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## SENATE

STANDING COMMITTEE ON RURAL AND REGIONAL AFFAIRS  
AND TRANSPORT

**Reference: Forestry Marketing and Research and Development Services (Transitional and Consequential Provisions) Bill 2007; Forestry Marketing and Research and Development Services Bill 2007**

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**SENATE STANDING COMMITTEE ON  
RURAL AND REGIONAL AFFAIRS AND TRANSPORT**

**Tuesday, 5 June 2007**

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

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

**Senators in attendance:** Senators Adams, Heffernan, Nash, O'Brien and Siewert

**Terms of reference for the inquiry:**

To inquire into and report on:

Forestry Marketing and Research and Development Services (Transitional and Consequential Provisions) Bill 2007; Forestry Marketing and Research and Development Services Bill 2007

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**Committee met at 9.28 am****LOYDELL, Mr Todd, Senior Policy Analyst, National Association of Forest Industries****RAGG, Mr Warwick, Chief Executive, Australian Forest Growers****STANTON, Mr Richard, Manager, Policy, A3P Australian Plantation Products and Paper Industry Council**

**CHAIR**—I declare open this public hearing of the Senate Rural and Regional Affairs and Transport Committee. The committee is hearing evidence on the committee's inquiry into the Forestry Marketing and Research and Development Services (Transitional and Consequential Provisions) Bill 2007 and a related bill. I welcome you all here today. This is a public hearing and a *Hansard* transcript of the proceedings is being made. Before the committee starts taking evidence I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee.

The committee prefers all evidence to be given in public but under the Senate's resolutions witnesses have the right to request to give it in private session. It is important that witnesses give the committee notice they intend to give evidence in camera. If a witness objects to answering a question, the witness should state the ground on which the objection is taken and the committee will determine whether it will insist on an answer having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request the answer be given in camera. Such a request may, of course, be made at any other time. I would like to thank all those who have made submissions and sent representatives here today for their cooperation. I now welcome our first group of witnesses. If you would like to make an opening statement, we will then go to questions.

**Mr Stanton**—The three of us have agreed that it would be more efficient if I make some opening remarks on behalf of Australian Forest Growers and the National Association of Forest Industries so that we can move onto the questions as quickly as possible. I guess the key point that I wanted to make initially is that the three national industry associations represented here strongly support the proposal to convert the Forest and Wood Products Research and Development Corporation from a statutory authority into an industry-owned research and development and marketing company to be known as Forest and Wood Products Australia. The second point I wanted to make is that we do not see this as a fundamental change or a disposal of the R&D corporation; rather, it is building on the good work that the R&D corporation has done over the past 12 years or so, particularly in recent years under the guidance of Dr Glen Kile, whom I believe is going to give evidence later today.

The continuation of the existing R&D program is fundamentally important. Of course, R&D will continue to be the major activity that will be carried out by this new organisation once it is established. Of course, having said that, the key part of this proposal is also to create an entity that can undertake marketing and promotion on behalf of the whole industry—that is, generic national marketing and promotion. It has been acknowledged by our whole industry for some time that we have a need to do such generic marketing and promotion. In the past we have done some generic marketing and promotion campaigns from time to time,

but the key problem we have had with those is that we have not been able to sustain them for the extended period that is required to have a real effect. They have always run for a couple of years and then we have run into problems. I would say the key problem reflects the market failure: while some people are prepared to contribute to generic marketing and promotion, there are always some free riders who are not prepared to contribute. Those who are contributing get frustrated that people are benefiting from their work but not contributing, and the program lapses.

The third point I would like to make is that this is not something that we have put together quickly. It has taken quite a significant period of time and required a significant contribution from a large number of people, particularly throughout the industry, to develop this proposal. It has taken some three years. In 2003, we established a steering committee with industry, union and government representatives on it, and we went through a fairly lengthy process. We have given you a lot of documentation about that and I will not go through it blow by blow. I will just make a few key points. The first thing we did was to engage a consultant to do some consultation with the industry to identify what their issues were, if they had any concerns with the current arrangements and what they saw as needing to be done in the future. We then also used the same consultant to do some work on looking at what other industries have done and some of the other examples of generic marketing and promotion. What the red meat industry has done with the help of Meat and Livestock Australia was probably a key example there. That work also involved looking at some of the models that had been used for industry generic marketing and promotion and R&D entities.

Once we had done that background work we got into developing a proposal tailored to the needs of our industry. That process of developing the proposal that you now have before you involved industry consultation. We did a series of workshops around the country with the industry on a draft proposal, if you like, and we then refined the proposal. Essentially, this document, which we have submitted, is the detail of the proposal itself. We engaged the Australian Electoral Commission to undertake a ballot of the industry to determine the level of support for this proposal as outlined in this document. The ballot involved existing levy payers to the Forest and Wood Products Research and Development Corporation and the potential new levy payers that we had identified as part of the process—that is, the forest growers.

