBS as you indicated, says:

This measure will involve funding of \$1.2 million in 2003-04 and \$1.2 million in 2004-05 at which time a review will occur to consider future funding.

Senator O'BRIEN—Have the Tasmanian government or industry groups contacted Mr Truss or the department about the government's response to the CIE report?

Mr Pittar—The CIE report, as you mentioned earlier, was used as a basis for consultation with industry and government, including the Tasmanian government. AFFA officials were involved as part of the discussions and consultations over the CIE discussion paper.

Senator O'BRIEN—Have there been discussions since 31 August 2001?

Mr Pittar—I do not have those details.

Mr Mortimer—I do not have that in front of me, Senator.

Senator O'BRIEN—Has there been contact made by the Tasmanian government or Tasmanian industry groups since 2001 with regard to the CIE report?

Mr Mortimer—I expect that has been the case. I am certainly conscious that Tasmanian government officials have made contact about the issues.

Senator O'BRIEN—How has the department responded to those initiatives?

Mr Mortimer—The department has essentially pointed out that it is a matter that the government is considering.

Senator O'BRIEN—Since the end of 2001, that has been the position?

Mr Pittar—That is correct.

Senator O'BRIEN—Until the budget, the response from the department throughout 2001, 2002 and part of 2003 was that the matter was under consideration?

Mr Pittar—Yes.

Senator O'BRIEN—The review of the scheme in 2004-05 is foreshadowed, as you say, on page 60 of the PBS. It does not seem to match the intention conveyed in the minister's statement of 13 May which said:

After a review, and extensive consultation with industry, the Government is considering changes to the TWFS.

Will the government review the program as per the PBS announcement or announce changes based on the previous review?

Mr Mortimer—The PBS statement is pretty bald, I think it is fair to say, Senator. It simply references that there will be a review. As you comment, Minister Truss has made some other comments in his press statement of 13 May, and they are set out there. We cannot really say much more than that except to say that the minister has referenced some issues and the government will consider it in the light of those matters.

Senator O'BRIEN—So on 13 May the government was considering changes to the Tasmanian Wheat Freight Scheme after a review and extensive consultation with industry. That was certainly true: there had been a review and there had been extensive consultation with the industry and the government was considering changes to the Tasmanian Wheat Freight Scheme. Do I understand that part of the press release accurately?

Mr Mortimer—The press release simply says that there is going to be a review.

Senator O'BRIEN—Can you quote the words you are referring to.

Mr Mortimer—The third-last paragraph says:

After a review, and extensive consultation with industry, the Government is considering changes to the TWFS.

Senator O'BRIEN—Yes.

Mr Mortimer—Then it references the original objective of the scheme, and then it makes comment on what the scheme does.

Senator O'BRIEN—So on 13 May the government was considering changes to the Tasmanian Wheat Freight Scheme. Do I understand that correctly?

Mr Mortimer—I do not think that is quite what I said, Senator.

Senator O'BRIEN—I know what you said, but I am looking at the words here. On 13 May the minister said:

After a review, and extensive consultation with industry, the Government is considering changes to the TWFS.

Mr Mortimer—That is right, Senator, that is what the—

Senator O'BRIEN—So on 13 May the government was considering changes to the TWFS?

Mr Mortimer—I think the simplest way of putting it is that the government is indicating that it is prepared to consider changes to the scheme, and that will be done in the light of a range of factors. I really cannot say much more than that.

Senator O'BRIEN—It is considering changes, but you are going to have a review in 2004-05. Is that how I should understand the position?

Mr Mortimer—That is right, Senator.

Senator O'BRIEN—What changes is the government considering?

Mr Mortimer—I am not in a situation to say. It is not possible to say at this point.

Senator O'BRIEN—Are there any specific changes the government has considered?

Mr Mortimer—There is nothing specific that I can say.

Senator O'BRIEN—Can you take that on notice and respond?

Mr Mortimer—Yes.

Senator O'BRIEN—We could not be too confident the scheme will continue past 2004-05, could we?

Mr Mortimer—I would not comment, Senator.

Senator O'BRIEN—If there is to be a review conducted in 2004-05, how many reviews will that be that there have been on this scheme?

Mr Mortimer—I will take that one on notice.

Mr Wonder—Over what time?

Senator O'BRIEN—Since it was established.

Mr Pittar—I believe there was a review in the early 1990s, and the review that took place in 2000.

Senator O'BRIEN—And no others?

Mr Pittar—Not that I am aware of.

Mr Mortimer—It is normal practice that all programs are reviewed every three years or so as they are rolled over and re-examined.

Senator O'BRIEN—With regard to the reference in the press release of 13 May to the Tasmanian Freight Equalisation Scheme, wasn't the issue referred to in the press release the subject of the CIE review?

Mr Pittar—It was one of the elements that was covered in the CIE review.

Senator O'BRIEN—Is there an intention to review that matter again?

Mr Pittar—The CIE review mentioned a number of options, including the Tasmanian Freight Equalisation Scheme, so that will be a factor that will be considered in the context of the 2004-05 review mentioned in the media release.

Mr Wonder—The government has decided to continue the Tasmanian Wheat Freight Scheme and, yes, the review was conducted. It has been foreshadowed that a further review will be conducted in 2004-05, and the government has budgeted for the \$1.2 million to be included in 2003-04 and 2004-05. So the scheme continues and it will be reconsidered in 2004-05. I do not think there is anything more than that.

Senator O'BRIEN—I understand the numbers, or lack of them, on page 60 to mean that those 2003-04 and 2004-05 years were already set out in forward estimates.

Mr Wonder—Yes, they were provisional forward estimates.

Senator O'BRIEN—I am ready to go to output 4, Market access and biosecurity. On 16 May, Biosecurity Australia issued Plant Biosecurity policy memorandum 203/12 dealing with the revised import conditions for Californian table grapes. The memorandum mentions that technical comment was sought from stakeholders. Which stakeholders were consulted by the department, when were they consulted and what time frame were they given in which to respond?

Ms Harwood—The stakeholders who were consulted were the members of the Australian Table Grape Association Council—essentially the committee of that which comprises the reps from around Australia—as well as the table grape committee of the Queensland Fruit and Vegetable Growers organisation. The consultation started in March and went over a period of about two months before we announced the policy.

CHAIR—What percentage of the growers do those bodies represent?

Ms Harwood—Sorry, we also consulted the Winemakers Federation of Australia. So as far as table grape growers are concerned, my understanding is that although the department was talking with the peak industry bodies that meant all the main representatives for the grape industry in Australia.

CHAIR—What percentage of the growers are actually signed up to those organisations?

Ms Harwood—I am sorry, I do not know the answer to that question.

Mr Wonder—Would you like us to come to it on notice?

CHAIR—The farm organisations get about a 50 per cent sign-up rate, and I am curious as to how many people bother to join those sorts of organisations.

Mr Wonder—We will follow up on that, Senator.

Senator O'BRIEN—Does that mean that the revised import conditions were on the table for two months, or is that something that developed within the period?

Ms Harwood—No, the basics of the revised regime were on the table for two months, as you say.

Senator O'BRIEN—Were there any groups that expressed serious concerns about these new arrangements?

Ms Harwood—There were a number of technical issues raised by stakeholders in those discussions and also in written comments submitted to us. They are analysed in the document that is at the back of the policy memorandum.

Senator O'BRIEN—Were they, in Biosecurity's view, serious concerns?

Ms Harwood—They were issues that we considered were addressed by the regime as it was proposed, and we talked through those issues with the stakeholders concerned.

Senator O'BRIEN—So they are at the back of the announcement?

Ms Harwood—Yes.

Senator O'BRIEN—That is attachment 1.

Ms Harwood—It is an attachment to the memorandum 2003.

Senator O'BRIEN—Yes, it is a 10-box stakeholder comment on issues and Biosecurity responses.

Ms Harwood—That is right.

Senator O'BRIEN—What involvement did American trade or agricultural authorities have in the design of arrangements announced on 16 May?

Ms Harwood—There have been various discussions with them, but there was a meeting in Canberra in mid-March talking through proposed changes to the regime to reflect the quarantine information gathered during the first year's trade. So they were involved in discussions of and working out the elements of the new regime.

Senator O'BRIEN—What was the involvement of DFAT or the trade minister on the issue?

Ms Harwood—On the technical side, this has been a process entirely between AQIS and Biosecurity Australia.

Senator O'BRIEN—So they have had no role at all on the technical side?

Ms Harwood—As I said, these conditions were developed directly between AFFA and AQIS.

Senator O'BRIEN—Was any other department or ministerial office involved?

Ms Harwood—Not that I am aware of.

Senator O'BRIEN—Perhaps you could check that, just to be sure. Your memorandum states that the new protocols involved provision for fumigation on arrival in Australia. How does this differ from the situation last season?

Ms Harwood—Last season, the choice of fumigating onshore or offshore was not there; that is, all fumigation took place offshore in California.

Senator O'BRIEN—What is the relevance of that change?

Ms Harwood—The condition from the year before related to some augmented quarantine conditions put in place around the issue of uncertainty relating to glassy-winged sharpshooter. Essentially, the change is a reflection of the fact that no sharpshooters dead or alive were found in the first year's trade, nor in any other US exports, so it was possible to move to a less trade restrictive regime.

Senator O'BRIEN—Why is it less trade restrictive to fumigate here than in the United States?

Ms Harwood—It is less harmful to shelf life to fumigate just before trading than before the journey to Australia.

Senator O'BRIEN—How does it affect residues?

Ms Harwood—I do not know the answer to that, but that is not an issue that we consider in the quarantine risk analysis.

Senator O'BRIEN—What is the scientific or statistical basis for the change in the sample size from 900 to 600 bunches?

Ms Harwood—It is a standard sampling regime for fruit and vegetable commodities.

Senator O'BRIEN—What does the change to the methyl bromide fumigation arrangement mean?

Ms Harwood—It is the same thing—it is aligning it with the Australian standard treatment schedule.

Senator O'BRIEN—Are there any cost savings to AQIS or Biosecurity Australia as a result of these changes?

Ms Harwood—I do not know the answer to that question, I am sorry.

Senator O'BRIEN—Can you find out?

Ms Harwood—Yes, we can take them on notice.

Senator O'BRIEN—And tell us what they are if there are any. I note from the media release of 21 May that the Queensland Fruit and Vegetable Growers are refusing to enter into any cost sharing arrangements with the government in relation to future difficulties. Have they communicated with the department about this matter?

Ms Harwood—There was correspondence from QFVG during the period when we were consulting with stakeholders. I do not know whether that particular matter was included in that correspondence or whether it is unique to that media statement by QFVG.

CHAIR—You said you did not find any sharpshooters. Is it reasonable to assume that there were none there?

Ms Harwood—There was certainly a high inspection rate. In terms of the first year's season, there was a large number of bunches inspected. From a statistical standpoint, it indicates that sharpshooters are not on the pathway.

CHAIR—What happens if they do get in, if they are missed under a little crevice somewhere?

Ms Harwood—The grapes are still fumigated on arrival and they are in secure quarantine conditions.

CHAIR—Can they leave and go outside the container or sit somewhere else?

Ms Harwood—My understanding is that the arrangements are such that quarantine security would be assured through to the fumigation facility.

CHAIR—But if all that fails, what are we up for? What damage will they do Australia if all that accidentally fails, like the mosaic wheat virus? What are we facing if they get out?

Senator O'BRIEN—Pierce's disease, isn't it?

Ms Harwood—If sharpshooters were to become established in Australia? I will ask Dr Stynes to comment on that.

Dr Stynes—The pest itself, the glassy-winged sharpshooter, is not a very serious pest of most commodities. However, it does transmit a bacterial disease. So Pierce's disease, which is known as a very serious disease of grapevines, was the concern about keeping the glassy-winged sharpshooter out.

CHAIR—Is it hosted in eucalypts?

Dr Stynes—Yes, it is.

CHAIR—Will it damage the eucalypt or only host itself there?

Dr Stynes—It does not appear to do a lot of damage to it.

CHAIR—Does that mean we do not know?

Dr Stynes—No, it is just the appearance is not one that you would recognise as a serious effect on the plant. The glassy-winged sharpshooter interferes with the translocation of nutrients and water, so you can get stress under certain conditions. But under most conditions, that stress would not be apparent.

CHAIR—Does it live in eucalypts somewhere that we have studied and seen the long-term effects of?

Dr Stynes—It has not been studied to that extent, but eucalypts are widespread in California now.

CHAIR—Should we be looking at that?

Dr Stynes—The evidence is that the glassy-winged sharpshooter is not transmitted with table grapes. The evidence for that is not only limited sampling that was done on the exports to Australia last year, but on all other exports from California, which comprise approximately

300,000 tonnes of table grapes per annum to 60 countries, glassy-winged sharpshooter has never been intercepted dead or alive, which would suggest very strongly that it is not in the pathway.

CHAIR—Do we know with any certainty whether, if it got in, it would damage our eucalypts?

Dr Stynes—It is not known with any certainty, as far as I am aware.

CHAIR—Is that because we have not studied it or because we have studied it and—

Dr Stynes—I am not aware of any studies having been done.

CHAIR—We do not know, in other words.

Dr Stynes—No.

Senator O'BRIEN—Is the Queensland Fruit and Vegetable Growers' position communicated to the department one of no confidence in Biosecurity Australia's handling of this matter?

Ms Harwood—I do not understand that to be the case. In fact, we have had conversations with them, talking through the technical issues they have raised, and we understood that we had addressed all of their technical concerns.

Senator O'BRIEN—In answer to question on notice 576, I was advised that the department had expended \$12,047 on a study of methyl bromide phase-out issues for quarantine disinfection. What drove this study and what were its findings?

Ms Harwood—I think I may need to ask our colleagues in AQIS to comment on that one.

Senator O'BRIEN—It just seems to me that if we are studying phasing out methyl bromide for quarantine disinfection to look at what consideration has been given to that in the context of the quarantine restrictions which have now been placed on Californian table grapes.

Dr Stynes—We are not aware that there is a phase-out of methyl bromide for quarantine purposes, so I just wonder whether the title of the project might be a bit unfortunate. There is some research work being done at CSIRO in the grains laboratory looking at alternative fumigants.

Senator O'BRIEN—Senator Macdonald told me, in answer to question 576, what the Commonwealth Department of Agriculture, Fisheries and Forestry spent on consultants in a number of financial years—and there are some numbers and details in a table—and a contract was let to Agriculture Victoria, Nairn Department of Natural Resources and Environment, for 'study of methyl bromide phaseout issues for quarantine disinfection.'

Ms Harwood—We could check with our colleagues in AQIS about that research program.

Senator O'BRIEN—The answer was given on 4 February this year.

Mr Wonder—We will check during the tea break and come back to you immediately after.

Proceedings suspended from 4.05 p.m. to 4.23 p.m.

CHAIR—We will continue the deep and meaningful questioning by Senator O'Brien.

Mr Wonder—We undertook to do what we could with regard to question No. 576 that Senator O'Brien was referring to prior to the break. We are just having a look at those papers, and I do not know that we are entirely in good shape to answer your question, Senator. I apologise for that, but if you will bear with us I will make sure that we return to that later, if that is acceptable to you.

Senator O'BRIEN—Absolutely. When we last had this sort of conversation, we spoke about the uncooked chicken meat import risk assessment, and you advised that the risk analysis panel is well on the way towards finalising the draft import risk assessment report. Is it finalised, and when do you expect the draft to be circulated?

Ms Harwood—It is not yet finalised. We expect to be circulating it soon, but we do not have a precise timeline on that.

Senator O'BRIEN—That is a delightfully vague term—'soon'. I take it that means it is imminent.

Ms Harwood—It is within the next few months.

Senator O'BRIEN—'Soon' is probably a good term then. I want to get an update for the committee on the department's role in the free trade agreement negotiations with the United States. In February we were advised that you had been providing advice to DFAT with respect to factual information on agricultural and other portfolio industries. Can you give us some examples of the factual information you have been asked to provide?

Ms Greville—Our involvement with DFAT on the free trade agreement with the United States is very close and comprehensive. We have been involved with DFAT in consultations with industry, in setting agenda for consultation and negotiation and in providing information to them to use in the negotiations with the United States.

Specifically, to answer your question, the first round of negotiations was held in Canberra in the week of 17 March. We had a significant information exchange with our American counterparts. They asked a series of detailed questions on a number of policy instruments that we use in Australia, and AFFA was involved in providing that factual information on, specifically, state trading enterprises, single desk sellers, a number of adjustment packages and industry arrangements that are in place or have been in place in Australia.

Senator O'BRIEN—What sort of state trading enterprises were you talking about?

Ms Greville—The Americans asked us a series of questions about all of our single desk selling arrangements, starting with AWB Ltd. They also asked questions about Queensland Sugar, the rice marketing arrangements—

Senator O'BRIEN—But AWB Ltd is not a state trading enterprise, is it?

Ms Greville—That in fact was part of the thrust of their questioning. The Americans do not necessarily understand our single desk selling arrangements quite as thoroughly as we do and they asked a number of questions which demonstrated their lack of understanding of some of those arrangements. Technically speaking, though, my understanding is that AWB is a state trading enterprise under the WTO definition, because it enjoys an export monopoly.

To finish my earlier answer, the Americans' particular interest was in the arrangements for exporting of wheat and other grains, sugar and rice. They also asked questions about horticulture and other industries where there are not necessarily state trading enterprises, but they were asking questions from a perspective to glean that information.

Senator O'BRIEN—Was AFFA involved in the negotiations and advising on the spot, or were those questions coming back from DFAT for your advice?

Ms Greville—No, in both of the rounds of negotiations we—specifically, I—have been part of the negotiating team. We are involved not only in preparing the written brief but also in the actual face-to-face negotiations, which involves information exchange and other activities.

Senator O'BRIEN—The AAP quotes the trade minister on 29 April as saying:

... we're spending considerable amounts of money engaging a couple of firms of lobbyists here in Washington not just to go and work on the hill, but to go and work with those industry groups.

There is nothing in the PBS about this. Is AFFA contributing to the funding of these lobbyists?

Ms Greville—No.

Senator O'BRIEN—I presume lobbyists are engaged to talk with US industry groups, including the farm lobby. What briefings, if any, have AFFA provided to these lobbyists?

Ms Greville—None specifically that I know of. Those lobbyists interact on a regular basis with Australian officials in the embassy in Washington. Embassy officials in Washington are in frequent contact with AFFA officials. So, indirectly, AFFA has contributed to the knowledge base, but there has been no specific briefing requests that I am aware of.

Senator O'BRIEN—Was AFFA consulted or asked to credential lobbyists before they were engaged?

Ms Greville—I cannot answer that question, Senator. I was not in the country at the time.

Senator O'BRIEN—Is it possible to find out?

Ms Greville—Certainly.

Senator O'BRIEN—Do I take it that you were the department's representative at the Hawaii talks?

Ms Greville—Yes.

Senator O'BRIEN—Were you the only representative of AFFA?

Ms Greville—Yes.

Senator O'BRIEN—Can you give us a breakdown of the cost to the department and any work task for the department that will specifically come out of that meeting?

Ms Greville—I can take that on notice.

Senator O'BRIEN—I also have some questions about the future of Australia's wheat trade with Iraq. On Friday, the United Nations Security Council adopted resolution 1483 on Iraq requiring the Secretary-General to terminate the operation of the Oil for Food program within six months. This resolution requires the Secretary-General to review existing contracts under

the program. Can the committee be provided with some advice about the impact of this resolution on Australian wheat growers and tell us what the future might hold for our trade with Iraq?

Ms Greville—I am just getting my thoughts straight.

Senator O'BRIEN—With some assistance.

Ms Greville—As you quite rightly stated, Security Council resolution 1483 involves the phasing out of the Oil for Food program over a six-month period. As I understand it, the phasing out of the Oil for Food program—the OFF program—over six months will allow some further activity under wheat contracts that the AWB currently has. One of our AWB wheat contracts, as I understand it, has been fully enacted. There are two other contracts: funding was allocated for one contract but there has been no funding for the other. My understanding is that some wheat has already been delivered under the first contract. Over the next six months there is the potential, depending on the need identified in Iraq, for more wheat to be traded in that time, but essentially decisions are yet to be made about the demand within Iraq for wheat under that contract.

The third contract fell into the category of 'unfunded' at the time of that resolution. While it is only speculation at this stage, it is probably likely that the AWB will need to renegotiate that contract with whoever and with whatever arrangements are in place in Iraq at the time that the OFF program terminates. Whether that is a coalition provisional authority or an interim Iraqi authority, as I understand it the AWB intends to negotiate the future of that third contract.

Senator O'BRIEN—At the expiry of the Oil for Food program?

Ms Greville—Yes.

Senator O'BRIEN—There is no possibility of it being taken up in the Oil for Food program, I take it.

Ms Greville—I am not really in a position to answer that but my understanding is that it is unlikely.

Senator O'BRIEN—What volume are we talking about in the third contract, as you describe it?

Ms Greville—My understanding is that it was 500,000 tonnes but I will check that and provide that information to you.

Senator O'BRIEN—In February we discussed an outstanding account from the Department of Finance and Administration concerning a police escort for Mr Truss during a trip to Manila. Mr Pahl told us that the account had not been paid because this department thought it was not liable. Has it been paid yet? Can we put the thriller in the Manila saga to rest?

Mr Morris—I can report that we have not paid that as yet. We are still liaising with the department of finance, seeking information from them on what guideline they are using to request that payment from us. At the moment we are still disputing that payment.

Senator O'BRIEN—We will ask again at next estimates. With regard to the Japanese snap-back legislation, Mr Truss issued a press release in July last year saying that he had extracted an assurance from Mr Takaba that Mr Truss would be consulted before a snap-back occurred. I understand there was a ministerial reshuffle in Japan at the end of September last year. What steps did the minister and the department take following Mr Takaba's assurance with the new minister? Can you tell us on how many occasions there has been written communication between Mr Truss and his Japanese counterpart on this issue?

Mr Morris—This issue is being handled by Food and Agriculture, so I will ask Mr Mortimer to make some comments on that.

Mr Pittar—I will comment on that. The minister has written a number of times to his Japanese counterpart during 2002. That has also been followed up by meetings at officials level in late December. It was followed up again with the joint industry-government delegation in early March, which also looked to utilise officials and industry from the US, Canada and New Zealand. They are facing exactly the same situation as Australian beef exporters to Japan.

Senator O'BRIEN—I had some questions on notice which remain to be answered—No. 1005 to be precise—asked in December last year. You might be able to help me now. Is the snap-back calculated on total beef imports into Japan or on a country-by-country basis?

Mr Pittar—On total beef imports into Japan, as I understand it—so imports from all sources.

Senator O'BRIEN—When do you expect the increased snap-back tariff to apply to Australian beef exports to Japan?

Mr Pittar—It is likely that the extra tariff will apply from August of this year. The Japanese fiscal year runs from 1 April. The rate of acceleration of imports into Japan is for a three-month period, say, from April through to June. They have a month of administrative time in order to get the tariff mechanisms in place. So we would anticipate it triggering or taking effect from August of this year and through until March 2004, which is the end of the Japanese financial year.

Senator O'BRIEN—What happens then?

Mr Pittar—The additional tariff would cease, depending on the extent to which imports have stayed above the corresponding period for the previous financial year. On current projections, the estimate is that the additional tariff will come off in March 2004—but that will depend on the rate of imports over the remaining years.

Senator O'BRIEN—If the rate of imports falls, will that lead to the additional tariff ceasing sooner?

Mr Pittar—No.

Senator O'BRIEN—If the rate of imports stays the same, does that mean that the additional tariff will be removed in March 2004?

Mr Pittar—If the rate of increase remains at 117 per cent of the previous corresponding period, there is the risk that the tariff might be applied again during the 2004 Japanese financial year.

Senator O'BRIEN—So they could remain for a further year?

Mr Pittar—It is a possibility which depends on the rate of growth of imports.

Mr Wonder—The critical point is whether the 117 per cent trigger is exceeded. It looks like it will be exceeded for it to apply, as Mr Pittar said, from August for the remainder of the Japanese fiscal year to March. The question as to whether or not it would go beyond that period would be an assessment of whether or not the 117 per cent has been triggered again. We do not know that at this point in time.

Senator O'BRIEN—Would that require new legislation through the Japanese parliament?

Mr Pittar—That is our understanding. It is legislation that needs to be introduced into the Japanese parliament each year.

Senator O'BRIEN—If I understand it correctly, for that to happen from March 2004 there would need to be a further increase in exports to Japan over and above those which have justified the current snap-back. Is that right?

Mr Pittar—The rate of increase is for the corresponding period last year. So, if the rate of imports, for example, for the August, September, October period this year was 117 per cent above the August, September, October period in 2002 it would be a mechanism by which the snap-back could again be triggered. The point that is important in all of this, too, is that the rate of increase of imports into Japan is a result of rebuilding following the BSE outbreak. As countries again reach their normal levels, the sensitivity of the trigger will diminish.

Senator O'BRIEN—What was the historical level of our exports of beef to Japan in August, September and October of 2002 compared to previous corresponding periods.

Mr Pittar—I am afraid I do not have the tonnage figures with me at the moment.

Senator O'BRIEN—If we rebuild to our previous levels, do you envisage further growth over the period of 117 per cent? Is there a real fear of that?

Mr Mortimer—There are a couple of things there. As Mr Pittar mentioned earlier, as the market normalises, it is unlikely that you will be seeing a growth of the order necessary to trigger the snap-back and, over time, that is likely to disappear. That is the critical thing, regardless of which country of origin the beef actually comes from. As was mentioned earlier, it is essentially the significance of increase from all sources that counts.

Senator O'BRIEN—It is not just our trading; it is others trading as well.

Mr Mortimer—That is right, other key exporters—or, from the Japanese point of view, importers—into their market.

Mr Pittar—They, of course, face exactly the same problem we face.

Senator O'BRIEN—Where do we find the raw figures upon which this decision will be based?

Mr Pittar—Ultimately, the figures come out of the Ministry of Agriculture, Fisheries and Forestry in Japan, which records the rate of imports from various destinations.

Senator O'BRIEN—Are they published somewhere so you can look at what the benchmark is?

Mr Pittar—We tend to get that information via our embassy in Tokyo and also from the MLA—Meat and Livestock Australia—officers who are based in Tokyo. I am not sure whether they are simply securing information that is publicly available in Japan. We can find out for you.

Mr Wonder—I think that we are able to get the figures. I do not think access to the information has been a particularly large problem. It is simply whether the comparisons that are being made now, in terms of whether or not the 117 per cent being generated is in this post-BSE environment. If you compare the numbers that apply now against the pre-BSE imports, you do not get anywhere near the 117 per cent.

Senator O'BRIEN—So you are saying that the basis for the snap-back is flawed.

Mr Wonder—I was involved with the industry-government delegation that went to Tokyo in March, and that was at the centre of the case that was being put. We thought it was totally inappropriate to be looking at the post-BSE numbers rather than numbers that were not prejudiced, if you like, by that amount.

Senator O'BRIEN—Can the department supply the committee with the basic data on which this matter will be assessed?

Mr Mortimer—Yes, we are happy to do that, Senator.

Senator O'BRIEN—Thank you. It will help us to understand the information you have just provided us.

Mr Mortimer—That is fine; it is understandable.

Senator O'BRIEN—I note that 13 farms across three Canadian provinces are under quarantine in relation to the Canadian BSE fright. I will have some questions for AQIS later in relation to Australia's quarantine response, but can you give us a general update on the situation?

Mr Morris—I can make some very general comments, but the issue is being handled through our emergency response unit within the product integrity unit, and they are the ones who will be able to give full up-to-date information on the technical side of things. Market Access and Biosecurity has obviously been involved in terms of watching the potential for market reactions and responding appropriately. In doing so, we have been talking to Meat and Livestock Australia in terms of getting on-the-ground information. It is very early yet to pick up much of a consumer response, but given past events we are obviously very conscious of what might happen in international markets as a result of this, so we will need to monitor that very closely over the next few days and weeks. It is going to depend very much on how the situation develops in Canada. I will get Product Integrity to talk more specifically, but as I understand it there is still only one animal that has been identified in Canada with the disease.

Senator O'BRIEN—Early reports are that the BSE scare in Canada has not resulted in an immediate downturn in beef consumption in the United States, but perhaps it is early days yet. This is probably a traditional beef weekend. It is Memorial Day holiday, isn't it?

Mr Morris—I think it is a public holiday today, that is right. The media is quite interesting. On the first day of the event there was a lot of media in the US about it, but then it tailed off very quickly after that. If that is any indication, there may be limited consumer reaction. As I say, it depends very much on how it develops over the next few days, if more cases are found, and depending on how they trace the animal and so forth.

Senator O'BRIEN—The US media is not big on international affairs, as far as I have noticed.

Mr Morris—No, but given the flow of Canadian product into the US—that is the issue.

Senator O'BRIEN—Can I assume the department is looking at contingency plans to offer assistance to the Australian beef industry to protect its US market?

Mr Morris—At this stage, not specifically. We think it is a little premature to be thinking about that until we see what market reactions there are. As you have indicated, the market reactions have been fairly muted to date. That is not to say they will not get more significant in the future; but at this stage, no, we have not considered providing assistance.

Senator O'BRIEN—What is the time lag—market signals to understanding the situation?

Mr Morris—As I said, we are liaising with Meat and Livestock Australia and they have very good industry contacts in all of our major markets. So they would get a feel for it pretty quickly if orders were starting to be cancelled or if there were any delays in shipments and so forth. It will take a long time to show up in figures, but that sort of empirical analysis information from markets would come in reasonably quickly.

Senator O'BRIEN—There was a nationwide hook-up of industry, government and quarantine officials on 21 May to discuss the ramifications of the Canadian discovery and what it means to Australian beef exports. Can you advise the committee who was present, what was discussed and what was the outcome of the hook-up?

Mr Morris—That was, as I mentioned earlier, hosted by the product integrity area. They are probably more able to give you the full details on that meeting.

Senator O'BRIEN—What stage of planning are we at with regard to a response, if needed, to any consequences of the small but nevertheless actual discovery?

Mr Morris—The stage of planning is at is essentially to monitor what is happening in the markets. We would have to determine, depending on what happens, the appropriate response.

Senator O'BRIEN—Mr Truss told ABC radio that:

We don't like to take advantage of another country's misfortune...

He went on to point out that:

... Canadian beef products will not have access to some other countries in the world and that may open up marketing opportunities for Australia. ... we'll be on the alert to make sure that the clean and green image of the Australian industry is well known around the world and so that people looking for an alternative supplier may look in Australia's direction.

I would like to know what actions Mr Truss has instructed the department to take to ensure that our 'clean and green image' is well known in Canada's markets without taking advantage of their misfortune?

Mr Morris—At this stage, the advice we provided to all posts is a set of talking points which outlines what the situation is with respect to Australian beef supply. We left it up to them to provide advice to those relevant countries if questions are asked of them about Australia's situation. That includes, obviously, talking points in terms of our response to the event as well. That is the main reaction at this stage.

Senator O'BRIEN—That is the department's reaction. Was that what Mr Truss instructed the department to do?

Mr Morris—Not specifically. There was not a direction that came down the line. But we had been in close contact with the minister's office during this time so he would be aware of the actions that have been taken.

[4.53 p.m.]

ACTING CHAIR(Senator Ferris)—We are now moving to Product integrity, animal (including aquatic animal) and plant health.

Senator O'BRIEN—Mr Hamilton, you are dealing with wheat streak mosaic virus I take it?

Dr Hamilton—Yes.

Senator O'BRIEN—In relation to the virus, I understand a cost-benefit analysis is to be conducted this week to enable a decision on possible eradication of the virus. When did that cost-benefit analysis study begin, who is conducting it and how much will it cost?

Dr Hamilton—We began the work on that probably a little over a week ago, with some preliminary work with ABARE. So it is between my office and ABARE. It will be a relatively straightforward analysis, and I think relatively simply done, and will cost no more than a few thousand dollars in total.

Senator O'BRIEN—Originally it was thought that the virus may be declared either endemic or non-eradicable. Is that still possible?

Dr Hamilton—It is still a possibility. The current status is that, in two states—Victoria and South Australia—it is considered to be widespread. On Friday the national management group deferred the decision on whether the disease was eradicable from those two states, pending the cost-benefit analysis.

Senator O'BRIEN—Can you elaborate on what these declarations mean in terms of disease control and determining who bears the primary cost and responsibility for virus control?

Dr Hamilton—Under the current situation, while the virus could be considered eradicable, all activity that is currently under way and any subsequent activity with regard to an eradication effort—in the past at least—have been subject to a cost-sharing arrangement between the Commonwealth and the states. We are still in that mode at this stage. If a decision

is made that the disease cannot be eradicated, subsequent management and containment strategies will be at the cost of the individual states.

Senator O'BRIEN—Will it be any different if it is determined to be endemic?

Dr Hamilton—No, non-eradicable basically is the same thing. Established, endemic and non-eradicable are all the same thing.

Senator O'BRIEN—Depending on the outcome of the cost-benefit analysis, what are the possible methods of eradication or control?

Dr Hamilton—The national management group did agree that eradication was unlikely to be successful. The reason for that is that the delimiting surveys that are still under way almost day by day come up with more confirmed positive identifications of the disease, particularly in Victoria and South Australia. It would make eradication intensely difficult, because it is in not only a range of cereal but also a range of grasses. If it were only the cereal crops one could imagine that eradication could proceed on the basis of finding a diseased crop, destroying it and leaving a period of time during which the crop is not grown. But given that the mites that carry the disease have moved on to crop side weeds—and certainly some of those are turning up with positive identifications—it is very difficult to see how one could conceivably eradicate the disease in those states.

Senator O'BRIEN—So there are a widespread number of hosts of the disease now?

Dr Hamilton—Yes, that is the difficulty—several crops and quite a range of native and introduced grass species.

Senator O'BRIEN—I have some questions on notice outstanding—for example, No. 1397—when and how did the department become aware that the CSIRO plant laboratories in Canberra were suspected of being infected with wheat streak mosaic virus?

Dr Hamilton—We first learned that there was a suspected infection of an unidentified virus on 27 March. That was by phone call from the assistant chief of the CSIRO division of plant industry. We were then again informed by phone call on 3 April that it was confirmed as wheat streak mosaic virus.

Senator O'BRIEN—When and how was the minister advised?

Dr Hamilton—The minister was advised on 4 April by departmental minute.

Senator O'BRIEN—Was the advice about an unidentified virus or about the confirmed wheat streak mosaic virus?

Dr Hamilton—The minister was advised on 1 April of a 'suspected necrotic disease of wheat', as it was termed at that stage.

Mr Banfield—It is worth noting as well that, where notifications of potential disease outbreaks occur, there is an established process which involves Commonwealth, states and industry. Through the national management group a process is activated which involves, at CEO level, Commonwealth and state CEOs and also industry to consider their response to the potential incursion. The point I make is that this is not a peculiarly Commonwealth exercise; it is a joint undertaking by the Commonwealth, the states and industry.

Senator O'BRIEN—Is the department aware of the date on which the CSIRO first suspected that their plant laboratories in Canberra were infected with wheat streak mosaic virus?

Dr Hamilton—When they first suspected that there was wheat streak mosaic virus?

Senator O'BRIEN—Yes.

Dr Hamilton—It was not until March, when they received results back from the United States that the initial tests had all proven negative for a range of, I think, eight viruses, that they were quite concerned that they still had a virus there. At that stage I do not think they specifically suspected that it was wheat streak mosaic virus. They put the material through a range of tests and confirmed in early April that it was wheat streak mosaic virus. I would say that March was probably the time they were seriously concerned that it was wheat streak mosaic virus.

Senator O'BRIEN—When did the department first begin to advise rural industry peak bodies of the presence of a suspected necrotic disease of wheat at the CSIRO laboratories?

Dr Hamilton—On 31 March we advised that a teleconference was to be held on 2 April. When that email went out to the states, Plant Health Australia and industry, they advised that there was a necrotic disease. When that teleconference was held on 2 April, it was still being discussed as a necrotic disease. That was the day before CSIRO identified it as wheat streak mosaic virus.

Senator O'BRIEN—Which groups were informed? I presume they were all informed by the same email?

Dr Hamilton—They were all informed at the same time by the same means. As Mr Banfield has said, the standard procedure is to establish a consultative committee for exotic plant pests and diseases. I chair that committee. We meet by teleconference, at least in the initial stages. It involves state members of the Plant Health Committee and of the Interstate Plant Health Regulatory Working Group. It involves CSIRO, Plant Health Australia and the Grains Council. That was the initial group that was contacted.

Senator O'BRIEN—As at 31 March we had the state ministers and their departments, CSIRO and the Grains Council—

Dr Hamilton—CSIRO, Plant Health Australia, GRDC and the Grains Council.

Senator O'BRIEN—When CSIRO advised you that they suspected they had a virus, what actions were taken to advise the appropriate government or other agencies within overseas trading nations?

Dr Hamilton—At that stage none; at that stage it could have been an entirely endemic disease that would not have required any notifications.

Senator O'BRIEN—When the virus was confirmed what actions were taken to advise the appropriate government or other agencies within overseas trading nations?

Dr Hamilton—This may be one for our other colleagues. When we became aware of the disease we immediately instigated the AFFA emergency plan. That involved other officers

from other parts of the department, and they were made fully aware of the situation. We had that first task force meeting on 9 April. I do not know what activity was undertaken.

Senator O'BRIEN—Mr Wonder, can you assist?

Mr Wonder—I understand your point, but I do not have a detailed answer to your question in terms of dates. Mr Burns has just returned. Could you repeat the question for Mr Burns's benefit, Senator?

Senator O'BRIEN—I asked: when was it confirmed that the wheat streak mosaic virus was present, and what actions were taken to advise the appropriate government or other agencies within overseas trading nations?

Mr Burns—I have not got the dates in front of me, but we could provide them. There is an established process, when we have a situation like this, where we send out a cable which is put together with DFAT and the relevant areas within the department to alert posts to the incident and also to provide talking points and other background information. That process was followed. I have not got the date that that was sent out, but we can provide it.

Senator O'BRIEN—Yes, I would appreciate it if you could. Can you tell us specifically which nations were consulted?

Mr Burns—Again, I would have to check on the details. Normally, it is sent to all foreign affairs posts and they are instructed to notify their host governments.

Senator O'BRIEN—Would it be easy to supply us with the list of the posts?

Mr Burns—Yes.

Senator O'BRIEN—Have any responses been received?

Mr Burns—Not to my knowledge. I could check that, but I do not recall getting any responses.

Senator O'BRIEN—Are there any implications for our grain exports as a result of the presence of the virus?

Mr Wonder—Perhaps Dr Murray might be able to help with that. I think we just need to clarify here the nature of the risk. My understanding is that this is not a trade sensitive matter in terms of product going to our customers but rather it is sensitive because of the potential impact on production. Could Mr Murray clarify that?

Senator O'BRIEN—I understood that, but I wanted to check.

Dr Murray—Yes, I think Mr Wonder has sort of covered it. Wheat streak mosaic virus is endemic to the United States, for example, as well as many Eastern European countries, and it is not a limiting feature of our trade, although I suppose it could be if people wanted to make it so. It is more a production diminishing disease and the impacts on Australia were the key features, therefore notification to overseas posts was not an immediate issue in the overall context of the event.

CHAIR—How do you think it got here?

Senator O'BRIEN—You are reading my questions.

CHAIR—That is a farmer question, you know. How the bloody hell did it get here?

Dr Hamilton—It is a good question, Senator, and one that we cannot answer at this stage. We can say that it has been here for some time because it is so widespread. We know that it took about 60 years to get right across the United States. At this stage we are finding it quite readily in at least two of our states. It does not appear to be quite as widespread as it is in the United States, so that suggests it has been here for some time less than 60 years.

People have been talking about suspicious symptoms—at least since the mid-nineties, but even since the late eighties—but the symptoms can readily be confused with nutritional deficiencies. Indeed, a lot of the plants that we are sampling at the moment, which appear to show quite strong symptoms, are turning up negative for the disease, so there is something else going on there. The symptoms can be easily confused. It is known to be carried on maize seed, so it could have come in with maize imports at an earlier time. But you are asking a question that, at this stage, has no answer. We do know that there are two different strains of the virus in the country. That also suggests it has been here for a number of years.

CHAIR—How do we treat it and is it any different from stripe rust? We have varieties that are stripe rust resistant. What do we do down in the paddock when it turns up? Do we spray it with a fumigant? That is not what we used to do with stripe rust in the early days.

Dr Hamilton—You are really talking about management. At the moment, we are still determining whether it can be eradicated. The question of what we do to manage it will follow on from a decision that would say that it is established and that we cannot eradicate it. So at the moment you are asking the question—

CHAIR—I am sure that every thinking farmer is thinking well ahead of the eradication program, because we might get lumbered with the problem in the event of the eradication failing.

Dr Hamilton—The main means of management as it is practised in other parts of the country is to attempt to provide a host-free period. That can be done by in-crop hygiene, by removing alternative hosts—other weeds and volunteer plants in the crop. Climatically, we have a good opportunity to do that in this country. In parts of America they have a problem where there is a continuous cropping of either wheat or maize. We do have the opportunity in many parts of the country to provide that break. So we need good crop hygiene. Certainly there appears to be anecdotal reports that some lines of wheat are not displaying the symptoms and others are, so there is a great deal of potential there for looking at breeding resistance.

CHAIR—What sort of a break do you need to break the cycle? Given there is often summer rain and grasses will come out of season in a pastoral sense, do you need two months, three months?

Dr Hamilton—Probably not even that, particularly if we are talking about the middle of summer. The virus is carried by a mite, and the only way you can get the virus to transfer from one plant to another in a natural situation is for a mite that has fed on an infected plant to move onto an uninfected plant. Mites do not pass on the infection to their progeny. So, really, you are looking at providing a host-free period only for enough time for the generation of infective mites to die out and to be sure that they have died out. We are talking about a period in midsummer of probably no more than a month.

CHAIR—Pardon me for these questions, but as with the red-legged earth mite, which we spray and get rid of—they germinate after a frost, usually—when the right conditions arrive, do these things just hatch again and away they go or do they die and that is the end of them?

Dr Hamilton—The mites themselves?

CHAIR—Yes.

Dr Hamilton—We believe there is no resting stage. The mites need to have continuous host plants available.

CHAIR—There is a clue.

Dr Hamilton—One of the biggest biological anomalies is that the mites seem to be quite prevalent in places where you would imagine they would not do too well—places that have a very extreme Mediterranean climate where you would imagine they would not have many host plants during the summer. They are obviously quite adept at finding those host plants. I guess they are in such numbers that some of them survive to reinfest the crop. The question is: do they carry that infection with them onto those plants or are there some grasses that do not carry the disease? That might be one of the reasons why in South Australia and Victoria we are not seeing the sorts of damage that the virus causes in the United States.

CHAIR—From your experience overseas, can you tell me whether, once the mites arrive in a crop, you can spray the crop with a fumigant or a fungicide and find you have unloaded yourself for that season?

Dr Hamilton—No, the mites are intensely difficult to control. They are microscopic; they roll over in the curl of a leaf so you cannot readily get contact with them. They do not move until they want to migrate; they stay in that leaf curl. Pretty much the only way of getting them is with a systemic insecticide, and the systemic insecticides that work have a very high human toxicity.

CHAIR—DDT or something.

Dr Hamilton—We really do not want to go down that path if we can avoid it.

Senator O'BRIEN—What actions, if you can give me a precis of them, have been taken by the department to determine the source of the introduction of the wheat streak mosaic virus into the CSIRO plant laboratories?

Dr Hamilton—We have traced all movements of planting seed into the laboratory. It appears that it has come into the Black Mountain site and then moved out to the Ginninderra farm, rather than vice versa. It does not appear to be widespread at the Ginninderra farm so we are assuming that that is the point of entry. There is no indication that any of those movements of seed could or could not have introduced the virus. The symptoms that they are seeing at the moment are symptoms that they only feel they have been seeing since August last year. But they cannot confirm that and they cannot guarantee it, so part of the problem is we do not know when it got to CSIRO. We know when the symptoms were first observed but they could have remained hidden in the wheat breeding program or could have been confused with nutritional stress. Unfortunately, we are talking about wheat plants that often are being forced to go through day length and temperature conditions that they normally would not be

exposed to in the field in a summer breeding period. That can lead to some very strange looking plants which could carry the disease.

Senator O'BRIEN—You referred to this before. The AAP wire on 14 May carried a story which said:

Preliminary research by quarantine officials suggest the virus ... has been present in Australia for up to two decades.

Can you spell out the evidence that leads you to the view that it may have been present for possibly 20 years?

Dr Hamilton—I am certainly not saying that myself. It is not the position that our department has, as far as I am aware. We can only confirm that it has been here for as long as we have known it to be here, which is since 3 April. Quite clearly it cannot have spread in that time. Then you start to say, 'Where is it and what do we know about its potential spread?' You have to say it has been here for a number of years, just because it is in so many places now. You then start to take in anecdotal evidence of people suspecting it has been here and saying, 'I have been seeing these symptoms for many years.' So really there is no evidence, other than circumstantial or anecdotal evidence, that it has been here more than a couple of years. But my suspicion, obviously, is that it has been here for a number of years. It is the only way you can explain it being present in so many places.

Senator O'BRIEN—How many sites has the virus been discovered in?

Dr Hamilton—It is currently confirmed in nine sites in Victoria, eight in South Australia, two in New South Wales, two in the ACT and two in Queensland.

Senator O'BRIEN—Are you able to say that you have now accounted for all the material from the Black Mountain site?

Dr Hamilton—Yes, all that material has been destroyed.

Senator O'BRIEN—Sites found to have the virus have been quarantined, as I understand.

Dr Hamilton—The sites with the virus have been quarantined at this stage, under state quarantine.

Senator O'BRIEN—What is the expected period of quarantine?

Dr Hamilton—It will really depend on the decision to be taken by the national management group as to whether this can be eradicated or not. After that, it will depend on what the states choose to do. It will then no longer be a quarantinable disease nationally. So I would imagine that the quarantine that is currently on the ACT sites would be lifted or could be lifted. The decision then for the other states really depends on what they wish to do in terms of management and containment of the problem.