The ballot conducted by the AEC gave very strong industry support for the proposal, and we therefore went to the government and asked them to help us in implementing it. That was about 12 months ago and it has taken us another 12 months to run through all the detail required to actually implement the proposal and get us to this point. I would like to just give you a brief idea of the sorts of things we have done over the last 12 months. First of all, the Department of Agriculture, Fisheries and Forestry has guided the preparation of the legislation, which the Senate now has before it. We have assisted in that process. We have also prepared a constitution for the new public company, Forest and Wood Products Australia, and we have provided you with a copy of that. The department has also worked on drafting a statutory funding agreement that will be the basis for the relationship between the government and the new entity for funding, and we have had input to that. We have also tried to work through the various transitional issues in moving from the R&D corporation to this new

company. Of course, the key things we have been trying to do there are to maintain the existing R&D program and to ensure that the staff, assets and liabilities of the existing body transition as smoothly as possible into the new arrangement.

Obviously, from our members' point of view, from the forest and wood products industry perspective, the key issue in creating this new organisation is to ensure that the money that our members and the industry as a whole contribute is spent on things that are important to the industry and is well managed. The proposal, of course, has a number of aspects to it which we hope will ensure that that happens. The key part of the new organisation will be the board. The board will be made up of a minimum of five and a maximum of nine directors. We have specifically provided that the board will have at least two independent directors. It is going to be a skills based board and we have identified that there may be some skills that are not necessarily going to be within the industry and therefore we have specifically provided for two independent directors to be included in the board. The managing director will also be one of those directors.

Another key aspect of the model that we have adopted is that there will be another advisory committee created. The existing R&D corporation operates research and development advisory committees. They have four of them at the moment, but the board will also establish a marketing and promotion advisory committee which will help to provide input to the organisation. While, of course, it is very important to the industry that our money is well spent, we also understand that the taxpayers require some accountability as government funding will go into this body through matching R&D contributions. We understand that taxpayers expect accountability for that money by the parliament and government and this will be achieved through the statutory funding agreement. The statutory funding agreement, as I said, is only a draft at the moment because it cannot be finalised until the new company act and the legislation are actually in place and people can sign up to the agreement. The statutory funding agreement is based on the precedents from a number of other industries and it has been improved by the department based on their experience. We think it provides appropriate accountability from the new organisation back to the taxpayers. In conclusion, the industry represented by our three associations strongly supports the proposal as detailed in this legislation. We urge the Senate to pass it as quickly as possible so that the new organisation can get up and running as soon as possible in the 2007-08 financial year. Once again, thank you for the opportunity to appear today and we would be delighted to answer any questions.

**CHAIR**—Can you make available the participants in the ballot?

**Mr Ragg**—Can you clarify that?

**CHAIR**—You had a ballot, you say, of your members?

**Mr Ragg**—No. The ballot was a ballot of all existing levy payers.

**CHAIR**—Can we have a list of the people who participated in the ballot?

**Mr Ragg**—I do not know. I am pretty sure we can provide you with a list of the existing levy payers to the R&D corporation.

**CHAIR**—You made mention of the existing levy payers plus the potential levy payers that also participated in the ballot.

**Mr Stanton**—Yes. We do not have a list of all the people who would have voted—

**CHAIR**—It was a guess, was it?

**Mr Stanton**—We sent the ballot papers to all existing levy payers and in respect of the potential new levy payers we advertised in the press and sent out various communications to our members, particularly Mr Ragg's members at Australian Forest Growers, inviting them to participate in a ballot. But those who ultimately participated we cannot actually say because it was a confidential—

**CHAIR**—But it would be a public document, the people who participated?

**Mr Stanton**—No. The document with the people who actually cast a vote is not public.

**CHAIR**—It was a secret ballot?

**Mr Stanton**—Yes, a secret ballot conducted by Australian Electoral Commission.

**CHAIR**—You had to vote in a secret ballot?

**Mr Stanton**—No.

**CHAIR**—We only want to know who voted.

**Mr Ragg**—No. But that is the point: who voted is not available to us. The AEC have that information and it will not disclose it.

**Senator SIEWERT**—What you mean is the members who were asked?

**CHAIR**—Yes.

**Senator SIEWERT**—I appreciate that you are saying that it was a secret ballot so you do not know who out of your members voted.