Mr Banfield—As part of the national management group meeting last week, in addition to commissioning urgent research on the cost and benefits of eradication, the national management group commissioned some urgent work on the development of protocols with the states to manage the situation in the states, with particular regard to the current season's wheat breeding program—if and when a judgment is made that the disease is not eradicable. So that work is ongoing in parallel with the cost-benefit analysis of eradication.

Senator O'BRIEN—What about research? You obviously have research facilities quarantined, and presumably it has halted a lot of research. What will be the impact on research?

Dr Hamilton—There has already been an impact on research. In some cases where people are looking at comparative yield studies and the sites are under quarantine and perhaps they are unable to plant material off-site for field trials. Where it was critical that that planting was done early, those research efforts would already be jeopardised to some extent. The destruction of material at the CSIRO will quite clearly hold back some of their programs, but not all; some of their programs will receive a setback. To some extent the full answer to that question depends on how quickly a resolution is made with regard to whether the disease can be eradicated or not. We still have a window of opportunity for planting for this winter crop, and that is open for several weeks. At this stage there is a relatively minor impact. It is probably an inconvenience more than anything else for the research establishments.

Senator O'BRIEN—Of privately owned research sites, for example, will the quarantine have a significant effect on their ability to run their businesses?

Dr Hamilton—In the short term, yes. We are hoping that we can impose containment and control strategies that will enable them, as soon as possible, to resume their business. One of the difficulties we face is the question of whether the disease can be seed borne. It has not been proven to be seed borne, but there is unpublished data and circumstantial evidence that it could be. We are trying to manage that particular risk. Clearly it is that risk of planting seed carrying the virus that causes us the greatest difficulty in containing the problem at this stage.

Senator O'BRIEN—Are we able to say that research facilities that have not been found to have the virus are free of it?

Dr Hamilton—At this stage we could say that they have not been found to have the disease. I do not think we could say categorically that they do not have it. If you are not seeing symptoms it is very hard to know which plant to sample.

Senator O'BRIEN—Are there implications of legal liability of the Commonwealth if it is found that the CSIRO is responsible for contaminating the various research sites currently under quarantine?

Dr Hamilton—I would have to take legal advice on that. I am not a legal expert. I think at this stage we are considering that all of the research establishments are in the same boat. At this stage we do not know where it has come from among them.

Senator O'BRIEN—With regard to the private enterprise research facilities, do you know whether they have laid off staff as a result of this virus?

Dr Hamilton—I do not know what has happened at those establishments. Nobody has called me and said, 'I am having to lay off staff; please make a decision soon.'

Senator O'BRIEN—On 14 May, Mr Truss and Mr McGauran issued a media release announcing a review of research of biosecurity protocols in the wake of the wheat streak mosaic virus outbreak. The media release talks of 'a high level strategic look at the adequacy of protocols and processes.' What does that mean?

Dr Hamilton—It means, rather than getting down to a blow by blow description of what door was left open when it is more looking at the adequacy of procedures and protocols at a somewhat higher level, questioning whether the procedures applied both within our department and with our department in conjunction with the institutions that are importing material are as they need to be; and what we can do to ensure that there is a system in place to manage appropriately the inherent risks that are involved, from first application right through to the final release of any material, its use and transfer to other facilities.

Senator O'BRIEN—So are you going to look at the existing system and conduct a risk analysis of that? Is that how I should understand what you just said?

Dr Hamilton—Yes.

Senator O'BRIEN—Will that ultimately have an impact on the day-to-day processes which are supposed to keep diseases used for research purposes within the confines of research areas, or will there be another review to look at the processes on the ground, as it were?

Dr Hamilton—The current review will be looking at the adequacy of the processes on the ground. Quite clearly, there are two parts to this and the research institutions must play a role and must have processes in place. One of the things that they will be looking at is the potential for accrediting those facilities in terms of good laboratory practice to look at what needs to be done there, apart from what is already being done.

Senator O'BRIEN—How much is it envisaged that this review will cost?

Dr Hamilton—We do not know the exact cost at this stage because to some extent it is up to the review panel and where they wish to go. At this stage we are anticipating that the cost will be no more than \$50,000, but that is only an indicative cost at this stage.

Senator O'BRIEN—From where will the funds be drawn?

Dr Hamilton—The funds will be drawn from within the department.

Senator O'BRIEN—Will it be from a particular program or from general funds? Will it be this section's funding or some other section?

Mr Wonder—I do not think we have finalised any decision on that matter.

Mr Banfield—The important point to make is that we wanted the review to be done and done urgently. We will sort out the funding arrangements subsequently.

Senator O'BRIEN—How was the review panel selected?

Dr Hamilton—The review panel was selected by the members of the primary industry standing committee that our secretary and the CEOs of the agriculture departments agreed.

Senator O'BRIEN—Perhaps you can take on notice questions about who is on the review panel, whether they are being remunerated, and what remuneration, if any, is involved.

Dr Hamilton—Certainly. The details of the terms and conditions are not quite finalised. I would have to take that on notice anyway.

Mr Banfield—Certainly the names of the members of the review panel are already well known and we do not need to take that on notice. It is headed by Dr John Radcliffe. It will

include Mr Keith Perrett, President of the Grains Council; Dr Kevin Sheridan, former Chief Executive Officer of the New South Wales Department of Agriculture; Dr Tony Fischer, Program Manager for the Australian Centre for International Agricultural Research, and Mr Mick Catley, a former director of plant quarantine in AQIS. The membership of the review team is well known.

Senator O'BRIEN—Is there a specific term of reference?

Mr Banfield—Yes, there is.

Senator O'BRIEN—Is that available on the web site? Can you supply it to the committee?

Mr Banfield—I am not sure that it is available on the web site. I will take it on notice. At the very least, the review team has been provided with some draft terms of reference, which are very much along the lines on which we have been responding to your questions. These are a high-level strategic look at the biosecurity protocols, including biosafety protocols and processes at research and related institutions; accreditation of research facilities; surveillance, awareness and diagnostic; and other issues that the review team think should be brought to the attention of CEOs. As Mr Hamilton indicated, we want an early report and as part of that we have indicated that we understand and accept that the review panel might want to identify particular areas for further work, but they will not be able to undertake that within the time frame that they have been given to do their report. I will take on notice the formal provision of the terms of reference, but they are very much as I have indicated.

Senator O'BRIEN—I presume the outcome of the review will be a report to ministers?

Mr Banfield—In the first instance it was commissioned by the chief executive officers of the primary industry standing committee so the report in the first instance would go to CEOs, but obviously the expectation would be that the results of that review would be made known more widely, including to ministers.

Senator O'BRIEN—Is it expected that the report will be made public?

Mr Banfield—I am not sure that a decision has actually been made on that yet. I do not know whether it has actually been considered in that form. I will take that on notice.

Senator O'BRIEN—Is there consideration being given to the issue of other disease carrying vectors or biological agents that CSIRO is working on which have the potential to cross over into the human population and our livestock or cropping systems? Is this triggering a more significant look at the research that is being done and the risks associated with that research?

Dr Murray—And the study is looking at wheat streak mosaic virus but, of course, the outcomes could well have relevance applicability to other forms of research and biosecurity. That is more or less what Mr Banfield has said. The review committee can advise further in the context of its report.

Senator O'BRIEN—We now know the presence of this virus was confirmed by CSIRO on 3 April, but the review of research biosecurity protocols was announced on 14 May. Given the sort of virus that we are talking about and the potential risks, I would have thought that would have triggered an immediate reaction in terms of the review of biosecurity protocols. Why did

it take nearly six weeks after the virus was confirmed as present at CSIRO for this review to be announced?

Mr Banfield—The facts of the matter are that when it first came to the attention of the Commonwealth and states that there was this outbreak of wheat streak mosaic virus all efforts were directed at identifying, confining and hopefully, if it was possible, eradicating the disease, so all efforts were on the business of dealing with the disease at the time rather than necessarily looking to review facilities. I make the point that CEOs took a decision within a month to have a look at the research biosecurity protocols.

Senator O'BRIEN—So it was purely a coincidence that the review was announced on the same day that the story ran on the AAP news service that rust fungus had also been found at CSIRO?

Mr Banfield—That is correct. As I said, all efforts in the first instance were to get a handle on the extent of the outbreak and to eradicate it if at all possible and subsequently the CEOs turned their minds to the review processes. The linkage with the broom rust incident is coincidental.

Senator O'BRIEN—Can you pinpoint the time at which the attention was focused on reviewing the Biosecurity protocols?

Mr Banfield—I do not have the precise date, but my recollection is that there was a period of about a week in which the review was raised and discussed within the CEO group and broad agreement reached on the possible membership and terms of reference. The announcement was made, but it had been under active consideration by CEOs for at least a week before that.

Senator O'BRIEN—So early May?

Mr Banfield—That is correct.

Senator O'BRIEN—In relation to the rust fungus, when did the department become aware of the quarantine breach?

Dr Hamilton—We received written notification on the rust fungus from the CSIRO Division of Entomology at about midday on 8 May.

Senator O'BRIEN—When was the minister informed?

Dr Hamilton—The minister was informed by minute on 9 May.

Senator O'BRIEN—What investigations have been undertaken to trace the source of the fungus and to track materials sent from CSIRO to other research centres that may carry the fungus?

Dr Hamilton—There has been no movement of material from CSIRO Division of Entomology at any stage with regard to this importation, nor previous importations, of material carrying the gall mite that they were attempting to introduce. So there are no trace forwards. I cannot answer the question on investigations; it is really an issue for AQIS.

Senator O'BRIEN—So it is not a matter that will in any way be touched upon the by the review that is being undertaken?

Dr Hamilton—The review team may choose to look at issues stemming from that. They will not look specifically at the scotch broom rust fungus, but they may look at it as another example of investigating the procedures and protocols that apply. It would be a good opportunity for them to visit the Black Mountain site. That will not be the focus of their attention, but it might help them in their deliberations.

Senator O'BRIEN—I have a question about live exports. How do this year's live animal export numbers compare with the record-breaking year enjoyed by the industry in 2002?

Dr Murray—Perhaps AQIS could provide these statistics.

Senator O'BRIEN—Do you want me to refer questions about live exports to them?

Dr Murray—I can talk about issues relating to broader policy issues and the independent reference group but, as far as the detailed operational activities are concerned, questions are probably better referred to AQIS.

Senator O'BRIEN—Could you tell the committee about the impact the recent war in Iraq had on Australia's live export trade in terms of animal welfare? Were there any mortality incidents related to closure of shipping lanes and the diversion of transport vessels?

Dr Murray—I am sorry; that is an operational issue. Could we get AQIS to answer?

Mr Wonder—Mr Read is available.

Senator O'BRIEN—I think the first question was: how did this year's live animal export numbers compare to the record-breaking year of 2002?

Mr Read—I do not have the precise year-to-date numbers with me, but anecdotally the trade is not exporting the numbers that it did last year.

Senator O'BRIEN—What impact has the recent war in Iraq had on Australia's live export trade in terms of animal welfare? Were there any mortality incidents related to the closure of shipping lanes and the diversion of transport vessels?

Mr Read—None that I am aware of.

Senator O'BRIEN—Is the trade affected by the current political instability in the Middle East?

Mr Read—Again, the information I have had indicates that it is not. There has been no evidence that I am aware of and no evidence has been brought to the department's attention that the political instability of the Middle East has impacted on the trade.

Senator O'BRIEN—In February the department told this committee that an action plan for the live export industry had been agreed and was being advanced, and the first so-called tactical issue addressed in the action plan is risk analysis in relation to export of eastern Australian sheep. The performance indicator is sheep mortality. Can the committee be advised of whether the agreed deadline of 1 November 2002 was met in relation to the development of a pro forma concerning salmonellosis mitigation and the instigation of risk analysis for all consignments?

Mr Read—That is correct; it was. At that time it was a recommendation—in fact, it was an action plan supporting the recommendation to the IRG. One of those was the implementation

of risk analysis. A pro forma was put in place in November. As you are probably aware, a series of meetings has been conducted with industry—with a more detailed risk analysis process to be applied from 1 May through until the end of October.

Senator O'BRIEN—Can you tell us what the profile of live sheep mortality rates over the past six months has been?

Mr Read—With live sheep, as I recall there have not been any incidences over the last six months.

Senator O'BRIEN—What about cattle?

Mr Read—I am aware of one incidence in January, but again as I recall it was not a significant incidence and I can provide you with that information.

Senator O'BRIEN—Sorry?

Mr Read—As I recall, it was an issue that was not significant. But I can provide you with some information on that.

Senator O'BRIEN—Thank you. Has the requirement for a risk analysis been reflected in a formal change to the live export accreditation program?

Mr Read—The requirement for a formal risk analysis has been incorporated into the orders that are now taking effect from 1 May through to 31 October.

Senator O'BRIEN—Can you provide the committee with a schedule of changes that have been made to LEAP as a result of the work of the industry consultative committee, or is that available on the web site?

Mr Read—That is not available, because LEAP—particularly the animal live export standards, from which LEAP is framed—is currently being reviewed by industry, with participation of AQIS as part of that process. There has not yet been a conclusion reached on that exercise.

Senator O'BRIEN—When is it expected that that will be concluded?

Mr Read—We were hoping to have that review completed within the next four to six months.

Senator O'BRIEN—So it will not apply until next year, I take it?

Mr Read—That is in terms of the standard of LEAP. As I have mentioned already, there are now a number of requirements on live exporters that prescribe in the current order that are taking effect.

Senator O'BRIEN—The second tactical issue in the action plan is the development of a heat stress predictive risk assessment model. This is a matter also addressed under the heading 'Strategic imperatives'. On 5 May, Minister Truss said:

... Australian exporters will now be able to make use of predictive modelling for heat stress to help select and prepare livestock bound for the Middle East.

Does this mean the development of a heat stress model is complete?

Mr Read—That's Correct.

Senator O'BRIEN— It is. How does it work? Are all shipments subject to appropriate risk analysis management?

Mr Read—There was significant research commissioned by industry with regard to ventilation systems, the transfer of heat from vessels and the impact of those arrangements on the health of animals. There are a number of scientific factors that underpin it, but simplistically it relates to wet bulb temperatures and the type of animal that is being exported. As you would appreciate, different animals have different upper critical limits. They then look at the vessels, the decks and the segments of the decks that these animals will be transported in. They then calculate the various air temperatures on that deck. They then look at the pen air turnover. When you input all those factors into this model, as well as the ambient air temperatures of the region, you come up with a calculation as to the appropriate density. It is simply a matter of fewer animals generating less heat, which means you eventually get the temperature back down to the appropriate level for the safe transport of those particular animals to the destination. That model has been developed; it is called the Maunsell model. Conrad Stacey was the contractor who developed that. The science that has been applied in that model is the science used, for example, in the mining industry. That model effectively comes into utilisation as of 1 June, as I recall. All vessels going out between now and the end of October for cattle and sheep consignments below the 26th parallel will utilise that approach.

Senator O'BRIEN—What was the cost of the development of this model?

Mr Read—Industry developed the model. I am told it was in the order of half a million dollars.

Senator O'BRIEN—The third tactical issue was the difficulty associated with the export of goats. Has progress been made on that issue?

Mr Read—There has. There were three trials that went out with goats, as I recall, around the January period. I think they were destined for the Haj at that time. They were three very large consignments of goats. I know that the outcome for those particular consignments was excellent. The approach was to scan everything they knew about the transportation of goats and assemble a program to implement that, which they did. Then they sought AQIS oversight of that process. Endorsement of the shipments seems to have resulted in a very good export of those particular animals.

Senator O'BRIEN—So it was the sort of knowledge held by the exporter, I take it.

Mr Read—No, it is part of an industry program. Again, a consultant was engaged to assist in the development of what was required in the preparation process, to minimise potential risk that has been evident in the past in the transportation of goats.

Senator O'BRIEN—Page 11 of the action plan says:

... consideration must be given to the impact of cancellation of supply contracts with drought affected Australian producers and with the Islamic Development Bank acting on behalf of the Government of Saudi Arabia.

Can you explain to me what the interests of the Islamic Development Bank acting on behalf of the government of Saudi Arabia have to do with the investigation of unacceptable mortality rates on board live goat shipments from Australia?

Mr Read—Limited from a government perspective. That was the identification of the commercial pressures that the industry was under. It's certainly not a factor that we take into account when determining whether a vessel is appropriate to steam off or not.

Senator O'BRIEN—The fourth tactical issue is the matter of pregnant cattle exports. Are pregnant cattle exports to the Middle East banned from May to October this year?

Mr Read—I will have to check, but my recall is that under that particular order the approval of the secretary is required to export pregnant cattle, and they have to be prepared in accordance with a prescribed set of arrangements in terms of density and so forth. They would also be subject to the same risk management plans as all animals.

Senator O'BRIEN—Subject to specific export permits, in effect?

Mr Read—Correct.

Senator O'BRIEN—How does the secretary make a judgment on approval? Presumably, he delegates that.

Mr Read—Notice of intention to export and delegates that power. Those plans are then submitted to the department and assessments are made as to their appropriateness.

Senator O'BRIEN—Within AQIS, I take it.

Mr Read—Within AQIS.

Senator O'BRIEN—The first so-called strategic issue is the formation of the industry consultative committee. This has clearly occurred. How often has it met?

Mr Read—The fifth meeting will be on 12 June.

Senator O'BRIEN—So there have been four meetings to date and the fifth is in June next month. Page 13 of the action plan reports that industry members on the committee want the industry consultative committee to subsume the role of the independent reference group. Has that view been adopted by the minister?

Mr Read—That view has not, as yet, been adopted. As you would appreciate, that was one of the initial recommendations in that plan. The IRG is still seen as a very important committee to keep in the wings in terms of monitoring the progress of the implementation of the document you are talking about now as well as providing independent advice to the minister on the state of health of a particular trade.

Senator O'BRIEN—Can we be assured that the independent reference group's future is secure?

Mr Read—That is correct.

Senator O'BRIEN—Dr Murray, is the formation of the industry consultative committee and resulting action consistent with the recommendations of the independent reference group?

Dr Murray—The formation of the industry consultative committee: yes. The broad range of membership, which includes known livestock industry members: yes. And the thrust of the action plan: yes.

Senator O'BRIEN—I take it the independent reference group has been asked by the minister to consider the action plan outcomes?

Dr Murray—The independent reference group was asked, following its report to the minister—on 2 or 3 October, I think—to look at the initial draft of an action plan. That action plan was developed by an industry-government group, the government element being largely AQIS, on 17 and 18 October, as I recall. Subsequent to that, the industry reference group met to have a look at the initial plan. We made a number of observations on the plan—for example, the export of live goats was seen by the independent reference group as needing key attention, the development of emergency management procedures in a more transparent way was seen as being important, feedback on incidents was seen as being important and so on. In the initial draft, there was probably nothing that was not covered; rather the IRG made points of emphasis. As I understand it, these points have been taken up in the revised plan, which is now being considered by the industry consultative group.

Senator O'BRIEN—Thank you for that. A number of action plan deadlines in the period March to July this year relate to improving the position of third-party veterinarians. For example, the report notes that vets have been subject to unacceptable conflicts of interest because they have neither independence nor the legislative power of AQIS officers. What progress has been made on addressing problems impacting on the third-party program?

Mr Read—It is one of the particular programs that we are driving in concert with industry at present, which is a review of the third-party veterinary arrangements. There has been significant progress in those discussions. It is about finding what is the most appropriate framework to apply to validate the preparation of animals for export. It is a complex process. There are regional and access issues that we need to work through. We believe that we are getting fairly close to actually developing a framework in which AQIS as a competent authority can have confidence that the oversight arrangements are appropriate. Industry, equally, is confident that those oversight arrangements dovetail into their commercial undertakings. So it is about a partnership approach to ensuring we get it right.

Senator O'BRIEN—The action plan identifies AQIS underresourcing as a significant problem. It says:

There is no capacity for program development, training, audit or investigations. There is also no capacity for audit of third party vets, except in companion animals or increased involvement in export preparation.

The PBS does not identify any action by the government to address this problem in the coming year. Can you tell the committee what additional resources AQIS has been given to do its job in relation to live exports?

Mr Read—AQIS, subsequent to the IRG process and the development of that plan, has—certainly from that point through to December—moved additional resources into that program. That program now, as I understand it, operates with an additional four to five resources.

Senator O'BRIEN—You mean people?

Mr Read—People. The program now is going through a review of what is the adequate level of resourcing to meet its obligations—as you have already outlined—again, in consultation with industry. Those resources will be reflected in, if not increased charges to the industry, altered work arrangements to ensure that the revenue base is sufficient to cover the additional work imposts that are needed to ensure a sustainable and well-framed program.

Senator O'BRIEN—So the additional costs will come from higher charges. Is that what I should take that to mean?

Mr Read—No, it does not necessarily mean that, but that is one of the options. It can also mean that free riders within the system are charged, which we are looking at now; where advice is given to exporters and a number of hours are spent in the preparation of consignments that do not go forward—that type of scenario. So they are predominantly the areas where the options lie for additional revenue to be collected.

Senator O'BRIEN—So that is moving to a fee-for-service type program?

Mr Read—It is a fee-for-service program at present. It is 60 per cent cost recovered from industry and 40 per cent assisted by government funding.

Senator O'BRIEN—So that will change?

Mr Read—No, that will not change. Again, it just depends on the charges that are levied on industry, which is a driver—

Senator O'BRIEN—I am still struggling to understand the free rider situation. You gave an example of assessment of consignments that do not travel, which, I take it, you currently do not bill for?

Mr Read—That is correct.

Senator O'BRIEN—So, to that extent, the services provided are further subsidised by the government. So that charge will be made to industry now.

Mr Read—It is not quite the correct approach. The funding from government is provided on a matching basis with the revenue raised from industry. So if we find additional 60c from industry, another 40c from government, we will be provided with that. Thereby, if we raise—

Senator O'BRIEN—Is that in the PBS?

Mr Read—Yes, it is.

Senator O'BRIEN—Whereabouts is it in the PBS?

Mr Read—Government funding; I can tell you the total amount is \$30.4 million. It is on page 29 under 'Departmental outputs: quarantine and export services'. It is part of the \$132 million that is recorded there.

Senator O'BRIEN—So that is an increase on last year, is it?

Mr Read—The figures would not be substantially different from last year. I am talking about the government matching provisions for export, which were around \$30 million in both years. It might have been about \$28 million in the prior year, and certainly this year it is around \$30 million.

Senator O'BRIEN—It would certainly be very hard to find in the PBS from my point of view, but I understand what you are saying is that it is a commitment to provide additional funds subject to matching 60-40 contributions from industry.

Mr Read—That is right.

Senator O'BRIEN—That will pay for the additional four to five people.

Mr Read—On a shared basis; that is correct.

Senator O'BRIEN—Can you take on notice the issue of how we find that with more precision in the PBS, if that is possible, or explain why it is not possible? I am trying to understand whether there is an actual increase here or whether the money has been taken from some other area or what is happening. If an additional four or five people are involved, are we talking about \$300,000 or \$400,000?

Mr Read—The arrangement that is in place for the government's assistance with exports is as you have described: a matching provision of 40 per cent. That is simply driven by the activity level across all export programs. So where the activity level increases, that matching provision increases. Where the exports decline in a year, for whatever reason, that provision commensurately drops back. In terms of resourcing for this program, a review is currently under way. It is the second of the projects being undertaken, again in concert with industry. Part of that review will be to determine the best way to fund the resource requirements of the program. Those resource requirements have been determined as to what is needed to ensure that we have a robust program in place that provides all the responses to the issues you raised earlier. It is now up to industry in those discussions with AQIS to find the best ways of resourcing that. If they elect for a fee increase, that will raise more revenue; therefore, the matching provisions will equally increase. If they find that we have free riders in the system, they should be billed for the services provided. Again, the overall revenue will increase and the matching provisions will increase. That is the mechanism.

Senator O'BRIEN—Where will I find a breakdown of the moneys contained in box 6, 'Quarantine and export services'? Would they be within the PBS anywhere?

Mr Read—No, I do not think so.

Senator O'BRIEN—Perhaps you could give us one on notice.

Mr Read—I am happy to.

Senator O'BRIEN—I am sure you have plenty of those within your folders there, if not elsewhere. In relation to emergency and incident management, the report identifies confusion amongst stakeholders. It also identifies a perception that some elements of investigations are covered up and that the only way for the public to gain information about incidents is via freedom of information applications. Firstly, were the December and February deadlines met in that regard, and what reform has been instituted?

Mr Read—Again, they were met in the sense that that is clearly a third of the five projects we have been running, which is emergency incident management. It is an issue that involves essentially three areas: AQIS, AMSA and Lifecorp. The framework in which those investigations are to be undertaken is currently being reviewed, and a more appropriate model that, again, meets all stakeholder requirements is to be put in place. That model has not yet

been finalised and implemented. We are still working through the consultative process of identifying what that appropriate model is to be. As you would appreciate, that is about looking at all the dimensions of the incidents that you have to deal with, looking at the various management plans that already exist around the department and ensuring that we do not duplicate, that we utilise appropriate infrastructure that is in place and that, essentially, we get the appropriate people together to respond to a particular crisis that confronts us.

Senator O'BRIEN—What is wrong with tabling all future incident reports in parliament? That would get over the problem of cover-up.

Mr Read—Essentially, incidents that occurred last year have already been publicised on the Net.

Senator O'BRIEN—Yes. It was through this committee, wasn't it? Were they tabled in parliament at a specific time?

Mr Read—No, the incidents, as I just said, are on the AQIS Internet—the AFFA Internet. They are the ones that occurred, I think, from the series that existed last year. They provide an overview of the incidents and the findings of those reports. Therefore, they are in the public domain; it is not very hard to look on our web site and take a copy.

Senator O'BRIEN—That is certainly true. I did not think all incident reports were published that way.

Mr Read—Not all. Certainly the ones last year are. Again, the process that we are going through now is to ensure that we develop the most appropriate model for handling those forms of reports. A lot of considerations need to be taken into account: commercial-in-confidence issues, the nature of the incident itself, the severity of the incident and the nature of the response required.

Senator O'BRIEN—The action plan says:

The criteria for registration of export preparation premises are underdeveloped and the procedures for registering and auditing these premises are fragmented.

What has happened on that recommendation?

Mr Read—When a notice of intention to export a consignment is lodged, one of the requirements is a registration of an appropriate assembly point or quarantine site. We now have administrative documents in place that prescribe what those assembly points need to achieve in terms of suitable infrastructure, management plans, QA arrangements, address, LEAP requirements and so forth. Those documents now have been through the consultative process, though the AQIS consultative committee, and have been endorsed for implementation. They will also be taking effect through this high-risk period of 1 May to the end of October.

Senator O'BRIEN—How will that affect, say, Portland in the coming winter?

Mr Read—It will affect Portland in that Portland will have to ensure that it has appropriate management practices in place.

Senator O'BRIEN—At their cost?

Mr Read—At their cost. Ultimately that is passed on to the exporter. They must have the infrastructure that is suitable for the housing of animals in Portland and they must minimise their exposure to salmonella, in terms of sheltering of feed, shelters for the animals—windbreaks—and management practices. For example, the state of the removal of the carcasses of any dead animals in particular pens; that they are removed in a manner that does not cause contamination and that the animals are handled in a sympathetic and stress reducing way. That prescribed set of arrangements is certainly in the industry arena and AQIS will be referring to it when it receives the notice of intent to export, in accepting those consignments for export.

Senator O'BRIEN—In relation to the action plan, when did the overall review of the legislative and administrative framework commence?

Mr Read—It all commenced at the same time, which would have been when those plans were agreed back in December, with the first formation of the consultative committee. The legislative review is currently under way. That is about examining the roles of both the Australian meat livestock industry and the Export Control Act—the registration of exporters, and so forth—and it is about going through what I would say are a number of difficulties in dealing with two pieces of legislation and how we address those difficulties. Again, we have a working group through that consultative committee that is progressing towards a set of recommendations that will lead us, hopefully, to a legislative environment that meets the demands of this trade more appropriately than what we have got at the moment.

Senator O'BRIEN—I take it that the industry consultative committee will be in a position to provide advice to the minister and complete its task by the target date of September this year?

Mr Read—That is what we are aiming for.

Senator O'BRIEN—Are you on track for that or is there some doubt about it?

Mr Read—My information is that we are on track, and from what I have seen so far.

Senator O'BRIEN—Going back to the reporting of incidents role, you talked about the availability of information last year on the Internet. Is that going to be available again this year?

Mr Read—Yes, certainly for the incidents that occurred last year. As we previously explained, there are some reports on the Web. The consultative committee has an overview of what arises at each of our meetings. That is also posted on the Web. Future incidents are an issue that will come out as part of the recommendations that the project group will make about handling incidents and the management of those incidents.

Senator O'BRIEN—Back to the review itself, why is the target date for the response to the recommendations of the review as far away as June 2004?

Mr Read—That was a realistic time frame put in, depending on the particular measure for responding to it. To review legislation, to go through the consultative process, and then, in fact, to change it, realistically is a time consuming process. The one you referred to there is probably a legislative issue, is it not, in 2004?

Senator O'BRIEN—I think you might be right.

Mr Read—I suspect it is. Essentially it is the machinery of government process that—

Senator O'BRIEN—I do not have my reference here to double-check that.

Mr Read—My recollection is that the latest date linked with the legislation. The reason for that is that such a detailed consultative process is required. We need to get the framework right. Once we do that—and, as you have identified, that will be towards the end of this year—that will lead us towards hoping that, somewhere around March or the middle of the year, we will have that in place and the changes to the primary legislation supporting those effects.

Senator O'BRIEN—All of this raises this question. The 2001-02 PBS identified a review of the efficiency and effectiveness of the arrangements for live animal exports and the examination of options for improved service delivery, scheduled to commence in January 2001 and conclude in October 2001. Why did that review fail to identify the multitude of issues addressed in the current action plan?

Mr Read—I am not precisely sure of the nature of the review that took place at that time. I would also say that the factors that would have been taken into account at that time would have been historical data indicating that everything was well in hand within the industry. The performance data regarding mortalities of both cattle and sheep to that point would have been continually improving. The LEAP program would have been fully implemented. Self-regulation, at that time, would have been viewed as being fairly well in hand. It was obviously the events of last year that caused that to be reassessed and the particular effort that is going in now to be applied.

Senator O'BRIEN—The PBS at that time states:

The evaluation is focusing specifically on pre-export activities carried out by AQIS certifying veterinary officers and third party service providers, including animal preparation, treatment and inspection, auditing of third party activities and issuance of export certification.

Mr Read—I will have to take it on notice. I do not know what review you are referring to or even which particular program you are referring to.

Senator O'BRIEN—It is on page 79 of the 2001-02 PBS. It did not make a mark on anyone anyway—that is pretty clear. What is the status of the suspension applied to RETWA earlier this year?

Mr Read—There has been no change from what I last reported.

Senator O'BRIEN—I have forgotten—remind me—is it an ongoing suspension subject to it being overturned, or is there an automatic cessation of the suspension?

Mr Read—As you recall, essentially they cannot export at present until they have an audited or reassessed QA arrangement in place. At that time, they will approach AQIS and we will audit and verify that their QA program has been amended to reflect what they consider to be the deficiencies in the system that led to the concerns of last year. At this point, they have not approached AQIS with a program for us to assess.

Senator O'BRIEN—Livecorp recently advertised for additional special qualification members to join its board. Was this an initiative of Livecorp alone, or did the department have some role in encouraging reform of Livecorp's board?

Mr Read—Livecorp is a corporation or company without any government involvement in it. To the best of my knowledge, there is certainly no coercion from the department or government to influence the making of that decision.

Senator O'BRIEN—I want to ask now about the National Residue Survey. We will probably talk to you again in the next program, Mr Read. In relation to the National Residue Survey, the answer to question on notice No. 809 says that an increased charge for AFFA management services in the order of \$332,000 contributed to an increased cost burden for participating industries in 2002-03. Does this increased charge reflect an increased cost to the department, or is it related to changes in the department's cost recovery policy?

Mr Roseby—I will let Mr Cousins give a more detailed answer. That has mainly come from a refinement and better tuning of the identification of the true costs.

Mr Cousins—As Mr Roseby indicated, it was a refinement of the departmental cost allocation system, better deriving the expenses incurred by the NRS from operating within the departmental environment. They are not additional charges to the total for the department; they are just being posted to their appropriate location—the NRS being the service consumer.

Senator O'BRIEN—Which is reflected in the cost of—

Mr Cousins—The total operations of the NRS.

Senator O'BRIEN—In February the department told us that the NRS cost for 2003-04 had not yet been negotiated with participating industries. Have those negotiations concluded? Will it cost more to participate next year?

Mr Cousins—There are two questions there. I will deal with the second one first. No, it will not cost any more for the industries to participate in the NRS in the coming financial year in relation to management services charges; in fact, there is going to be a minor reduction in those charges that will be applied to the National Residue Survey. In terms of the industries agreeing to the programs, all participating industries have been given an indicative program costing for their program for the 2003-04 financial year. The total management services charges have not been finalised but are expected to be done within the next week or so. At that point I expect to be able to confirm the costings that I have issued as preliminaries to each of our industries.

Senator O'BRIEN—Can you explain the NRS special account figures for 2003-04 that appear on page 25 of the PBS?

Mr Cousins—Yes. The figures that are appearing on that page are mainly in relation to the balance of the special account, showing that it will be reducing from roughly \$14½ million at the end of this financial year to around \$11.2 million at the end of next financial year. The main reason for that is the reduction of the cattle transaction levy component which is payable to the NRS. Until recently, that rate was 32c per transaction. It has now dropped down to 12c per transaction. It was an active decision taken by the cattle industry to reduce the reserves held by the NRS and redirect funds to R&D type operations elsewhere relevant to their industry.

Senator O'BRIEN—In terms of the negotiations with participating industries, are you confident that those negotiations will be concluded within about a week?

Mr Cousins—I expect that the costings for the management services charges component will be finalised by the end of this week and following that—some time next week—I will be able to go back to each of our participant industries to confirm the expected cost for the 2003-04 financial year.

Senator O'BRIEN—Why is it taking this time to get those costings to the industry? Have you put a proposal to them?

Mr Cousins—The costings were provided to the industry with the third quarter actuals for this financial year. In April all industries were given their third quarter actuals plus next year's expected program costs, taking into account not only management services charges but also all expected changes to the analytical testing program for each industry. The industries have had that information since early April.

Senator O'BRIEN—I have some questions that concern the Australian Pesticides and Veterinary Medicines Authority. In relation to Pan Pharmaceuticals, on what date did the authority become aware that the Therapeutic Goods Administration held serious concerns about systemic safety and quality breaches at that company?

Mr Raphael—We received advice from TGA on the morning of 28 April that they were proceeding to Sydney for meetings with Pan in which they expected to cancel Pan's licence. We had some advice back in February, following the Travacalm incident, that they had made some technical amendments to Pan's licence. At that time, we did not note those as having any impact on us.

Senator O'BRIEN—Have you inquired as to why the authority was not made aware of the Therapeutic Goods Administration's concerns at the beginning of their investigation?

Mr Raphael—The Therapeutic Goods Administration is well aware of our capability in this matter and, in the event, we had adequate time to deal with Pan following the cancellation, or the suspension, by TGA of its licence. We have had some discussions with TGA about the possibility of earlier involvement but, in the event, the matter proceeded satisfactorily from our point of view.

Senator O'BRIEN—When was the minister alerted to the identified problems in relation to Pan's manufacture of veterinary products?

Mr Raphael—We would have alerted the senator's office on the same day—that is, on the afternoon of 28 April.

Senator O'BRIEN—Was the decision to suspend Pan's veterinary products licence on 29 April made on the basis of the Therapeutic Goods Administration's action or a separate audit of the company's practices by APVMA?

Mr Raphael—It was made on the basis of TGA's action. The licence that we had issued Pan was dependent on them maintaining a licence to manufacture therapeutic goods with the TGA and on them using the same equipment and management and control processes to manufacture veterinary products.

Senator O'BRIEN—So there was an automatic decision?

Mr Raphael—Essentially, it was an automatic flow-on.

Senator O'BRIEN—Four veterinary products were subject to product recall, as I understand it. Is that right?

Mr Raphael—That is correct

Senator O'BRIEN—In which publications did recall advertisements for these products appear?

Dr Raphael—I am certainly aware that they appeared in the *Sydney Morning Herald*. I cannot give you a full list of other publications, but I can take that on notice if you wish.

Senator O'BRIEN—Yes, please. Have the recalled products been tested?

Mr Raphael—No. They were recalled on the basis that they were manufactured in the period between Pan's last clean audit, in May 2002, and the failures detected by TGA in the period from February through to April 2003.

Senator O'BRIEN—So there has been no testing to see—

Mr Raphael—There had been testing done, but that testing of a routine nature did not show any defects.

Senator O'BRIEN—Did consumers who returned the recalled product get a full refund?

Mr Raphael—We would not know that. We have no powers to direct whether or not a refund is given for recalls. Our power only requires the recall.

Senator O'BRIEN—Non-Pan products containing diazinon have also been recalled. Is that correct?

Mr Raphael—That is quite a separate matter. I will ask a colleague to respond.

Dr Smith—A number of diazinon products were recalled as an outcome of the chemical review that the APVMA has conducted on diazinon products. Those cancellations or suspensions related to products which, in our estimation, had not been adequately stabilised in the formulation.

Senator O'BRIEN—It said something like, 'Diazinon can degrade to toxic breakdown products over time, particularly if the contents of the container are mixed with a small amount of water.' Your web site says they are considered to be a risk to public health and safety. Given the issue of a risk to human safety posed by these chemicals, would you detail the steps taken specifically to warn the public—and clearly Senator Heffernan has not picked up your warning—about the risks involved with these products that you posted on your web site on 23 May?

Dr Smith—The potential exists for diazinon to degrade in situations where there is a small amount of water in these formulations to form these breakdown products, such as sulfotepp and similar degradation products. In evaluating any application to register these products and in undertaking a chemical review, we assess the potential for these breakdown products to be formed. I would say that at this stage we have had no adverse experience reports relating to people suffering adverse experience from these particular breakdown products, but in terms of the detailed approach to communicating the risk these products pose to the public I would like to come back to you with a more detailed response.

Senator O'BRIEN—I would appreciate that. Could you tell me the process by which APVMA monitors the progress and success of the recall?

Mr Raphael—Essentially, the company subject to the recall have to advise us regularly of the progress of it. Firstly, they have to clear the advertisements and the like with us. Then they have to demonstrate that they have done mail-outs to their distributors and so on. Depending on the particular nature of the recall, they would eventually have to account to us for all of the product covered in their batch records that had either already been sold and used or that had been recalled and recovered through distributors.

Senator O'BRIEN—You would audit that, obviously?

Mr Raphael—Yes.

Senator O'BRIEN—You are appearing today as the Australian Pesticides and Veterinary Medicines Authority rather than as the National Registration Authority. I am not personally aware of any amending legislation giving effect to the name change, so what is its basis?

Mr McCutcheon—The agreement to change the name of the former NRA to the Australian Pesticides and Veterinary Medicines Authority was made by the very shareholders of the national registration scheme—the six states, the Northern Territory and the Commonwealth. That was announced in March this year. The actual changes to the legislation are scheduled to be promulgated in the spring 2003 sittings of parliament to give effect to that name change. The rationale behind the name change was to increase the public awareness of what the authority does in terms of registering agvet chemicals, and the various states, the Northern Territory and the Commonwealth felt that the sooner we got on with that job of raising the awareness and making it a more transparent system the better.

Senator O'BRIEN—Is there an expected cost for the name change?

Mr McCutcheon—I guess there would be minor administrative costs in respect of the APVMA's operations—but as I said I think they would be minor.

Senator O'BRIEN—Do you have a redirect from the old web site to a new one? Have you changed the address?

Mr Raphael—Yes, we have.

Senator O'BRIEN—I am going to AQIS next. I am going to ask questions about the Canadian BSE threat, as I think they have an involvement in the management of that.

Mr Raphael—Go to AQIS for BSE, but for 1080 you may as well ask us. We are doing a review of 1080.

Senator O'BRIEN—I understood you were. Where is that up to? Thank you for the prompt.

Dr Turner—In fact, we provided the scope of the review for the committee in July.

Senator O'BRIEN—Yes. You talked about Pindone as well, as I recall.

Dr Turner—We did indeed.

Dr Smith—The review is progressing. At the moment we are evaluating submissions that we have received.

Dr Turner—We have received over 250 submissions to the review. It is obviously an issue of significant interest to a number of stakeholders.

Senator O'BRIEN—240 from Tasmania I suppose.

Dr Turner—I am not sure.

Senator O'BRIEN—When is it expected to be completed?

Dr Smith—Our anticipated completion time is probably by the end of this year, for the draft report.

Senator O'BRIEN—In regard to the process after you have issued the draft report, I presume there is a consultation period?

Dr Turner—That is correct, yes. It goes out for public comment and it usually signals our intended response to the information and gives people an opportunity to comment on that. We usually go out for two months for public comment. The time frame from then obviously depends on the quantum of new information we have received. We then go to a final report which goes to our board and any regulatory decisions that have to be made are made then by the board.

Senator O'BRIEN—What are the criteria for reassessment?

Dr Smith—The criteria for all of the work is set out in the act; I think it is in section 14. It is the ones that you would probably be familiar with in terms of public health, occupational health and safety, environment and trade efficacy.

Senator O'BRIEN—Okay, we can look at the act. Thank you very much for that update.

Proceedings suspended from 6.37 p.m. to 7.42 p.m.

Australian Quarantine and Inspection Service

CHAIR—We will now reconvene the committee.

Senator O'BRIEN—Firstly on the Canadian BSE threat, has a list of Canadian imports containing beef products been prepared?

Mr Wonder—Can we just ask again for the *Hansard* people to raise the volume of your microphone. We cannot hear you speaking.

CHAIR—I cannot either but I try not to hear it.

Mr Wonder—Would you mind repeating the question?

Senator O'BRIEN—Has a list of Canadian imports containing beef products been prepared?

Ms Stanton—Ms Gordon will be able to answer those questions.

Ms Gordon—We have identified a range of products that have been imported from Canada that we are either cancelling and/or amending import permits for.

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

Ms Gordon—Yes, certainly. We have cancelled 10 permits for Canadian products which contain BSE risk materials, including foodstuffs, therapeutics and laboratory material, and we

have a range of other import permits where we are amending the import conditions. So once we have identified the full list of products, it would be possible to give you that list.

Senator O'BRIEN—What is the significance of amending import conditions in these circumstances?

Ms Gordon—The amendment of the import conditions allows us to put specific provisions on them so that Canada is taken off the list of countries that we can take those products from.

Senator O'BRIEN—Which is effectively banning the import of those products if they are sourced from Canada?

Ms Gordon—From Canada, yes. But we obviously have them coming in from other countries as well, so it is still possible to import them from those countries.

Senator O'BRIEN—What steps have been taken to inform consumers about these products?

Ms Gordon—The list of products that we are amending or cancelling import permits for at the moment and the new conditions will be on the AQIS web site, and all of the importers will have been contacted and advised of the changed conditions for the imports of those products.

Senator O'BRIEN—But some of those products may now be available to consumers. What do we do about that? Is there a recall involved?

Ms Gordon—On the range of items that are affected by the amended import conditions, if they are food items then FSANZ will be managing the recalls on those or advising consumers on those. If they are therapeutics, TGA would be taking care of those ones. Our role is very much just focusing on the conditions of the import permits rather than managing recalls of the items.

Senator O'BRIEN—What is the process? You will advise those bodies of your process and they will then take their decision about whether there is a recall—is that how it works?

Ms Gordon—Yes, there is close consultation with all those other regulatory bodies.

Senator O'BRIEN—So when would we expect that would happen; that is, when you will give the information to those bodies?

Ms Gordon—We have been in constant liaison with those bodies over the last few days. You would have to ask those bodies about what other action they would be taking.

Senator O'BRIEN—I understand that AQIS have managed to trace the location of breeder cattle brought into the country from Canada and that there has been a lifetime quarantine status imposed upon them. Is that correct?

Ms Gordon—Yes; of the animals that we have identified that were born in Canada or came from Canada, we have identified the animals that have come in and we are in the process of putting lifetime quarantine orders on those that we have been able to trace and are still alive.

Senator O'BRIEN—What does that mean?

Ms Gordon—Basically, they will not be able to go for slaughter into the food chain. The owners of the cattle will have to notify AQIS if they move them and when they dispose of them.

Senator O'BRIEN—I understand that there are seven cattle and they are located in Tasmania. Is that right?

Ms Gordon—Yes, seven animals arrived in Australia directly from Canada in 1996, and we have been able to identify those cattle.

Ms Stanton—I should clarify that. There are some other cattle that have now been identified.

Senator O'BRIEN—Where are they?

Ms Stanton—There are seven cattle that are located in Tasmania, as Ms Gordon said. There are a further 14 cattle that have been identified so far that are Canadian cattle but were exported via the US. We have now identified those as well and we have traced all but one of them.

Senator O'BRIEN—Where are they located in the country?

Ms Stanton—I cannot answer that question. Dr Clegg may be able to help us.

Ms Gordon—The animals are, I am advised, in NSW, Tasmania, Victoria and South Australia.

Senator O'BRIEN—Why has the decision been made to keep them in quarantine rather than destroy them?

Dr Banks—Under state legislation for disease control, there needs to be reasonable confidence that these animals are diseased before they can be seized and destroyed. We have no evidence whatsoever that these animals are diseased.

Senator O'BRIEN—So there is an impediment to taking that action?

Dr Banks—There is an impediment indeed. Provided they are kept out of the food chain, either for humans or animals, they really pose no significant risk.

Senator O'BRIEN—There is no possibility of passing the disease on in any other way?

Dr Banks—There are exceedingly rare cases of vertical transmission, but that is usually in the final stages of the disease. It certainly, as far as we can see, does not occur through semen or embryos or reproductive material; it happens in clinically affected animals. While I am not saying it is impossible to occur, it is an extremely rare event, and certainly in animals that are clinically well we see no reason to destroy them.

CHAIR—Can I just add to that. With great respect, if I could find out what the bloke wanted for them I would pay him three times as much to shoot them tomorrow morning.