**CHAIR**—But who were asked to vote?

**Mr Ragg**—Are you looking for the list of people who were on the roll?

**CHAIR**—Yes, who would have been sent a set of ballot papers. Whether or not they voted is their own business.

**Mr Stanton**—This table that we have provided to you provides the number of eligible voters and the number of people who actually voted. As I said, I think we can provide you with a list of the levy payers to the existing R&D corporation. We can provide you with a list of everybody who we contacted in terms of growers, but we cannot tell you who actually voted.

**CHAIR**—Okay.

**Mr Stanton**—I think we can come pretty close to that.

**Senator NASH**—What was the percentage return of the ballot papers you sent out?

**Mr Stanton**—We had 434 people vote out of 1,119 eligible. That is 30 per cent.

**CHAIR**—I suppose you could say that is democracy at work.

**Mr Ragg**—That is non-compulsory voting.

**CHAIR**—You said you asked what the issues were. Could you provide us with the feedback of the issues that people wanted this new body to incorporate? What was burning a hole in people's hearts the most? What was the response to that?

**Mr Stanton**—I could just make a general comment. We provided you with a copy of the first report undertaken by the consultants which summarises a lot of that stuff. One of the key issues identified by the industry was this need for a generic marketing information campaign. That was why we ended up going down this route. That was certainly a key issue identified.

**CHAIR**—You are there to represent the growers and the participants. Do you also take duty of care to the investors?

**Mr Ragg**—Which investors?

**CHAIR**—The MIS industry. If you have a rogue MIS, do you watch the behaviour of the participants and how they treat their investors?

**Mr Ragg**—Yes, we do. I am not sure how this applies to—

**CHAIR**—It seems to me that the first rotations of Great Southern Plantations—1994, 1995 and 1996—were complete financial failures. They had to prop them up with a 50 per cent outside investment dividend to make it viable. As the peak body, I wonder whether that would concern you, or would you want to know why it happened? I know that they put out an explanation, but I have just come back from Kununurra and the sandalwood business up there is like a carpetbagger's dream. The Ord could well be all sandalwood if they let it go, because they have put no price signals in the water marketing there. I just wondered what protection investors get from your industry group?

**Mr Ragg**—I am not sure how that applies to this legislation.

**CHAIR**—It may well not, but it certainly applies to the body. I am interested to know whether you are representing the interests of people in this respect.

**Mr Ragg**—We are certainly listening to the criticisms, and there are a range of issues being brought forward that have been addressed in other fora—

**CHAIR**—Would you be able to provide us with those criticisms?

**Mr Ragg**—Yes, I can take that on notice.

**Mr Stanton**—If I could just comment on how this might apply to some extent to that issue. This new organisation, Forest and Wood Products Australia, will have as its key role research and development, providing information about that and marketing and promotion. The issue that you are talking about is whether or not the investors have the necessary information to make what you believe is an informed decision.

**CHAIR**—No. If you are interested in R&D, it seems to me that the first rotations of Great Southern Plantations were a complete failure. They met less than 50 per cent of their commitment in the prospectus. So, in honest terms, they then said, 'We'll push a bit of money in from somewhere else to make the dividend work.' The 3,300 units became 5,128, or something like that.

**Mr Ragg**—I understand you raised that issue in estimates and at that time said you had referred that to ASIC, which makes me a little bit reluctant to comment further.

**CHAIR**—I do not think it should. As a peak body, does it concern you that a major investment made in good faith by these people—and given that it is an 11-year rotation—turns out to be a bummer and the solution is to put some outside money in it? Isn't there something wrong?

**Mr Ragg**—There may be. We need to see how that evolved.

**CHAIR**—I am sure that ASIC's explanation will be they have given an explanation and they have put up to 50 per cent of outside prop-up money into the investment, and then brought it in through a wholly owned subsidiary of Great Southern Plantations. I just hope that you are not overseeing the growth of a house of straw, that is all.

**Mr Ragg**—We are certainly monitoring what is going on and we would be concerned if those issues became apparent.

**CHAIR**—You are aware of what I am talking about?

**Mr Ragg**—I am aware of what you are talking about.

**CHAIR**—So, what comment have you got to make on that?

**Mr Ragg**—I go back to my reluctance, that it is subject to an ASIC investigation—

**CHAIR**—No, it is not.

**Mr Ragg**—I am not sure of my status.

**CHAIR**—No, it is not.

**Mr Ragg**—I am sorry, I thought you had made that point earlier.

**CHAIR**—Did it concern you when you saw they had to prop it up?

**Mr Ragg**—I am not sure that the levels that you are asserting are the case. What I can say is that the evolution of—

**CHAIR**—This is the situation with this investment. There was a prospectus and money got put in. When the investment did not meet the prospectus and there was an element of failure in not meeting the criteria of the prospectus, some dividends were artificially injected into it. Then people were invited to reinvest their money and they were given a 10 per cent discount, as I understand it. Surely there is a risk, and I am not saying there is any impropriety. I do not know what went wrong in those first rotations. I think they blamed the weather in their explanation. We have had shitty weather for 10 years. There might be 10 years of shitty investments, depending on where they are. With the sandalwood example, I know that some of the densities of trees shown in the prospectus are less than half of what is actually in the paddock—less than half.