Dr Banks—Where this has happened before, a scheme run by Animal Health Australia for purchasing those animals—I will not say it offered that amount of money—has been arranged. I cannot say at this stage whether a similar scheme will be available for these Canadian cattle.

Senator O'BRIEN—Can you advise the committee of the method used to track the cattle and give the committee an assurance that all cattle imported from Canada via whatever source have been accounted for? I think you have said there is one that has not yet been accounted for.

Ms Stanton—That is correct.

Ms Gordon—AQIS is using records from our quarantine stations, from the importing agents and from the pre-export quarantine facilities in North America to track the animals that have come into Australia from Canada or that at some stage have been in Canada.

Senator O'BRIEN—So we are reliant on those records to know that other cattle were imported from other countries; for example, that other countries had not originally imported those cattle from Canada?

Ms Gordon—Yes, we are relying on our records to track where the cattle have come from and to trace them in Australia.

Senator O'BRIEN—So how can we rely on that information, given the possibility of that country being a transiting country? Clearly, the United States would be the biggest risk country to import cattle from.

Dr Banks—There were 353 head of cattle imported from the United States that currently we believe are of United States origin. But, as you point out, they could at some stage have resided in Canada at an early stage of their lives and that would not necessarily appear in the import records. Those animals are being checked. But the prime focus of attention has been with regard to the Canadian animals. Once they are found, then I think the focus may well change to the United States animals to check on that very issue.

Senator O'BRIEN—What steps is the United States taking on its level of knowledge of the import of cattle?

Dr Banks—My understanding is that there are exceedingly large numbers of cattle travelling from Canada to the United States every year—probably over a million a year. I do not know what the United States is doing to try and trace that.

Senator O'BRIEN—I presume that, if the NLIS system were being used to track these animals, you would have a more comprehensive national livestock identification system to aid you in your task.

Dr Banks—All animals that have been coming through the quarantine station since January 2000 have had NLIS tags put on them, so the recent imports have been fairly easy.

Senator O'BRIEN—So the department is satisfied with that method at the moment?

Dr Banks—It is a method that appears to be working at the moment.

Senator O'BRIEN—From your earlier answer about the number of cattle imported from Canada to the US, do I take it that there is no feasible means of keeping track of those imports and that we cannot be certain that the cattle from the US were not originally sourced in Canada?

Dr Banks—No, I did not say that—

Senator O'BRIEN—No, I know that. I am asking: can I take it from your answer that that is the case?

Dr Banks—No. What I meant was I think it would be very difficult for the United States to track those animals. As I say, we have 353 and, once the Canadian animals have been traced,

attention will be paid to those remaining from the United States to make quite sure that they did not reside in Canada at some stage.

CHAIR—Do they have the necessary tracking in the States to do that though? They do not have a national tracking system, do they? Do not bother looking about—

Dr Banks—We do not know, Senator.

CHAIR—I can tell you the answer: they do not. I know what I would be doing if I were you blokes.

Senator O'BRIEN—It is fairly significant. With regard to a number of meat export plants—establishments Nos 0808, 0077, 0900 and 0048, which are located at Spearwood in Western Australia, Daylesford in Western Australia, Murray Bridge in South Australia and Kingaroy in Queensland—can you confirm that these plants export pork to Singapore, Japan, Korea and South Africa?

Mr Read—We would have to take that question on notice. My understanding is those plants would be exporting certainly to some of the destinations that you mentioned.

Senator O'BRIEN—Are these plants project 2 plants—that is, they operate without any AQIS meat inspectors present?

Mr Read—That is correct.

Senator O'BRIEN—But they have an AQIS veterinary officer on site?

Mr Read—That is correct.

Senator O'BRIEN—Can you tell me whether those countries I have listed—that is, Singapore, Japan, Korea and South Africa—accept meat from project 2 plants?

Mr Read—Certainly they are accepting product from those plants.

Senator O'BRIEN—Japan is?

Mr Read—Singapore clearly is. My understanding is that some of the other markets are, but I will have to clarify that.

Senator O'BRIEN—You are not sure about South Africa?

Mr Read—I am not aware that they are accepting project 2 product.

Senator O'BRIEN—How do those countries satisfy themselves that the meat is processed in an appropriate manner from their point of view?

Mr Read—They have had representations from AQIS as to the overview of the systems that have been applied and how the regulator is being assured that the product is meeting the country's requirements, and that regulator is AQIS.

Senator O'BRIEN—So can you confirm for me that Japan, Singapore, Korea and South Africa are aware of the processing arrangements in the plants from which they take pig meat?

Mr Read—I will take the question on notice and confirm that.

Senator O'BRIEN—I want to ask some questions about the Fitzroy Meatworks in Rockhampton. I understand that AQIS is requiring the new owner—I think its name is Naturally Australian Foods—to pay the outstanding debts of the three previous owners of the

works, which I understand is an amount of \$255,271.51. Can you confirm for me that this debt was incurred by the three companies who previously operated the works there: Fitzroy River Meats, Royal International, and Shannonville?

Mr Read—I can confirm that.

Senator O'BRIEN—Can you tell me how the second company was able to operate and then the third company was approved, given the accumulated debt to AQIS?

Mr Read—Each of those companies would have entered into a schedule of repayment for the previous debt. Their operations obviously were not as successful as they hoped they would be. The scenario typically with the plants that engage in that type of debt repayment—not typically but there are certainly degrees of difficulty in transforming certain plants to a viable status, particularly at that plant—is that the previous occupiers of that particular plant have all failed in their transition to make that a viable operation. In doing so, as you can imagine, we are under significant pressure to be as facilitatory as possible with debts and repayment arrangements, which we try to be. But also at the same time we try to ensure good governance so that the debt does not get excessively large. In this particular case, it has been an accumulation of extreme difficulties from each of those operators.

Senator O'BRIEN—So a debt was carried over from Fitzroy River Meats to Royal International?

Mr Read—Correct.

Senator O'BRIEN—And I take it a debt was then carried over from Royal International to Shannonville?

Mr Read—Correct.

Senator O'BRIEN—Essentially, if you have entered into a scheme of arrangements with a processor, why does that debt then transmit? You have permitted someone to operate by assuming a previous debt. It has not worked, and it has happened twice. What is the logic of continuing arrangements that clearly do not work for that plant?

Mr Read—The debt is accumulated on the establishment, irrespective of who the operator-owner is. The logic behind that has been, in the past, because of the history of operators that enter and leave, given the nature of this industry. If they were able to conduct their business with that type of *modus operandi*, you would continually have debts floating around the industry. As you understand, it is a cost recovery program. Those expenses that are borne in the provision of services at that plant that are not paid for are essentially paid for or cross-subsidised by other participants within the industry. Therefore, a measure that was considered to be the best way of preventing that occurring was the arrangement that we currently have in place, which is that, if there is a debt on that site, the new incoming purchaser or occupant of that facility settles that debt and can do so through a repayment schedule.

Senator O'BRIEN—Does it mean that this plant can never operate again unless someone can find the \$250,000?

Mr Read—In total. As I have said, there is a repayment schedule that can be agreed. In fact, in this case, there has been a repayment schedule agreed and, as I understand from discussions with the operator on Friday, they are ready to open the plant now. So it is my

expectation that this plant will open in the next week or so with the repayment schedule supporting that opening.

Senator O'BRIEN—What sort of repayment schedule did the second operator enter into?

Mr Read—I would have to take it on notice.

Senator O'BRIEN—And the third one?

Mr Read—The same.

Senator O'BRIEN—Is a similar set of arrangements being offered to the new operator?

Mr Read—I do not know the previous one so I cannot say whether it is similar. But there has certainly been a period of discussion with the current occupier as to what would be an appropriate payment regime that fits his business needs, and we believe we have the best repayment mix to do that.

Senator O'BRIEN—Parliamentary Secretary, I wonder how this fits with funding of millions of dollars going to meatworks in the Wide Bay area through the now discredited DRAP. But here we have an operation and 40 people that want to work and, unless the owner is going to pay someone else's debt, they are going to miss out. How does that fit? Money has been found for meatworks under that program.

Senator Troeth—I should point out that, according to my advice, industry itself has endorsed the policy to which Mr Read referred and that it increases the possibility of the recommencement of export operations at closed sheds without increasing the exposure of the industry at large to an accumulation of bad debts. It is an ongoing process.

Senator O'BRIEN—But the government has found money for other projects, and meatworks, under DRAP. Why couldn't it find the money to fix this problem without imposing the burden on an operator who is trying to create 40 jobs in the Rockhampton area? Is there just not a willingness to persist?

Senator Troeth—They are two separate programs, I suggest. This is a meat inspection program debt recovery policy.

Senator O'BRIEN—I understand that. But this company is not connected, as I understand it, with the previous companies, so it is not a problem of company changes getting around AQIS charges. But they have a problem that others do not have because they do not have access to the sorts of grants that have been available under DRAP, the program administered by your minister.

Senator Troeth—Yes, but certainly the present company that has taken this debt on is well aware of this policy. It is prepared to take that on as part of opening and carrying on the meatworks, so it must see it as part of a viable business policy.

Senator O'BRIEN—I guess it does not have a choice. If it wants to start the operation, it has to pay. The point is that two others have tried and failed and you would have to suspect that, if it is taking on an accumulated debt and things do not go well, this plant will fail again with this burden hanging over its head. That will be a debt which will carry forward to the next operator.

Senator Troeth—That is a considered commercial decision that has been made by the present owners.

Senator O'BRIEN—It is a considered commercial decision which could be obviated by assistance from the government under one of the regional assistance programs. Was that option offered to this business?

Senator Troeth—I cannot comment on that because I do not know but, as I said, the company is well aware of the marketing choices and the marketing operations that it is going into.

Senator O'BRIEN—We assume that. The history of this plant has been that each successive operator has been loaded with debt and it has not worked.

Mr Wonder—This is not a new development. This has been in place for many years. Commercial judgments are being made. This company has made a commercial judgment, and I cannot see what issue you are driving at.

Senator O'BRIEN—I think the point I am making, Mr Wonder, is if the minister can allocate \$6 million to the Wide Bay area for various projects, why cannot money be found to assist this project?

Mr Wonder—I do not even understand what the impediment is. Mr Read has advised you that it looks like the company concerned is willing to enter a repayment schedule and open operations, so what is the problem?

Senator O'BRIEN—Mr Wonder, the problem is, firstly, it does not have a choice. If it wants to operate on that site, it has to pay.

Mr Wonder—It has a choice if it wants to operate.

Senator O'BRIEN—If it wants to operate on that site, it has no choice. I think that is the reality of the evidence we have been given. The second aspect is that, when there have been grants given to other meat processing operations under other programs, why wasn't access given to funding for this works to employ 40 people in the Rockhampton area? That is the question I was asking Senator Troeth.

Mr Wonder—I understand your question; I was just pointing out that the company is continuing, notwithstanding the impediments that you have identified.

CHAIR—Could I be curious enough to ask: did they apply?

Senator O'BRIEN—Can I be curious enough to ask: were they approached with the offer of applying? I think we are in the last phases of the program. That is one source of funding but I think there are other sources of funding this government has. It is keen to promote them in various areas. Why could it not promote them here?

CHAIR—They say God looks after those who look after themselves.

Senator O'BRIEN—They say that, but some people say that some people get looked after better than others, depending on which electorate they are in. If you go around Queensland, you will find a lot of people who say that.

We have discussed quarantine infrastructure changes at Melbourne airport at many of our recent meetings. Page 77 of the PBS advises that the infrastructure changes will be funded in 2003-04 from the AQIS and Customs budgets through the reallocation of \$3.9 million from each agency to the Department of Transport and Regional Services. My question is: will this cover the full cost of the works?

Ms Stanton—My understanding is, yes, that is the agreed estimate that has been made on the works, and that covers the full cost.

Senator O'BRIEN—So it is more than the \$7.5 million agreed cost figure we were given at the last estimates hearing?

Ms Stanton—It is \$7.7 million, not \$7.5 million.

Senator O'BRIEN—Mr Cahill told us it was \$7.5 million at the last estimates hearing.

Ms Stanton—In terms of the bid that has been put forward in the budget, that of course was not an AQIS or AFFA bid and obviously there has been some slight amendment to the calculations in the intervening period.

Mr Cahill—What I said at the time was that the estimate that was provided was in the order of \$7.5 million, so that was certainly the estimate in the order of \$7.5 million. But the expected cost is likely to be closer to be \$7.7 million.

Senator O'BRIEN—Perhaps my maths is a bit out, but I would have thought \$3.9 million from each for Customs and AFFA adds up to more than \$7.7 million.

Ms Stanton—It is actually \$3.85 million each.

Mr Wonder—It has been rounded up.

Senator O'BRIEN—Okay. There is no windfall there, is there, for the Department of Transport and Regional Services? I need to make sure of that. I will ask them when they come. We will see if they have got a windfall.

Mr Wonder—If there is, you might let us know.

Senator O'BRIEN—You will just have to watch, Mr Wonder, but I know you will. When we last discussed this, the design of the works had been agreed with the funding arrangement outstanding. The issue of funding: was it about who pays or how much?

Ms Stanton—The figure has remained roughly the same—of the order of \$7.5 million. There was simply an issue about how that money would be found.

Senator O'BRIEN—So it was about who pays?

Ms Stanton—There needed to be a decision made about where the money came from, yes.

Senator O'BRIEN—The PBS states:

The funding is part of the package announced by the government in 2001-02 to deal with foot and mouth disease and other quarantine risks.

But this funding measure—that is, the transfer of funding from AQIS and Customs—was not agreed at that time, was it?

Ms Stanton—It was not agreed for this purpose. Mr Cahill will be able to give you more detail.

Mr Cahill—The initial government decision of \$596.4 million, as you recall, included \$19.4 million for infrastructure at airports. That was a provisional sum that was agreed and was appropriated to the Department of Transport and Regional Services. As we discussed at previous hearings, that money was sufficient to do everything but Melbourne airport. So this is the final adjustment in order to give effect to that final infrastructure development.

Senator O'BRIEN—When announcing this package, the Treasurer said that, to meet its cost:

... the Government has decided to increase the Passenger Movement Charge by \$8 to \$38 and to continue the policy of full cost recovery for Australian Quarantine and Inspection Service and Australian Customs Service programs involving cargo and seaports.

Is the increased passenger movement charge and agency cost recovery the source of funding for the work at Melbourne airport?

Mr Cahill—As you know, the passenger movement charge is a tax and it is not hypothecated to the cost of the services provided. So the government did increase the passenger movement charge as a revenue source for the additional funding it was providing for the increased border services, but there is no hypothecation of that cost to that revenue.

Senator O'BRIEN—So it is a tax. The money was there for the program initially, \$570 million-odd that you referred to, but I took it from the Treasurer's statement that the Treasurer had said that the increase in the passenger movement charge together with full cost recovery was to meet its cost. What you are saying is that it did not meet its cost?

Mr Cahill—Yes, it did meet its cost. On the cargo side, for example, which is fully cost recovered through fees and charges, the fees and charges were adjusted to meet the increased costs of those programs. In relation to airports and passengers arriving through seaports, traditionally the revenue source for those services has been via the passenger movement charge. And the additional component of \$596.4 million that related to passenger services was essentially matched by the revenue generated through the passenger movement charge increase.

Senator O'BRIEN—When will this work get under way and when will it conclude?

Mr Cahill—It is getting under way now. We are attempting to complete the works urgently. Realistically, there is likely to be about six months work involved. So we would hope that within about six months time the work would be completed, but a firm schedule has not been agreed yet and it may be a little bit longer than that. But the border agencies will be pressing to get it done as a matter of urgency.

Senator O'BRIEN—What is AQIS's role in the project now that the money has been handed over to Transport? Do they manage it or do you manage it and they pay the bill?

Mr Cahill—It is a whole of government approach involving Customs, AQIS and Transport. So the three parties are engaged with Melbourne airport in agreeing on what needs

to be done, what the project schedule will be and what the cost of that is. Transport will pay the bills based on this appropriation.

Senator O'BRIEN—At the last estimates, AQIS advised that, although the infrastructure work was not complete, intervention targets were still being achieved. Is that still the case?

Mr Cahill—That is still the case, yes.

Senator O'BRIEN—There was a problem with queuing.

Mr Cahill—There remain problems with queuing. We did make some interim changes—I think I referred to those either at the last hearing or the hearing before—to improve the passenger facilitation but certainly at peak hours there is still queuing. The passenger numbers, of course, dropped off somewhat so that has lessened the impact a little but there will be, I think, reasonably significant disruption while the works are undertaken.

Senator O'BRIEN—Another reason that it is not a good time to travel.

Mr Cahill—Through Melbourne perhaps, yes.

Senator O'BRIEN—On the question of the passenger movement charge, which increased by \$8 to \$38 in the 2001-02 budget, I take it from what you said that none of that money flows to AQIS. It is not hypothecated.

Mr Cahill—It is not hypothecated. We are not responsible for the collection.

Senator O'BRIEN—Where do I find the stream of revenue from that tax which was levied for the purpose of quarantine and border protection?

Mr Cahill—You probably need to put that question to the Australian Customs Service.

Senator O'BRIEN—What additional funding does AQIS receive which relates to the additional quarantine and border protection role that the government required it to undertake?

Mr Cahill—The aggregate, from memory, was in the order of \$281 million or \$282 million, something of that order, over four years. In 2003-04 and 2004-05, I think the money is about \$73.5 million.

Senator O'BRIEN—With regard to the allocation of this passenger movement charge, I think what you have told me—I just want to properly understand it—is that there is no connection between the passenger movement charge and any of the functions that AQIS carries out—there is no hypothecation.

Mr Cahill—It is a tax which is not hypothecated.

Senator O'BRIEN—Is any of the \$73.5 million the result of collection of user pays charges or is that entirely consolidated revenue funds?

Mr Cahill—No, that includes the funds that are generated through fees and charges, principally on the cargo management side.

Senator O'BRIEN—So how much is raised through the fees and charges principally on the cargo movement side?

Mr Cahill—In broad terms, about \$38 million would come for the passenger service and related activities, and the balance would be on the cargo management side through more direct fees and charges.

Senator O'BRIEN—So it is nearly 50:50?

Mr Cahill—Roughly, yes.

Senator O'BRIEN—Where do I find those figures in the PBS?

Mr Cahill—I doubt that you will—not in this year's PBS.

Ms Stanton—Not in that form, no. Again, Senator, we refer you to the output price on page 29 of the PBS. You have already asked for further clarification of that.

Senator O'BRIEN—Yes.

Mr Cahill—Excuse me, just to correct something that I just said: the split is about two-thirds, one-third in terms of the direct cost recovery as compared with the passenger services. So it is about \$40 million, give or take, for passenger services. We are talking about the increased quarantine intervention funding.

Senator O'BRIEN—Yes. Do you know how much the passenger movement charge raises?

Mr Cahill—I think you need to put that question to the Customs Service.

Mr Wonder—We are not the agency responsible for the passenger movement charge.

Senator O'BRIEN—Was this always the case or was it a recent change?

Mr Wonder—No, it has always been the case.

Senator O'BRIEN—With regard to the subject of honey imports I have raised with AQIS before, I am interested in imported product that may have contained chloramphenicol or CAP. I understand CAP is a chemical used in human and animal medicine and in some countries in animal food production. Is that right?

Ms Stanton—Yes.

Senator O'BRIEN—And that therapeutic and sustained levels of exposure to CAP may cause the disease aplastic anaemia.

Ms Stanton—I think Dr Carroll will be able to help there.

Dr Carroll—Yes, that is correct. By and large, chloramphenicol, which is an antibiotic that has various uses—sustained exposure to it can occasionally result in some individuals in aplastic anaemia.

Senator O'BRIEN—Can you confirm that honey from China containing CAP is being relabelled and transhipped through other countries such as Vietnam and Thailand?

Dr Carroll—We have heard reports that honey from China has been relabelled. How definitive those reports are we do not know, but it is a risk that we are well aware of.

Senator O'BRIEN—Have you heard that product has in fact been brought into Australia, relabelled as Australian honey and then exported, I think, to the United States?

Dr Carroll—Yes, I am aware of that.

Senator O'BRIEN—I further understand that there have been attempts to remove the contaminants in a process called ultrafiltration.

Dr Carroll—It has been suggested to us that is one of the methods some operators may be using to try to remove the contaminant from the honey.

Senator O'BRIEN—Is AQIS testing for this substance?

Dr Carroll—Yes. When the reports first came out of Chinese honey with CAP being detected in other countries, the information was passed on to FSANZ. They are the ones that do the risk assessment and decide if there is a public health risk and how we should respond. As a result of that process of chloramphenicol testing, we also test for pesticide residues. Chloramphenicol testing has been introduced for all honey imports regardless of country of origin. The current test regime we have is at what we call risk food, which means that all initial imports from a producer are subject to test until they build a compliance history of testing negative for chloramphenicol and whatever else they need to test for. Then they go down in testing intensity, unless a positive turned up. Because of the difficulty in actually saying where honey may have originated from, the testing regime is applied to all imported honey regardless of country of origin.

Senator O'BRIEN—When were those changes made?

Dr Carroll—I am not sure of the exact date but it was at least 12 months ago. Since then I think we have turned up a couple of positives which have had to be re-exported. The honey that you mentioned that was relabelled in Australia was not imported into Australia for Australian use. We work very closely with various other authorities and inform them, and actions have been taken against the offenders in that case.

Senator O'BRIEN—What about this ultrafiltration process? Is there any test for that?

Dr Carroll—The ultrafiltration would more come down to, I believe, a case of description of the product. Is it still honey after it is ultrafiltered? I would need advice from FSANZ on that. If it actually effectively removed the chloramphenicol, the ultrafiltration may in fact leave it so that it complies with the chloramphenicol requirements, providing it effectively removed the antibiotic.

Senator O'BRIEN—Is there a zero tolerance to CAP in your testing process?

Dr Carroll—There is. It depends on the test used and what the level of detection. In any test there is a level below which you just cannot detect it. But chloramphenicol, to my knowledge, has no permitted residue level. Therefore, there is a nil tolerance.

Senator O'BRIEN—When were the problems associated with CAP identified and dealt with in the United States and the EU?

Dr Carroll—I believe that was last year. I am not sure of the exact months.

Senator O'BRIEN—When did our new testing process come into place?

Dr Carroll—It would have been, I think, about three months after that. The main difficulty we had was finding a laboratory—or working with the Australian Government Analytical Laboratory to actually develop the test. The nature of the program is that we just cannot submit it to any laboratory for testing. It is an evidentiary type testing. We have to be able to

prove that, yes, that honey has chloramphenicol to a level that will stand up in front of a legal system. There were difficulties getting an assay in place for the chloramphenicol.

We were working closely with what was then ANZFA—the Australia and New Zealand Food Authority—and the Australian Government Analytical Laboratory to develop a test that was acceptable. We are still working with them to get improvements on the testing process. But there was a delay in the detection when we were trying to initiate things until we could actually get a laboratory that could do the work.

Senator O'BRIEN—In terms of the domestic honey industry, it participates in the NRS program, as I understand it, so there are tight standards in relation to the production and sale of domestic honey.

Dr Carroll—I believe so, Senator. I am not really across the NRS system and what they do for domestic honey.

Senator O'BRIEN—I understand that they check for antimicrobials, organochlorines, organophosphates, synthetic pyrethrins and heavy metals. What does AQIS check for?

Dr Carroll—My recollection is that we test for chloramphenicol and we test for a pesticide residue screen. So there is a group test applied to see if there are any pesticide residues. If something is detected, then more specific tests are applied. I do not believe we test for heavy metals in honey at this stage but I would have to verify that. We follow the testing schedule that Food Standards Australia New Zealand stipulate that these are the things we should test imported honey for. They also stipulate the frequencies at which those tests should be conducted.

Senator O'BRIEN—So imported honey would be tested for the same pollutants and contaminants as domestic honey?

Dr Carroll—No, the standard which applies is the same, but FSANZ undertakes a risk assessment process to determine what are the primary health concerns that may be posed by imported honey and therefore which tests we should carry out. The National Residue Survey—I admit I am far from expert on it—serves a different purpose. It is to do with assurances of the standard of our domestic honey. There is not a link between the NRS process and the imported food process. They are entirely separate processes.

Senator O'BRIEN—Is it a nil MRL for all of the substances that you test for in imported honey?

Dr Carroll—I am not sure if it is a nil MRL for all the pesticides. I would have to check on that. Some pesticides may well have had an MRL established. They could be ones which are used in Australia, and that sort of work has been done. I would have to verify. There is a wide range of specific tests that can be done in the residue screen.

Senator O'BRIEN—Can you tell me why imported honey does not go through at least the same NRS type test as domestic honey?

Dr Carroll—They fall through different categories. We actually test all imported honey. The National Residue Survey I think is designed to give assurances to production in Australia for export purposes. The imported food control program is designed not as an export assurance measure but as a measure to protect public health in Australia. As I said, FSANZ

determine which tests we should do, and they do that on a wide range of dietary modelling and various other bits of advice that they get to determine what are the principal health risks that should be addressed. Then we implement that testing under their direction.

Senator O'BRIEN—For imported honey?

Dr Carroll—For all food products that come into Australia.

Senator O'BRIEN—I am still struggling with this. I have some concern that there seems to be two separate processes and two separate standards operating for food products used here.

Dr Carroll—The standards are the standards set down in the Australia New Zealand Food Standards Code which FSANZ administers, so exactly the same standard applies. But the purposes of the two schemes are quite different. Under imported food control, we actually are at the moment sampling all honey from producers in the first instance until they build a compliance history. The NRS works on a different basis. It is a more random sampling process.

If we detect honey at the border that does not comply with the requirements, it cannot be released into the Australian market until it does comply. I think the National Residue Survey has a wider ambit and is building information rather than being a specific approval on each lot of honey before it is sold. But, as I said, you would need to talk to the people from the National Residue Survey for how that system works and what it achieves. But the standard is exactly the same. Anything that is allowed in imported honey is allowed in domestic honey, and vice versa. It is exactly the same standard but the two lots of testing are done for very different purposes.

Senator O'BRIEN—With regard to the import of honey from China, why is it being sourced via other countries? What is the nature of the scam there?

Dr Carroll—Sorry?

Senator O'BRIEN—Why are they bringing it in through Vietnam or another country? Has China got a bad reputation?

Dr Carroll—China had some difficulties last year—I do not know what the current situation is—with their processes for agriculture and veterinary chemicals. There were discoveries in Europe and the United States and possibly other countries of contaminated honey. In some of the countries, the way their systems work is that they put absolute prohibitions on. So there were prohibitions on imports from China. There may have been those who tried to launder the product through a third country to get it into the countries where they had absolute prohibitions.

Our system works very differently. We do not have a system of absolute prohibitions. We have a testing system at the border, so honey from China or any other country that can comply with our requirements is allowed in. With honey from China or any other country that cannot comply with our requirements, then that particular batch of honey is not allowed in. Rather than a prohibition on a country, ours is a more targeted system.

Senator O'BRIEN—Is there any idea of how much honey has come in via these other countries irrespective of the relevance to—

Dr Carroll—I would not know. By the nature of it, if laundering were taking place, it would be a clandestine activity. Given that we have the rigorous testing regime that we do have at the border, it is based on the fact that we cannot be absolutely sure where honey comes from. But there is no way of estimating how it might be channelled.

Senator O'BRIEN—With regard to the export of honey, I want to ask some questions about the documentation required. Am I correct in saying that honey is not a prescribed good under the Export Control Act?

Mr Read—That is correct, Senator.

Senator O'BRIEN—And that the sole form of documentation provided by AQIS is what is called an E188 certificate?

Mr Read—For certain markets that would be correct.

Senator O'BRIEN—Some countries require additional documentation, I take it?

Mr Read—That is correct.

Senator O'BRIEN—What additional material is required and who has to provide it?

Mr Read—There will be certain requirements that will be prescribed or they will want assurances from AQIS that that product meets those requirements, so a certification will accompany that product.

Senator O'BRIEN—So it depends on the country. Sometimes AQIS has to provide it; sometimes other—

Mr Read—Other avenues are available.

Senator O'BRIEN—What sort of information would you be certifying?

Dr McDonald—It is bee diseases that trading partners are essentially concerned about in most cases, although they might ask for certification as well.

Senator O'BRIEN—So AQIS certifies with respect to freedom from particular diseases?

Dr McDonald—Yes, Senator, or treatment that will address those bee diseases.

Senator O'BRIEN—Is there a variety of standards that apply to different countries or is there a general standard and a few exceptions?

Dr McDonald—A variety of standards I think it would be safe to say.

Senator O'BRIEN—And in relation to this matter AQIS is the lead agency?

Dr McDonald—Yes, Senator.

Senator O'BRIEN—I guess while we are on the subject, can you confirm for me that Western Australian honey producers are still unable to send their product to the New Zealand market?

Dr McDonald—Yes, I can confirm that. They are still unable to send honey to New Zealand.

Senator O'BRIEN—We have been working on the details of the protocols designed to gain access to that market since the late 1980s, I believe.

Dr McDonald—I think 1990 is correct, yes.

Senator O'BRIEN—And New Zealand honey has been given access to our market since 1990?

Dr McDonald—I think it was in 1991 that we entered into discussions with our New Zealand counterparts that would allow New Zealand honey to come into Australia and Australian honey to go to New Zealand. At that stage we both agreed to conduct import risk assessments of the concerns on each side. We came up with conditions that would allow New Zealand honey to be exported to Australia, but the import risk assessment has not been completed by the New Zealanders at this stage.

Senator O'BRIEN—Since 1990?

Dr McDonald—Since 1991, which is when it started, I understand.

Senator O'BRIEN—I am tempted to ask what the sticking point is, but someone will accuse me of trying to make a joke. I understand that the industry was asked to attend a meeting recently to work through the issues associated with getting into the New Zealand market and that those issues appear not to have changed since they were first raised in the early 1990s or late 1980s.

Mr Banks—The sticking point, as you put it, is European foul brood and the level of heating that is required to inactivate that organism.

Senator O'BRIEN—I see. And I presume this process fits within the terms of the closer economic relationship agreement with New Zealand; is that right?

Dr McDonald—To the best of my knowledge, quarantine requirements are slightly outside those common economic relations. What we are required to do is look at each other's trading interests, I guess, and where we have different health statuses with respect to something such as honey and bee diseases, then they are negotiated separately from that arrangement. We have to take our different quarantine statuses into consideration when we are dealing with products such as these.

Senator O'BRIEN—So there has been one request for an import risk assessment to be conducted and it has not been completed?

Mr Banks—They have completed a draft form, but I understand there have been some major problems with it, in that a number of deficiencies have been found with it. They have had to go out for another round of consultation and some rewriting.

Senator O'BRIEN—When were the deficiencies discovered?

Mr Banks—This was an internal New Zealand assessment. Exactly when they realised that, I do not know, but it was some time between January when we last spoke to them and about a week ago.

Dr McDonald—We were notified of the problems about a week ago.

Senator O'BRIEN—When did the draft import risk assessment issue—

Mr Banks—We do not have that information from New Zealand.

Senator O'BRIEN—How long have we known about it?

Mr Banks—I do not think we knew about it until last week.

Senator O'BRIEN—I take it the department has no role in that process?

Mr Banks—This is an internal New Zealand affair.

Senator O'BRIEN—Do they not advise stakeholders of the process of their import risk assessment and give them an opportunity to have input and consult with them about draft import risk assessments and the like?

Mr Banks—They presumably have some internal mechanism, as we do, but I was certainly not aware that a draft had been prepared to the point where it could be subject to assessment.

Senator O'BRIEN—Who made the original request for access back in 1990 or 1991 from Australia's point of view—was it the industry or the government?

Dr McDonald—I cannot answer that.

Mr Banks—I am fairly sure it was the government.

Senator O'BRIEN—I have asked this next question a number of times, and Senator Collins preceded me in asking this question a number of times—it has been raised a great many times in this committee. I am just interested to know, in the context of our debate about our import risk assessment process, what reciprocal arrangements exist in New Zealand. Is it not something that I should be asking this department? This department is normally aware of impediments to the export of agricultural commodities, is it not?

Mr Banks—We are usually made aware of them by Australian exporters.

Senator O'BRIEN—There is no protocol—it would not have been a matter on Mr Taylor's list for today, I take it?

Mr Wonder—I do not know that.

Senator O'BRIEN—I will ask him when he gets here.

Mr Wonder—I have spoken to the committee about that matter.

Senator O'BRIEN—Yes, I know. We are pretty certain that the issues now were issues back in the early 1990s with regard to the import of Australian honey into New Zealand?

Ms Stanton—Yes.

Senator O'BRIEN—I ask Dr Carroll return to the table because I have just had something drawn to my attention. I think one of your answers in our discussion of honey imported from China could be taken to mean that it was imported into Australia not for use in Australia but for the purpose of export. I think you were saying that some was imported for that purpose and some was for domestic consumption.

Dr Carroll—No, my recollection is that it was imported for transiting in Australia for re-export, not for sale onto domestic markets. A reason for doing that could be that we only test product under the Imported Food Control Act that is being imported for domestic consumption.

Senator O'BRIEN—How does AQIS know that this is the case?

Dr Carroll—It is to do with the way that the entry is lodged and the purpose for which it is imported. So if it is actually imported for use in Australia, they will lodge an entry through the customs system. It will then have a tariff code for honey and it will be referred to us for testing.

Senator O'BRIEN—I presume it is a matter of concern to AQIS. Does this give the exporter from Australia the chance of saying, 'This is Australian honey?'

Dr Carroll—My understanding is the intention of doing it was to relabel the product as product of Australia and send it out. It then could run afoul of quite a few bits of legislation. In fact, it was AQIS compliance officers—even though it is not a prescribed good and it was not going out with AQIS certification—working with Customs very closely and the various importing country agencies that were involved in the work that was done on that.

Senator O'BRIEN—How long has this been happening?

Dr Carroll—I only know of that one instance. We were aware of concerns relating to product with China at least early last year.

Senator O'BRIEN—So when was the one instance?

Dr Carroll—The one instance I think was in the first half of last year.

Dr McDonald—That sounds about right, yes.

Dr Carroll—It was one that, as I said, was discovered and the appropriate action was taken to make sure that the importing country was aware of what was going on so that the relevant agencies here could take appropriate action. As you can imagine, mislabelling the product and various other things breach various bits of legislation.

Senator O'BRIEN—Do we certify honey for export as Australian honey?

Dr McDonald—Yes, where the exporting country requires that certification, but we certainly do not certify anything as Australian honey unless the officers providing the certification are assured that it is honey of Australian origin. When we became aware of this issue last year with the honey from China, advice was sent out to AQIS officers and also to industry advising them that this was an issue that had been drawn to our attention and that they would have to provide those assurances to our officers before we would provide any certification for honey exported from Australia.

Senator O'BRIEN—Do we know how much honey is exported each year from Australia?

Dr McDonald—No, we do not because not all of it requires AQIS certification.

Senator O'BRIEN—So this could have been happening previously without our knowledge?

Dr McDonald—The reality is that the industry certainly has a good idea of these sorts of instances when they occur. They were just as aware of this issue as we were when it came to our attention. So I suppose, yes, there is the possibility that this could have been happening, but the industry is a fairly small industry and this sort of information does get back to the relevant authorities—in this case AQIS and Customs.

Senator O'BRIEN—Some information might get back to the industry. But I am wondering how they would learn if there is a scam by someone who does not want it known that they are bringing honey in from China, and basically putting different stickers on the boxes and sending it to the United States, or even labelling it overseas. If we do not check the consignments and there is no record kept, how would we know?

Dr Carroll—Because it is not a prescribed good, it is not one that we keep a high level of control over, and we do rely on intelligence coming from industry and various other sources. Our compliance area has various avenues for gaining information, and they advise us of imports that look improper. The industry does look towards what is coming into Australia through various means it has of checking what is coming in to Australia.

Senator O'BRIEN—What impact can this have on our export reputation?

Dr McDonald—I am not aware of any great impact that this has had at all. In fact, it has probably strengthened our relationships, because we have taken steps to address the problem as far as we could, given that it is a non-prescribed good, and also in working with our industry—our trading partners are aware of that.

Senator O'BRIEN—What other products might be imported for the purpose of export? Are there any particular food items that could come through here for reshipment?

Dr McDonald—There is probably a wide range of goods, but I cannot think of any off the top of my head. I do not know whether Dr Carroll can think of any.

Dr Carroll—There would be a range of goods that could come in—there are products that are imported and used in the production of export commodities. They are usually ingredients in process type product. Importing a fresh product in the normal course of event to export from Australia would not be economically feasible or viable. So it would be a specialist product involving a manufacturer to make a processed product. You could import honey to go into confectionery and then re-export the confectionery, depending on the differential in price of the domestic local honey.

Senator O'BRIEN—But if you imported it for that purpose, it would have to be the subject of your testing process?

Dr Carroll—If it were imported for use in Australia, then it would be subject to imported food control testing, depending on what the product is and the intensity of the test regime for that product. If it is a risk food, then it is subject to a very high level of inspection; if it is a random surveillance food, it is subject to generally a 1:20 range of inspection.

Senator O'BRIEN—So I suppose the potential is there for other products that came through and were re-exported to contain contaminants that we would not accept?

Dr Carroll—From an import perspective, there is a process whereby we get advice from industry. We work very closely with the imported food industry through the Food and Beverage Importers Association and various other industry groupings. Where there is any indication that there is anything amiss with overseas food that could be coming in, the tendency is to notify us early. The imported food industry in Australia have a strong focus on the reputation of imported food.

The relationship we have with them is close and they are not keen to have an imported food issue in Australia. If there is a problem, they would rather we find it at the border and we stop it coming in because of the effect on the reputation of the imported food industry in general. So we work in close partnership and cooperation with the food importing industry. As I said, they are usually very eager to cooperate with us, feed us intelligence to our compliance area and to FSANZ—the information is always passed on to them—so that they can assess the risks and provide us with appropriate advice.

Senator O'BRIEN—On discovery of the scam of bringing honey from China through Australia for other markets, was an assessment made of other risk products that might fall into that sort of category—that Australia was a convenient sort of rebound point for product that might be seen as acceptable coming from Australia but not acceptable from somewhere in South-East Asia or India—

Dr Carroll—Not that I am aware of. I think honey had some unique characteristics which made it more liable to that sort of treatment in that it is very stable. You can have a drum of honey and you do not have to do very much to store it. It is not characteristic in any way and you pour it into a bottle and relabel it.

Senator O'BRIEN—Other than flavour when you say 'not characteristic'.

CHAIR—As long as the drum is clean.

Dr Carroll—And I believe the sort of honey that would be involved would not be your prime 'good on taste' sort of honeys. They would be, I imagine, more in the manufacturing grade of product. So honey as a commodity, I suppose, has risks to it. But I cannot off the top of my head think of other products that are quite as easy to handle as honey would probably be in an Australian context, because to bring it in and hold it in bond and then re-export it is not going to trigger quarantine concerns—and doing it that way would not trigger imported food concerns either.

Senator O'BRIEN—What about frozen seafood, for example? It is more than likely you could do the same, couldn't you?

Dr Carroll—Nominally, with some frozen seafood you could, but it depends on the food. I am not sure of the exact quarantine requirements, but I believe raw, head on prawn et cetera is subject to quarantine. So if it is subject to a quarantine requirement, then you are actually going to have to import it and then it would trip an imported food measure as well.

Senator O'BRIEN—So presumably animal products would not normally fall into a category that you could use Australia as a false destination—

Dr Carroll—It would become increasingly more difficult. As you get into animal products such as seafood, you have to keep them frozen somewhere and you are having to use more and more facilities and equipment. So to do it clandestinely becomes increasingly difficult in the industry, as you can imagine, if you want to tie up freezer space to import a product that is not going to trip a quarantine concern and then repackage it and send it out; whereas with honey you have a shed and some drums, bottles and labels. So it is a simpler process.

Dr McDonald—I add there that seafood is also a prescribed good. So every consignment of seafood going out of Australia comes to the attention of AQIS and has to be certified.

Senator O'BRIEN—That is probably a bad example then.

Proceedings suspended from 8.59 p.m. to 9.15 p.m.

Senator O'BRIEN—A couple of things have occurred to me over the break. Of the honey that was transited here and went to the United States, there was one shipment that we know of?

Dr Carroll—There was one lot that I am aware of. I think it was in a shipment.

Senator O'BRIEN—What is a lot?

Dr Carroll—One import.

Senator O'BRIEN—A container or a number of containers?

Dr Carroll—A number of containers. I am not sure of the exact volume because it did not come through our system as it was not actually imported. I think it may have been just one export shipment, but I am not absolutely sure of that.

Senator O'BRIEN—Would that leave this country as Australian honey?

Dr Carroll—It should not have. I believe it was relabelled as 'product of Australia'. But it would not have gone certainly with AQIS export documentation. I am not sure. It would have been a Customs type thing rather than an AQIS quarantine type thing.

Senator O'BRIEN—So does that mean it had to be landed here, or had it already been labelled 'product of Australia'?

Dr Carroll—My understanding is that it was landed here in drums and then packaged and labelled as 'product of Australia' but handled in bond. So it was not imported; it was a transit product. Honey is something you can transit here, like machinery. You can transit here all those sorts of things.

Senator O'BRIEN—So Customs would know how much honey was landed here and put in bond and exported again? You do not know?

Dr McDonald—I am unsure of that.

Dr Carroll—I am unsure as well.

Senator O'BRIEN—We do not know if this was the only lot or group of containers? AQIS doesn't know; is that what you are telling us?

Dr Carroll—To the best of our knowledge—as I said, it was part of investigations by compliance and by Customs and by relevant US authorities—it is the only one we are aware of. I do not think there is anything to indicate that there were other instances. It was picked up early and the appropriate people in the US were told.

Senator O'BRIEN—So it is the only one that our system here has picked up?

Dr Carroll—Yes, that is right.

Dr McDonald—Yes.

Senator O'BRIEN—We do not know how much Australian honey has been shipped to the United States?

Dr McDonald—No, we do not have that information.

Senator O'Brien—Does AQIS have a record of how much Australian honey has been shipped from Australia as Australian honey, not trans-shipped honey?

Dr McDonald—We could provide some detail of the honey that we have been asked to certify as part of the government to government certification requirement. But honey that has gone out that has not required certification to be provided by AQIS we cannot provide detail on.

Senator O'Brien—With regard to the shipment that has gone out, we do not actually know the volume or value?

Dr Carroll—I am not aware of it.

Dr McDonald—I am not aware of it either.

Senator O'Brien—And does the process of relabelling in bond happen for many products?

Dr Carroll—I am not aware. I do not think the relabelling was an overt thing that they were doing—that they were bringing it in to relabel it and re-export it. I think it was brought in to be transited and was interfered with in the process.

Senator O'Brien—And being in bond means in a sealed storage area where there is some sort of certification process?

Dr Carroll—My understanding—as I said, it was more of a Customs issue than an AQIS issue—was that it was held under the control of Customs in that it was not allowed to be cleared through the customs process and subsequently the AQIS process. So it could be held and then re-exported, but I am not sure what the controls over the product were because it was a Customs matter. It is just that the product could not be cleared into Australia. If they subsequently wanted to clear it into Australia, they would have had to put in their customs entry appropriately and it would have been referred to us.

Senator O'Brien—So any honey that had to clear Customs had to be referred to you?

Dr Carroll—Yes. If it was for import into Australia and cleared and came in as what we call a compile entry, then it would have been referred to us for testing.

Senator O'Brien—And honey that was not required to clear Customs does not have to be tested by AQIS?

Dr Carroll—The Imported Food Control Act is specifically for food being imported for the Australian market and the testing is set to pick up what is for human health in Australia. So human food safety in Australia are the tests assigned to it, and that is the purpose of that program. So something that was transiting and going out again would not come to the knowledge of the Imported Food Control Act people.

Senator O'Brien—It is a pretty outrageous system, isn't it, in that we could be seeing this product being brought into the country, not going through customs, being relabelled or already labelled as Australian, and being shipped out again as Australian product?

Dr Carroll—The result of that was that it was actually in contravention to the laws of Australia because it was being sent from Australia falsely labelled. Therefore, actions were initiated at this end, and I believe the appropriate actions were taken at the US end as well with this product. So they were not doing a legal thing; they were doing an illegal thing and they got caught doing the illegal thing. It is probably subject to a court process; I do not know what is happening with that. But if they did do that, it was an illegal thing and they are subject to the normal process.

Senator O'BRIEN—Your intelligence indicates that this may have been happening before, but you think you have clamped down on it now?

Dr Carroll—To the best of my knowledge, it happened near the beginning of the problems with international trade in Chinese honey. We are only aware of this one instance. We have certainly been told of instances of honey being relabelled in other countries to be sent to Australia or sent to other places. It has even been alleged that the product could be labelled in other countries as 'product of Australia' and sent to a third country. But it is very difficult to know because it is not a prescribed good.

Senator O'BRIEN—So all that the ship carrying it has to do is call here? If it does not clear customs, what proof is it that it had anything to do with Australia?

Dr Carroll—It would depend on what the importing system is in the other country and the controls they have on honey and whether they are focused on where honey comes from.

Senator O'BRIEN—But we do not have to certify all the honey that leaves this country, so there is no impediment in that way, is there?

Dr Carroll—No. It is not a prescribed good, so it is not subject to our controls other than where an importing country requires a form of certification that then we give. But it is not subject to our controls.

Senator O'BRIEN—We do not have any protocols, for example, with the EU or the US which would give us a bit of a fail-safe on controlling the honey that is represented as Australian in those markets?

Dr McDonald—It is really up to the importing country to set the importing requirement. So if any country, including the EU member states or the US, wanted those sorts of assurances from AQIS or from the government of any other country that they were dealing with, then all they have to do is negotiate those conditions and trade occurs if we can meet those conditions.

Senator O'BRIEN—It seems to me that we are open to damage to our export reputation because of the system we have in place at the moment.

Dr McDonald—We have certainly raised this issue with the honey industry. They are aware that there are issues for the export of honey. As long as it is not a prescribed good, we are limited by the action that we can take under the export legislation.

Senator O'BRIEN—So presumably this is a matter on which there would be advice to government?

Dr McDonald—Yes. We have been working with industry on this. The minister is aware of this matter. He was certainly advised of it.

Senator O'BRIEN—When was the minister advised?

Dr McDonald—Six or 12 months ago when we first became aware of this instance with the Chinese honey.

Senator O'BRIEN—Could you be a little bit more precise? Was it six or 12 months?

Dr McDonald—I am sorry, I cannot be any more precise.

Senator O'BRIEN—Can you take that on notice?

Dr McDonald—Yes, I can take that on notice.

Senator O'BRIEN—And the remedies would be some change to our legislation that governs the certification of exports, I take it?

Dr McDonald—If that is what the industry want, yes. That is certainly one way of addressing the problem. There are probably others. We have quality assurance systems and so on that might be equally effective in addressing these problems. We are discussing this with the industry and certainly did so at the time of this instance. We have gone through a range of options with them, but they have not really come to any decision about which one they would prefer to follow. I guess that because there have not been any other instances since then they have not focused much on it since that time.

Senator O'BRIEN—That could be the difficulty. A lack of focus by the industry might ultimately prejudice it. I am just wondering why we are relying on the industry's view if there is a view in the department that there is a threat to our export reputation.

Mr Wonder—I do not think the officers stated that there was a threat to our export reputation.

Senator O'BRIEN—I thought it was suggested that it was a distinct possibility.

Mr Wonder—In fact, I think that earlier in the session Dr Carroll and other officers indicated that they did not believe any damage had been done to our export reputation.

Dr McDonald—I actually think it has been improved because of the information we have provided to our trading partners in respect of this issue. As I have just said, there are other ways of managing this, such as through quality assurance arrangements and so on with our industries. We have certainly raised those options with them for their consideration.

Mr Wonder—I think Dr McDonald also indicated earlier that if the importing country wished to specify a particular requirement in respect of wanting to know the origin of that honey, then they would do so. So there are remedies that are actually in the marketplace operating today.

Senator O'BRIEN—Absolutely, Mr Wonder, but you would be aware that there has been substitution of other Australian products which has damaged our reputation.

Mr Wonder—That is not the point I am making. I am simply making the point that you are suggesting that our reputation has been damaged, and we did not say that.

Senator O'BRIEN—I said it is a threat to our reputation.

Mr Wonder—I thought you said our reputation had been damaged. The officers said that, as far as they knew, there had been no damage to our reputation.

Senator O'BRIEN—I thought the officer agreed that there was the potential for damage to our reputation arising from this.

Mr Wonder—I would have to go back and check the *Hansard*. My recollection of the discussion was that we did not believe there had been any damage to our reputation.

Senator O'BRIEN—I think we heard both comments, Mr Wonder, but let's see what the *Hansard* says.

CHAIR—Settle down.

Senator O'BRIEN—Tell Mr Wonder to settle down. I do not think I will ask any more questions—I have been intimidated by Mr Wonder! I will hand over to Senator Stephens.

Senator STEPHENS—I am looking through the cost recovery arrangements of the PBS. Does AQIS have any role in terms of inspecting military personnel and equipment that might be involved in overseas activity on their return to Australia?

Ms Stanton—Yes, we certainly do.

Senator STEPHENS—What kind of role does AQIS play?

Ms Stanton—Largely a pre-clearance role. I will use the example of East Timor. When Australian personnel and equipment were on East Timor, like all personnel and equipment coming into Australia there were quarantine risks. We cleared that. What we chose to do on East Timor was to pre-clear it—that is, to check for weeds, dirt and anything else actually on East Timor—so that when personnel were returning home, typically through Darwin, they were not held up at the border and any potential quarantine risks were kept at their source rather than coming into Australia. So that is the sort of role we play. East Timor was a prime example of that.

Senator STEPHENS—I did not see any kind of evidence in the budget papers about that relationship, so I was not sure. In terms of Iraq, has AQIS had a role in inspecting the personnel and the equipment coming back from there?

Ms Stanton—Yes. We are in the process of doing that now.

Senator STEPHENS—What was actually involved for Iraq?

Ms Stanton—We are not doing it from Iraq. We are doing it from elsewhere in the Middle East. Troops and equipment are transiting through there.

Senator STEPHENS—And how does that work? Do AQIS staff do that?

Ms Stanton—Yes, we had 11 staff. I think two have now returned, so we have in the order of nine staff. Mr Cahill might have the exact figure. Is that right?

Mr Cahill—It was 11. Two have returned and there are now nine. The process is to undertake inspection of the equipment, the kit, the personnel and the materials they are bringing back—the aircraft, those sorts of things.

Senator STEPHENS—So which agency bears the cost of that inspection?

Mr Cahill—The costs of that are fully cost recovered, so Defence bears the cost. In the case of East Timor, funding was also provided from AusAID as well as from Defence.

Senator STEPHENS—Is there equipment or personnel that the military will not let you inspect—for security reasons perhaps?

Mr Cahill—I am not aware of any. Essentially, the Department of Defence is very diligent in helping and cooperating and managing the quarantine risk that presents itself. Again, in the example that Ms Stanton used of East Timor, we had access to all the equipment, the kits and the personnel that were returning. There was substantial dismantling of equipment and cleaning at the site in Dili and elsewhere. So it is a very thorough process.

Senator STEPHENS—So that same process is going on somewhere in the Middle East for the equipment used in Iraq?

Mr Cahill—That is correct.

Senator STEPHENS—What diseases and pests from the Middle East would we be conscious of?

Mr Cahill—We have done an assessment of the kinds of quarantine risks that might present themselves. Dr Carroll might want to elaborate.

Dr Carroll—We were involved very early in the process with the military in the planning for the return of Australian resources from the Middle East. Part of that process was consulting with Biosecurity Australia on a pest risk assessment of what would be a concern. The main concerns relate to soil-borne and plant product-borne diseases that occur in the area—various insect pests and plant pests—as well as what we call hitchhiker pests. They are things like spiders that are exotic to Australia, snakes and other sorts of insects, such as scorpions. They were the main concerns. Most of the animal quarantine concerns were not as great because it is a very hot, dry environment. But they were part of the assessment of how we needed to ensure equipment was treated prior to returning to Australia.

Senator STEPHENS—Do we have equipment that cannot be returned to Australia because we cannot guarantee that it is clear?

Dr Carroll—The only things likely to fall into that category would be some wooden items or items that by their nature are very difficult to get properly clean or to ensure that they have not been infested with insects or whatever. Looking at equipment per se, there are the jeep-type things and aircraft weapon systems and that sort of stuff. I am not aware of anything that we have not been able to get in a state where it could return safely to Australia from a quarantine perspective.

Senator STEPHENS—Given that you were involved early in planning this whole process, do you have an estimate of what that process is going to cost the government?

Dr Carroll—I do not have the exact costs. As Mr Cahill indicated, it is cost recovered. So it is the same as if we are clearing a commercial second-hand tractor overseas. We just apply the normal fee-for-service activities for the officers there and the work that is done. We have a determination which covers that. I think probably until the work is done, it would be difficult to estimate the actual costs because things have progressed well and two officers have been able to return to Australia earlier than we originally thought. It will depend on how long the officers are needed over there, which is dependent upon a lot of logistical issues.

Senator STEPHENS—Mr Cahill, did I miss the cost recovery documentation for the Iraq project in the PBS, or is it not here?

Mr Cahill—You will not find it in the PBS specifically. It is not cost recovery that is specifically identified for military activities. The work that we do to inspect equipment overseas is generally undertaken within our Cargo Management Group that Dr Carroll heads and is just regarded as an element of their operation. That is a \$60 million or so program. So the military inspections undertaken are a relatively small part of that program activity.

Mr Wonder—It would be included, Senator, as I understand it, in the total price of the outputs.

Mr Cahill—It is in the total price of the outputs, yes, but it is not articulated as military clearances as such.

Senator STEPHENS—In terms of the government trying to determine what the costs of our participation in Iraq are, I was interested to see whether they had factored that in as well. Dr Carroll, will that information be available at future estimates?

Dr Carroll—We could probably look towards the bills that we sent them. With any budgeting of that process, the arrangement we have with the military, as with any other importer, is that it is part of their budget. We are but one cost, and not an extremely high cost. As was said, it is not kept separate. They are not treated differently from another importer as far as cost recovery goes.

Senator STEPHENS—Moving on to Steve Irwin and the *Quarantine Matters!* campaign—we are into border protection in a serious way here—I know that Senator O'Brien had a question on notice to the minister on 25 February about that campaign. Is it true that the campaign budget in 2002-03 is \$6.894 million?

Ms Stanton—I should add to that. That is for the whole *Quarantine Matters!* campaign. The TV campaign starring Steve Irwin is merely a subset of that campaign. So the *Quarantine Matters!* campaign for most of its life, since 1997, has been a print based campaign. In December last year, a television component was added, which was the Steve Irwin ad.

Senator STEPHENS—What is the value of that component?

Ms Stanton—Approximately \$3.5 million for the financial year that we are currently in.

Senator STEPHENS—Can we get a breakdown of that component, \$3.5 million, in terms of production costs and so on.

Ms Stanton—I can give that to you right now. There was \$235,000 as the production cost, and \$175,000 were talent costs.

Senator STEPHENS—Is that Mr Irwin?

Ms Stanton—I believe so, although I can clarify that further in a moment. Research cost \$75,000. That was the focus groups and the things that needed to be done to test the campaign. Placement costs are the bulk of the rest—the cost of actually putting it on the television, which is \$3 million basically. Then there is \$15,000 missing, which is just basic administrative costs.

Senator STEPHENS—So in terms of the campaign's focus, you said there was quite extensive market research about how to generate the campaign. How much of it was actually focused on inbound travellers? How much of it was actually shown overseas as opposed to in Australia?

Ms Stanton—It is not being targeted to inbound travellers. It was specifically targeted to people who were in Australia and I think you would have to say that, judging by the star, it was probably targeted to Australians who were travelling overseas and warning them not to breach quarantine on their return. So that was really the target rather than overseas travellers. We have other things, such as videos on planes and so on, but that was not the purpose of this particular campaign.

Senator STEPHENS—So you are saying that there was the \$3 million placement. Can you tell us where it was actually shown? What kind of a breakdown do you have in terms of metro versus regional broadcasting?

Ms Stanton—I do not have those details with me. But certainly we do have records of when and where the ad was placed. So I can take that on notice for you.

Senator STEPHENS—That would be helpful. So how will the overall success of the campaign be assessed, do you think?

Ms Stanton—We know how it is going to be assessed because that was an important part of developing the television campaign. What we have done is have the firm that produced the television campaign get an evaluation program up right from the beginning. They did a benchmark study in November before the ad went out. So far they have also looked at December, January and February. The ad was only shown in December and January, and there will be another round of them quite soon for the summer travel to the Northern Hemisphere. The actual results really will not be available properly until the first quarter of the new financial year once that part of the campaign has concluded. But we do have some preliminary results. They show that total awareness of quarantine advertising is higher than it was before. We have done these various awareness campaigns and evaluations over a number of years now. There has been particular success with a problem group for us, which was youth aged 18 to 24. That seems to have been particularly successful. So we are noticing already some changes, but we will not know for sure until we get the final results early next year.

Senator STEPHENS—So in terms of the second round of placements, the ad started in December last year. Does it have a 12-month life, do you think?

Ms Stanton—The contract is basically a 12-month contract. If we were going to go any further than that, we would, on the basis of the evaluation of the campaign, have to renew a contract. So at the moment the next round of placements will be, as I say, quite soon and then there will be consideration as to what we will do later. It was a pilot program, basically. When we get that evaluation in July-August, we will make a decision about what we do in the lead-up to the next big travel period, which is, of course, Christmas again.

Senator STEPHENS—In terms of the copyright, who owns the ad? Does the department own the ad or the agency?

Ms Stanton—We will take that on notice. I am not sure of the answer to that.

Senator STEPHENS—It is quite a considerable amount of money when you think that the cost of that campaign is almost the equivalent of the cost of the infrastructure works that we have been talking about over several budget estimate periods, particularly Melbourne airport. It would be quite interesting to see the qualitative results of that campaign—this time next year, I suppose.

Ms Stanton—I agree.

Senator O'BRIEN—I want to ask one question that goes to the issue of defence personnel returning to Australia. When a ship like the *Kanimbla* returns to Australia, do AQIS officers get unfettered access to the ship and its crew to conduct their work?

Mr Cahill—The answer to that is yes.

Senator O'BRIEN—To absolutely every part of the ship?

Mr Cahill—That we need to from a quarantine risk point of view, yes—usually the stores and—

Senator O'BRIEN—But if you thought there might be something somewhere else, could you go and look?

Mr Cahill—Yes.

CHAIR—Thank you very much. We will move on to ABARE.

[9.47 p.m.]

Australian Bureau of Agricultural and Resource Economics

Senator O'BRIEN—Dr Fisher, in February you told the committee ABARE expected to run a small budget deficit for 2002-03. Given that we are a little closer to the end of the year, can you provide us with an update?

Dr Fisher—Yes, that is correct. Earlier this year, I did expect to run a deficit in 2002-03. However, due to a program of reducing our costs and a little bit of tramping the streets to raise some extra revenue, I expect to have an outturn of a small surplus in 2002-03. It would be something of the order of \$3,653, give or take a dollar.

Senator O'BRIEN—What do you know of the budget for ABARE in 2003-04, or is that an unknown at this stage?

Dr Fisher—The projection I have for the total ABARE business is a budget very similar to 2002-03, which is around \$21.4 million in total. That includes appropriation and external revenue estimates.

Senator O'BRIEN—And how much of that is money you have to raise, or is that exclusive of money that ABARE raises?

Dr Fisher—I expect from external sources to raise somewhere between \$9 million and \$9.1 million, which is similar to this financial year. The biggest single external contract hopefully again will be from the Department of Industry, Tourism and Resources.

Senator O'BRIEN—Is that figure included in the \$21.4 million?

Dr Fisher—Yes, it is.

Senator O'BRIEN—So about \$12.3 million is the allocation from the department's allocation?

Dr Fisher—Correct.

Senator O'BRIEN—What was your departmental allocation in 2001-02?

Dr Fisher—In 2001-02, on the same accounting basis—the treatment of overheads was slightly different in 2001-02—the direct appropriation was \$8.937 million and the corporate allocation was \$2,649,149.

Senator O'BRIEN—What historically has been your income from Industry, Tourism and Resources?

Dr Fisher—Traditionally, it has been about \$4.2 million, dropping to about \$3.1 million this financial year. Our expectation is that the contract will be up to \$3.3 million in the coming financial year.

Senator O'BRIEN—To what extent has the drought affected ABARE's outside income?

Dr Fisher—I do not think the drought per se has affected ABARE's external income. Most of the income that we receive for agricultural work is raised from research and development corporations. We would expect to see the drought effect moving through the levy system with a lag, so to the extent that we are unable to maintain or increase our market share we may see some impact in the future.

Senator O'BRIEN—Where would I find relevant financial information relating to ABARE in the PBS? Is it there at all?

Dr Fisher—It is actually very difficult to disentangle the ABARE business from the PBS because much of the money that comes into the ABARE business is, as far as the PBS is concerned, spread across various outputs in the department. That is also being done in this case for the external revenue. So the PBS itself is a difficult document in which to find the full business results. I have just given you the business result and the business forecast for 2003-04, not the results by output.

Senator O'BRIEN—You had something to say about a substantial lift in farm income at the recent Regional Outlook Conference Toowoomba. Could you give us a snapshot of the impact of the drought on farm incomes and the projected recovery.

Dr Fisher—We are currently forecasting that the net value of farm production will be around \$2.3 billion in 2002-03. That is down from a little over \$11 billion the season before. Assuming the drought breaks—

CHAIR—Best of luck.

Dr Fisher—That is an assumption—I am not a weather forecaster! Assuming the drought breaks, the forecast for the net value of farm production in the coming financial year is \$6.1 billion. That is dependent on our assumption that we would see a very substantial increase in cropping area particularly and average yields in the coming financial year. As it turns out, we know that we are very close to the end of the planting window for canola, for example, in some parts of Australia. As each day goes by, we have to revise our crop forecasts down for

the coming season. Our next crop report is due to be released on 10 June. That will be the update that is pretty relevant to prospects for the next season.

CHAIR—So have you been game to think about the catastrophe on our rivers if we do not get winter rain? What will that do to our irrigation production as well?

Dr Fisher—In the case of irrigation, particularly in the case of cotton, the result is already wound into the process. It is most unlikely that we will have a big cotton crop next year, given the state of irrigation water availability. Those numbers are already wound into the forecast that we released at Outlook.

Senator O'BRIEN—So you are saying that the projection of \$6.1 billion is likely to be revised downwards?

Dr Fisher—Yes. When I release *Australian commodities* on Monday, 23 June, I would expect to revise the net value of farm production estimate downwards. At this stage I do not have those estimates. We are assiduously working on them, probably even as we speak.

CHAIR—We would prefer not to believe that forecast. Victoria is saying the break is coming in May next year.

Dr Fisher—Well, I hope you are too pessimistic.

CHAIR—I do not believe it. If I did, it is not high enough up to jump out the window here—it would not do me enough damage.

Senator O'BRIEN—The windows are hard to open as well. While we are on the subject of the Toowoomba outlook conference, is that the conference that Mr Truss was, according to your web site, the opening speaker for?

Dr Fisher—The national outlook conference in March?

Senator O'BRIEN—No, the Toowoomba regional conference.

Dr Fisher—No. The regional conference in Toowoomba was opened by Senator McDonald.

Senator O'BRIEN—I thought from the first program posted on your web site that Mr Truss was to open it.

Dr Fisher—That was correct.

Senator O'BRIEN—So when did he withdraw?

Dr Fisher—I am not sure of the exact time. The arrangements are that we like to have a minister or a parliamentary secretary open each one of the regional conferences. We attempt to schedule each of them so that a minister is available. Obviously on some occasions at short notice ministers have other commitments. Fortunately, we were able to substitute a minister in that case.

Senator O'BRIEN—The withdrawal did not have anything to do with the review of ABARE, did it?

Dr Fisher—I do not believe so. I think it was probably to do with an unfortunate clash of commitments.

Senator O'BRIEN—When was the Toowoomba conference?

Dr Fisher—It was last Wednesday, 21 May.

Senator O'BRIEN—What regional conferences are planned for 2003?

Dr Fisher—The next one is in Lismore. I will find the list. The next one is scheduled for Lismore on 11 June, followed by Shepparton on 23 July, Geraldton on 27 August, Mount Gambier on 1 October, and the traditional Northern Territory regional outlook conference in Darwin will be in November.

Senator O'BRIEN—Is there a strategic reason why those dates and places are chosen?

Dr Fisher—There is not necessarily a strategic reason. In recent times, what we have been doing, which we have found to work very effectively, is to look to see whether we can find regional community groups who wish to arrange a conference. Traditionally, we have organised these conferences in collaboration with state departments of agriculture. But we have found it is more effective, in terms of garnering regional cooperation, to actually go to communities that want to hold a conference. There are regional development groups, for example, that are engaged with their community that would like to hold these conferences. So we are now seeking those types of groups, in partnership with us, to run these conferences. In some senses, this process has now become regionally driven rather than ABARE driven. So in large measure we are beholden to the regional communities in terms of where we go and the time of the year we go. In the case of the Northern Territory conference, that is something that has been going on for many years and it is typically held in Darwin, Alice Springs or Katherine.

Senator O'BRIEN—So is the program for these conferences tailored to the region?

Dr Fisher—Yes, it is. Many of the speakers are actually local people—local businesses or local experts. ABARE tailors the papers to both the commodities that are most prominent in the region and also attempts to use our farm survey estimates to give relevant regional estimates, so that rural people in the regions can feel that people from Canberra are vaguely relevant to their businesses.

Senator O'BRIEN—On another subject, what are the implications of the rising dollar for our rural exports? Can you tell me what exchange rate you have factored into your outlook forecast in March?

Dr Fisher—We assumed for 2003-04 that we would see an average of 59c. We are likely to increase that estimate for the June issue of *Australian commodities*. At this stage we have not settled on the technical assumption that we will use, but it will be higher. As a consequence of that—with everything else the same, of course—we would expect therefore to be making lower estimates of export revenue. But there are some offs and ons in terms of volumes and prices happening as well, which make this process pretty complicated. One of the issues that we have to struggle with, at least in the short term, when making estimates of export incomes, is to try to factor in what might be happening with respect to hedging arrangements. For example, in the case of sugar, or wheat for that matter, we are not privy to what arrangements may have been made by AWB Ltd or Queensland Sugar with respect to hedging. Therefore it

is quite difficult for us in the short term to factor those arrangements into our estimates. In the longer term, of course, those things will be washed out net zero.

Senator O'BRIEN—It would be surprising if people were hedging in the 65c to 70c range, wouldn't it?

Dr Fisher—I cannot comment on the hedging behaviour of export operators. We have experience from the past that some of these hedging arrangements—

CHAIR—Some blokes learnt the hard way.

Senator O'BRIEN—Correct—a very hard way. So what is the driving force of the appreciating dollar?

Dr Fisher—That sounds to me like a question for the Treasury rather than ABARE.

CHAIR—I think it is actually the US trying to get back into business.

Dr Fisher—ABARE makes technical assumptions about the exchange rate. The thing that is probably pertinent to note is that the key issue here is movement of the US dollar rather than movement of the Australian dollar. So it is the US dollar depreciating against a range of currencies which is the key issue here.

Senator O'BRIEN—But are not we appreciating substantially against the yen and sterling but not the euro?

Dr Fisher—We have appreciated somewhat against the yen but not the euro.

Senator O'BRIEN—I thought we went from about 36p to 40p.

Dr Fisher—In the case of the UK pound?

Senator O'BRIEN—Yes.

Dr Fisher—I think there has been some moderate appreciation against the pound.

Senator O'BRIEN—I am going to ask questions about sugar but I want also to ask questions about other key commodities. I will start with wool. Senator Heffernan will be hoping you will be able to give us some good news on that front—I guess I am not holding my breath. There has been what might be described as a mini-collapse on wool prices in recent weeks. What is the medium-term outlook?

Dr Fisher—We have probably seen the top of the wool market for the time being. Basically, there are two or three factors going on here. Firstly, if we go back and look at world demand and go back to Outlook 2002, we were expecting at Outlook 2002 to see 12 months of slow economic growth in the world, with the world picking up quickly in calendar year 2003. With Outlook 2003, economic commentators were basically saying that we were expecting slow economic growth in 2003, with the world picking up in 2004. Effectively we have gone through one and now two years of slow economic growth. That basically means that the driver for demand for our commodities around the world is quite slow.

We are looking at world economic growth on the basis that we calculate it a little over two per cent. It needs to be approximately four per cent to be kicking demand for commodities along briskly. So we have had this situation now for two or three years. It is probably another 12 months before we see the world pick up. That, together with uncertainty about SARS in

China, has meant that demand for wool has effectively been slowing. In addition, when the wool to synthetic and cotton price ratio goes above the long-term average of three, and it has been up over four recently, you tend to get some serious resistance from the processing sector to wool. So we are also seeing some substitution because basically wool has tended to start to price itself out of the market.

On the supply side, of course, we have seen sheep numbers continuing to fall. Therefore supply is falling, but that fall in supply has not been enough to offset the reduction in demand; hence the price has headed down. I will probably be revising the forecast for wool prices for next financial year downwards when we release the June issue of *Australian commodities*.

Senator O'BRIEN—So the Outlook view that drought was the key to the future of sheep numbers and wool production, is that still the key factor?

Dr Fisher—I do not think we should rely on drought to be the key driver of livestock numbers. That is probably not the right way to deal with this. I think the growers have been adjusting their numbers down. Prices are coming back. If the season is good in 2003-04, we could potentially see some moderate recovery in sheep numbers, but I expect that we probably are heading for another reduction in sheep numbers. Again, you will have my official forecast on 23 June.

CHAIR—Come for a drive around the paddock now with me and I will be able to set you right. They are walking away from their land.

Senator O'BRIEN—So the recent price has been underpinned by supply pressures rather than demand?

Dr Fisher—Correct.

Senator O'BRIEN—Is that still the case?

Dr Fisher—Yes. We would expect to see that persist into 2003-04. In fact, it will take considerable time before we see sheep numbers start to recover.

Senator O'BRIEN—Is there any impediment in our marketing arrangements with the US at the moment for wool?

Dr Fisher—I do not believe so, other than the unfortunate situation with respect to their economy.

Senator O'BRIEN—So it is not something that we can look to a free trade agreement to assist us with?

Dr Fisher—I think in the case of agriculture the big potential gainers from the free trade agreement are dairy, sugar and beef.

Senator O'BRIEN—What you are telling us about the wool price is that wool is an import competing with other fibres. You are also saying that if the price of wool jumps too far, processors will switch to other fibres. It seems to me that there is going to be somewhat of a permanent or semi-permanent lid on how high the prices can go.

Dr Fisher—That is correct. If you look at the history of wool prices—say, a graph of wool prices over the last 50 years—you find that the booms in wool prices are very short-lived indeed. The booms are very short indeed and the bottoms tend to be fairly persistent. A shock

of high wool prices tends to cause manufacturers to move away from wool and the technology has been advancing rapidly with respect to other fibres. So wool is finding it more and more difficult to compete in that situation.

Senator O'BRIEN—You were saying that the rate at which there will be a recovery in the size of the national flock means that the recovery is some time away. Will that ultimately impact on the price of wool when it occurs?

Dr Fisher—In the longer term, if we were to ever see sheep numbers return to 170 million, then that obviously would have a potential impact on price. It is hard to see sheep numbers recovering to those sorts of levels, even in the long term, whilst ever we have reasonable grain prices and good beef prices. Obviously there is substitution between those commodities. The gross margin on wool is not necessarily the best thing to be doing on a lot of our country.

CHAIR—I presume also you factor in the terminal sire thing for the export of lamb, which is the best thing going in the sheep industry at the moment.

Dr Fisher—The sheepmeat market is a bit of a different issue, obviously.

CHAIR—Well, there are a lot more terminal sires out in the back country now.

Senator O'BRIEN—Your Outlook conference forecast for cotton prices was an increase of seven per cent for the coming financial year. Is that still your view?

Dr Fisher—Currently, that forecast stands until the new forecast is issued on 23 June. The world price may not be too different from that. The Australian price probably will be moderated downwards as a consequence of the exchange rate effect.

Senator O'BRIEN—China was a key factor in the Outlook forecast. Is that still the case with SARS now in play?

Dr Fisher—The key risk in the case of China is the extent of economic growth we might see in China in the coming calendar year and into the next. We are more pessimistic about the outlook for China than we were at Outlook. My presumption is that we will revise downwards the demand growth for China. That will obviously have some impact on some of our commodity exports. That has already had some impact in the case of some of our products going into the restaurant trade in South-East Asia and China or Hong Kong, for example.

Senator O'BRIEN—Certainly seafood.

Dr Fisher—The prices have been hit fairly hard in the case of some of the specialty seafood products such as, for example, western rock lobsters.

Senator O'BRIEN—Yes. Lobster in Tasmania has been relatively attainable—you could actually afford to buy one occasionally. In relation to the USA's ongoing support for domestic cotton production, that has to continue to have an impact on the world price and therefore on returns to the Australian industry.

Dr Fisher—Yes. Any of those crops under the US Farm Bill are probably being produced in excess of what they would be should the Farm Bill be reformed. And the fact that the United States is such a big producer is having a depressing effect on world markets.

Senator O'BRIEN—With regard to wheat, what is the outlook for production at the moment? Is the outlook strong? If so, what does that mean for Australian growers?

Dr Fisher—We expect to see wheat production recover quite substantially on world markets in this coming season. As a consequence of that, we expect prices for APW to fall. The average price was about \$265 last year. We expect it to fall probably below \$230 for the coming season. Again, we will need to look at those numbers with respect to the assumed value of the Australian dollar.

Senator O'BRIEN—With regard to Australian growers, are you still in the process of assessing the probable planting for this season?

Dr Fisher—Yes, we are. As I mentioned previously, our crop report will come out on 10 June. This year is going to be fairly difficult for us making a forecast at this point. We still have not seen a proper seasonal break in much of Australia. So it is a difficult time for forecasters.

Senator O'BRIEN—The latest version of the Farm Bill gives a lot of money to the US grain growers. Support is, I think, in the order of \$73.5 billion, which is a massive amount of money. It is designed to be countercyclical in terms of world prices. If we were to have a meaningful free trade agreement, that assistance would have to disappear. Is that a fair view?

Dr Fisher—In the fullness of time, I would like to see distortive arrangements such as the US farm legislation and the common agricultural policy swept into the dustbin of history. I think it will be just a little while coming, frankly, but I am prepared to work away in the interests of Australian growers to that end.

Senator O'BRIEN—You talked about the potential for benefits for sugar arising out of a free trade agreement. How would that work? What are the impediments?

Dr Fisher—The distortions in the US sugar market are enormous. I think the domestic price is something in the order of four times the world price. Those arrangements not only support the production of cane sugar but sugarbeet and corn fructose syrup as well, so there are distortions in the sweetener market totally in the United States. The market itself is enormous, so the potential market access there, if we were to see arrangements freed up, is quite substantial. So obviously that industry is a difficult nut to crack, if I could put it that way. But certainly given that Australia is a competitive sugar exporter, it is something worth looking at.

Senator O'BRIEN—So the main game for Australian growers would be a significant cut in US domestic support—is that what you are saying?

Dr Fisher—Or potentially greater access.

Senator O'BRIEN—How would we compete if their prices are so subsidised?

Dr Fisher—If we can produce sugar at, let us say US6c a pound, and they are producing it at, say, US18c a pound, we are pretty competitive in that market. If we can get greater access, there is a moderate amount of rent there for Australian sugar growers.

Senator O'BRIEN—In the current exchange, US6c a pound is under \$230 a tonne for the cane, isn't it? It is not even that; I have the wrong product.

Dr Fisher—I cannot quickly do that calculation. I think our best growers can probably do 6c. Even if it is 7c, prices have been down that low recently.

Senator O'BRIEN—A lot cannot do it at 6c or 7c, from my tours through cane production areas.

Dr Fisher—Let us share some of that difference between, say, 6c or 7c and 18c or 20c. That sounds like a profitable market to be in. The real question is whether we can break into that market and gain extra access.

Senator O'BRIEN—Would it be reasonable to say that the main game so far as the sugar industry is concerned would be the Doha Round and the removal of agricultural subsidies?

Dr Fisher—Let's take a hypothetical. If we were to be successful in getting the Cairns Group proposal accepted as part of the Doha Round, that is worth substantial amounts of money in Australian farmers' pockets. For broadacre agriculture, it is about \$11,000 extra of farm cash income.

Senator O'BRIEN—Per enterprise?

Dr Fisher—Per farm. That is perhaps an easier way to make farm cash income than being out there breaking your back.

CHAIR—Is that regardless of currency fluctuations?

Dr Fisher—That is a general estimate. Basically, we are making that estimate on the basis of our long-term view of exchange rates.

CHAIR—Senator O'Brien is trying to figure out what farming industry he would like to go into.

Senator O'BRIEN—It is a very difficult choice at the moment from the information I am getting, that's for sure. I was going to talk about wine, which would fit where I live very well. Before I get to a major exporting success industry, which is the wine industry at the moment, in world terms where are we headed on sugar prices?

Dr Fisher—We expect to see sugar prices moderate in the coming season. Basically, world production continues to outstrip growth in world demand. So there is continuing to be excess production over consumption and stocks are building. Therefore, we would expect to see prices slipping back. We are expecting an outcome for 2003-04 something around US8c a pound compared with US8.5c in the current season.

Senator O'BRIEN—So a reduction. And the movement in the currency is going to have a significant impact on growers, isn't it?

Dr Fisher—We would expect to see export returns fall in the coming season. The current forecast is for the export returns for sugar to be just over \$1 billion compared with \$1.4 billion in 2002-03.

Senator O'BRIEN—With regard to the wine industry, at earlier hearings I have heard you raise concerns about overproduction in Australia. What is the current view of ABARE about the medium-term outlook for wine exports?

Dr Fisher—I think the medium-term outlook for wine exports is actually very strong. The real question is whether plantings of some varieties are outstripping the potential for uptake. That does not necessarily reflect in export earnings, but it does have a potential impact on returns to growers. We have seen enormous plantings of particularly premium red varieties.

We have also started to see now the farm gate prices of some grapes moderating. We could probably expect to see some further moderation in prices over the next couple of years. That would be my expectation.

Senator O'BRIEN—In terms of the currency itself, I know that last year we outstripped the French as the major shipper of wine to the US. What is the movement in our currency with regard to particularly the US market? How is it likely to affect our exports to that country?

Dr Fisher—I think that will depend on the product itself. The high end lines are probably not very sensitive to changes in the currency. In fact, if you look at the prices of high quality Australian wine in US liquor stores, you cannot necessarily see much relationship between the price you pay in the US and the price you pay here. There is a lot of very cunning branding and marketing going on and positioning of brands. In terms of the high quality bottled wine, I suspect the movement in the currency we have seen recently is probably not having much impact.

If we are talking about lower quality bulk wines, however, that is the segment of the market where I would expect to see some impact. Those considerations are something that we will have to look at carefully for the coming issue of *Australian commodities* given the extent of the movement in the exchange rate that we have witnessed over the last two or three months.

Senator O'BRIEN—In terms of the US in particular but generally speaking, I suppose, what is the outlook for beef and veal? I guess there are a couple of issues: the rate at which the beef herd will be rebuilt and the medium-term outlook for the US and Japan as far as Australian beef is concerned.

Dr Fisher—The key question in the beef industry at the moment is the extent to which we see herd rebuilding going on in Australia. That is dependent on the weather. If the drought breaks, then we would expect to see herd rebuilding going on. As a consequence of that, livestock will be held off the market and prices will rise. At Outlook we said that we were expecting to see an increase in beef prices from 237c to 285c a kilo. That was driven on the notion that we would see the drought break and a herd rebuilding process, factoring in the conditions we thought we had at that time in export markets. There is some uncertainty now about the impact of the BSE incident in Canada. The question is whether that will impact on consumer confidence and to what extent it will have an impact on consumer confidence. We will know more about that in the next two or three weeks than we know today.

CHAIR—Could you clarify for the committee the 230c to 280-odd cents a kilo. In what context are you talking there?

Dr Fisher—That is a saleyard price, an average across Australia. It is an indicator price.

CHAIR—Dead or alive, or on the hoof?

Dr Fisher—It is a saleyard price.

CHAIR—So it is dead?

Dr Fisher—Yes, dead.

CHAIR—It is not on the hoof?

Dr Fisher—It is a carcase weight price.

CHAIR—For someone who does not follow this, it does not mean a damned thing unless you say it is on the hoof.

Senator O'BRIEN—I guess the BSE scare is a short-term issue for the US. But the question about the medium-term outlook for the US and Japan is tied up with their economy and also the currency, isn't it?

Dr Fisher—In the case of the United States, the key issue is the cattle cycle and the herd rebuilding process and the extent to which that takes product off the market. Our expectation is that we would be selling less product into the US market in the coming financial year as a consequence of herd rebuilding in Australia. In fact, we would not expect to be bumping up against the quota until about 2006-07.

Senator O'BRIEN—What about Japan?

Dr Fisher—In the case of demand, we have seen recovery in demand following the BSE scare of 18-odd months ago. The question in Japan is the impact of the snapback arrangements. In the March issue of *Australian commodities* there is actually a section in the meat outlook note that sets out some analysis about the snapback effect and the history of exports by quarter into that market, together with some other statistical information that might be of assistance.

Senator O'BRIEN—And with regard to sheepmeat exports and the domestic market for sheepmeat, it has been put to me, for example, that with sheepmeat exports, particularly to the US, there is only one direction that will go and that is up because there is not an effective industry that we are competing against there. It is a very large market.

Dr Fisher—I think the US sheepmeat industry is very disorganised. The product is not of high quality. There has been some very good marketing by both the Australian and New Zealand producers. That has positioned Australian lamb in the US market very effectively and people are now noticing that. I think that is actually quite a good news story. If Australian domestic beef prices are higher, we would also see that effect pushing sheepmeat prices along as well.

CHAIR—Go for lamb, Senator O'Brien.

Senator O'BRIEN—No, thank you. What about pig meat and dairy products?

Dr Fisher—In the case of dairy, we are expecting to see a moderate increase, but nothing spectacular, in world export prices of butter, cheese and skim milk powder. Some of that increase will be offset by increases in the Australian dollar. In the case of the pork industry, it is one where we have seen enormous structural change recently, with much more focus on high quality product. That is also a relatively good news story.

Senator O'BRIEN—But that is an industry where there are already significant imports and the currency change is likely to affect that as well, isn't it?

Dr Fisher—The key issue for the intensive industries—pork and chicken and, to some extent, dairy—is the question about domestic grain prices. Again, the outlook comes back to what happens with respect to the coming season and the extent to which we see increased production reducing prices and therefore reducing input costs for those industries.

Senator O'BRIEN—Thank you. I look forward to seeing you, Dr Fisher, and ABARE, in November.

CHAIR—I reckon you have the world's worst job. I just hope it rains. Thank you very much, Dr Fisher.

[10.36 p.m.]

Bureau of Rural Sciences

Senator O'BRIEN—Page 33 of the PBS makes reference to BRS's internal charging guidelines in relation to cost recovery. I would like to know how much of your budget comes from direct appropriation and how much from other sources, including external earnings.

Dr O'Brien—You are asking for 2003-04? The amount of appropriation is \$9.434 million and for external earnings, section 31, it is \$12.082 million. That is a total of \$21.516 million.

Senator O'BRIEN—What were those numbers again?

Dr O'Brien—For appropriation, \$9.434 million. For external earnings, \$12.082 million.

Senator O'BRIEN—Was that the current year or the coming year?

Dr O'Brien—That was for both 2003-04. Do you want the numbers for 2002-03?

Senator O'BRIEN—Yes.

Dr O'Brien—The appropriation is \$9.25 million and section 31 is \$14.18 million.

Senator O'BRIEN—So how will you handle the reduction of nearly \$2 million?

Dr O'Brien—I will get Ron to comment. The reduction reflects a changed way of expressing overheads rather than a significant change in our budget. The budget this year and next is roughly similar.

Senator O'BRIEN—Perhaps you could explain that to me and show me where the numbers are in the PBS.

Mr Levers—The numbers for the sales of goods and services are based on estimates—the money that we think we will earn in any particular year. The amount that we have put in the estimates for next year are slightly reduced, but it is more the expectation of less revenue due to a different situation, I suppose, with the impact that we know we have had—people working on the drought—and that may continue in the future. But it also reflects a general conservative estimate. We have found this year that the estimate we gave in was slightly optimistic. We did not meet the targets that we thought we would.

Senator O'BRIEN—Were there implications for staffing?

Mr Levers—No, there is not.

Dr O'Brien—BRS's staff numbers go up within and between years depending on the level of external earnings we generate. We have a proportion of our staff on a non-ongoing basis on contractual appointments. Our numbers fluctuate around an average depending on the level of external earnings.

Senator O'BRIEN—Senator Heffernan must want to ask what you can tell us about the breaking of the drought.

Dr O'Brien—I am happy to pass on some of the information in the Bureau of Meteorology's most recent outlook on 14 May. BRS itself is not in the climate forecasting business. What the Bureau of Meteorology has said is that the 2002-03 El Nino event has ended. That would typically be associated with a return to more normal conditions. Indeed, there have been good falls in southern Queensland and northern New South Wales. But, that said, a drought of the duration and wide geographic extent that we are experiencing at the moment tends not to end in all places at one time. What we are seeing is continued deep drought in parts of southern New South Wales, Victoria and South Australia. So, in terms of their three-month outlook, the forecast is for a probability of higher rainfall through much of Queensland, New South Wales, Tasmania and parts of Western Australia.

I think we will see parts of the country remain in drought. We will also be seeing as a result of the length of this drought—you have heard a bit about it from ABARE—depressed livestock numbers, meaning that for livestock producers the recovery from drought will be relatively slow. Perhaps of even more concern is the fate of irrigators, with storages at very low levels. Indeed, for the Murray-Darling Basin, the total inputs for the last 23 months have been the lowest on record since 1890. Storages in the Murray River are at about 19 per cent of capacity when on average in May they would be 55 per cent. So irrigators are closely watching winter-spring rainfall. It is likely there will be lower access to water for some time to come.

Senator O'Brien—What about western New South Wales? Or divide it into north and south.

Dr O'Brien—I do not have information about western New South Wales so I will take that on notice and provide that information.

CHAIR—I can give you the answer.

Senator O'Brien—In terms of your activities for the coming year, what outside work are you expecting that the bureau will attract?

Dr O'Brien—We are currently planning our work program for next financial year both in terms of our appropriation and external earnings. Historically, the bulk of our external earnings are sourced through government programs—the Heritage Trust, the National Action Plan for Salinity and Water Quality, and rural R&D corporations. We are certainly planning to be active in all those areas in the coming year.

Senator O'Brien—Can you give us a breakdown of the \$14.18 million you said you would get from external sources?

Mr Levers—I could give you estimates, but I would rather take that on notice.

Senator O'Brien—Are they all the subject of contracted arrangements?

Dr O'Brien—They will be when they are finalised.

Senator O'Brien—I am talking about this financial year, so the figure you gave me for this financial year must be.

Dr O'Brien—Either contractual arrangements or memoranda of understanding between us and the funders.

Senator O'BRIEN—So your work on the national action plan would be for the Commonwealth, I take it?

Dr O'Brien—We have done work and are currently doing work, for example, in South Australia as part of the South Australian salinity management program, which is funded out of a glass jar. It is work that we are doing jointly with the South Australian government, with CSIRO and with CRC LEME to map salinity in five sites in South Australia.

Senator O'BRIEN—Did you do the work for the Queensland government for the Balonne catchment?

Dr O'Brien—We did.

Senator O'BRIEN—What other work is being done in Queensland?

Dr O'Brien—That is the only work at the moment. As priority areas for mapping are identified, we would expect to be participating in some of those mapping activities.

Senator O'BRIEN—So money from the national action plan will go into your budget?

Dr O'Brien—Yes. Most of the revenue we have received this financial year has actually been passed through costs for the expenses of airborne geophysics, but there are some funds that come to BRS as running costs.

Senator O'BRIEN—What sorts of projects lead to funding under the Natural Heritage Trust?

Dr O'Brien—A range of projects. They include projects like the national feral animal control strategy, the National Forest Inventory and a range of work that supports NHT objectives. Bernie has just mentioned the work to support the National Land and Water Resources Audit as well funded from that source.

Senator O'BRIEN—Do you do work for the Murray-Darling Basin Commission?

Dr O'Brien—We have done some work for the Murray-Darling Basin Commission in terms of salinity mapping. I could provide you on notice with details of other work we have done over the last year.

Senator O'BRIEN—That would be good. In terms of your organisation's fixed overhead costs, what proportion of your budget would be administrative costs that are essential for the operation of the bureau?

Mr Levers—It would be roughly about 10 per cent. That is a rough estimate. I would have to possibly go back and have a look to get you the full figures. Because of the split between appropriation and cost recovery activities, I would rather take that on notice and get you back the figures.

Senator O'BRIEN—Your accommodation costs would be included in that, would they?

Mr Levers—Yes. As I said, we can give that information to you.

Senator O'BRIEN—Does BRS make any contribution back to the department for services provided by the department out of its budget?

Dr O'Brien—BRS pays costs to the department for services it provides to us.

Senator O'BRIEN—What sorts of services?

Dr O'Brien—They include services such as payroll, human resource management and some of the executive costs. I can provide you, once again, with the details of them. There is also IT and legal services.

Senator O'BRIEN—Are those figures included in the fixed costs of 10 per cent you talked about?

Mr Wonder—I think on reflection we will take the 10 per cent on notice.

Mr Levers—Yes, we will take it on notice.

Senator O'BRIEN—I will put a line through it, then. In terms of your labour force, you have already said that some people are intermittently on the payroll or being paid by BRS. What proportion of your work force would fall into that category?

Dr O'Brien—Approximately 35 per cent would be in the category of non-ongoing employees.

Senator O'BRIEN—So they are employees, not consultants?

Dr O'Brien—Employees of BRS—contract appointments.

Senator O'BRIEN—Are they engaged for the life of a project?

Dr O'Brien—That is right, yes.

Senator O'BRIEN—What is the typical life of a project? Do these people come and go on what sorts of frequencies?

Dr O'Brien—It is highly variable. It can be as short as three months, or it can be three years.

Senator O'BRIEN—Would that 35 per cent comprise most of the science expertise for the bureau?

Dr O'Brien—No. It would include scientists but also technical and some administrative staff, as do our ongoing employees. So there is a mixture in both categories.

Senator O'BRIEN—How much of your budget is taken up in employment costs?

Dr O'Brien—We will take that on notice and give you an accurate figure.

Senator O'BRIEN—I must say I am still struggling with your explanation of the reduction in funding from this year to the next of nearly \$2 million. Can you just run that past me again.

Dr O'Brien—The level of appropriation funding is similar this year and next.

Senator O'BRIEN—It is.

Dr O'Brien—Our section 31 earnings are less certain. In the budget we have included an estimate. BRS's financial management requires that we deliver a balanced outcome. We do that by adjusting our expenses to match the level of overall revenue that we secure in the coming year. You see there an estimate, which will be refined going through the year depending on the outcome of bids, into rural R&D corporations and into the NHT, on progress with developing, for example, mapping projects for salinity under the national action plan. We

will be through the year managing our outgoings, our expenses, to match the revenue that we need over the period.

Senator O'BRIEN—So if the amount that is available at the end of the day is down, your flexibility is with the costs of the 35 per cent of employees who work on a short-term basis?

Dr O'Brien—Certainly employee expenses are our single biggest cost and that is one way we will manage it. That is to say that if we do not have the revenue, we do not have the work.

Senator O'BRIEN—That is all I have, Mr Chairman.

CHAIR—I have one question. Do you do hydrological work?

Dr O'Brien—We do.

CHAIR—Do you study the impact of all the plantation forestry on run-off in the Murray-Darling Basin?

Dr O'Brien—We have not been directly involved in that work, but I know there has been significant work done in that area in CSIRO Land and Water.

CHAIR—So you have no comment that you could make?

Dr O'Brien—No.

CHAIR—Thank you very much.

Committee adjourned at 10.56 p.m.