**Mr Ragg**—You have clearly got knowledge on sandalwood that I have not got available to me. I would say this: there is risk with agriculture. We all acknowledge that there is a risk with agriculture, and forestry is no different.

**CHAIR**—But is it a good practice in an agricultural risk to prop it up? That is right, farming is a risk. Farming is the greatest gamble there is.

**Senator ADAMS**—What about racehorses?

**CHAIR**—It is just slightly ahead of racehorses. But the practice of artificially propping up the dividend sets a bad precedent in my books.

**Mr Ragg**—I would make two points. Firstly, that there is an agricultural issue, and I acknowledge that. The second point is that as technology has advanced and we have had available to us a capacity for improvement in genetics and site selection qualities, it is evolving. It is of concern, but it is not something I can intervene in. But it is certainly something we are aware of and continue to—

**CHAIR**—I have had a lot of correspondence since that happened from people who invested in the pine industry many years ago and were completely burnt. The forests were completely mismanaged. Do you represent those people who did that?

**Mr Ragg**—No.

**CHAIR**—It is an industry fraught with danger. Thank you. Senator O'Brien?

**Senator O'BRIEN**—I note from the legislation that there is nothing about the requirements for the structure of the company, unless I have missed it in my quick preview.. Given that there is a—

**Mr Stanton**—The constitution details the membership of the board, the board appointment process, the appointment of a managing director and that sort of stuff. It is in the constitution of the company. Then, of course, the government can make any requirements they have in relation to that in the statutory funding agreement, so it is really those two things working together.

**Senator O'BRIEN**—You cannot have a statutory funding agreement until you have a company, as you told us earlier. You have to have the company incorporated before you sign a statutory funding agreement. It is like the chicken and the egg. You are saying you have to comply with the statutory funding agreement but the company has to be formed before the statutory funding agreement is signed. However, the government in the statutory funding agreement can say what the constitution should say. That is a bit circular, isn't it?

**Mr Stanton**—That is true. We have had to progress those two things in parallel, but technically what you are saying is right. At some point in the future the government may say, 'We have had new experience. Perhaps next time we enter into a statutory funding agreement we may want to do it differently.' The company may have to take that into account and say, 'Okay, if we want to get funding from the government under a statutory funding agreement we may need to amend our constitution.' That is the reality we are dealing with, I guess.

**Senator O'BRIEN**—Did the government say what their requirements were going to be under the statutory funding agreement before you drafted the constitution of the company?

**Mr Stanton**—We have really been doing those two things in parallel, but the draft statutory funding agreement, which I think the department has provided to you, is our understanding of their requirements at this point in time. We believe the constitution meets those, so we think they are in line.

**Senator O'BRIEN**—I am trying to find out how this iterative process got to the point where you understood what the government required in the company's constitution?

**Mr Stanton**—Essentially, we started with the precedents created by other industries and then we have continued to talk to the government about whether they expect anything to change. There are some things that have changed over time and we have taken those into account.

**Senator O'BRIEN**—Can you, as briefly as possible, describe the differences between the Forest and Wood Products Research and Development Corporation and the new entity?

**Mr Stanton**—I guess the key difference is that the R&D corporation is established under the PIERD Act and is a statutory authority reporting to the minister through its board, whereas Forest and Wood Products Australia will be a company which reports through its board back to its members and to the government through the statutory funding agreement. Its objectives will be slightly different, because it will be undertaking marketing and promotion as well as research and development. Its funding will be slightly different because there will be a grower levy which there has not been previously. And there will also be an increase in the hardwood sawlog levy. I guess those are the biggest changes between the two organisations, unless my colleagues have anything to add.

**Mr Ragg**—Effectively, we have made it a company limited by guarantee to allow it to undertake generic marketing and promotion activities that are otherwise unable to be taken out under the provisions of the PIERD Act.

**Senator O'BRIEN**—Previously, the board of the corporation established under the PIERD Act was appointed by government, was it?

**Mr Ragg**—That is correct.

**Mr Stanton**—Yes. There is a selection committee. The minister appoints the chair. Industry nominates representatives of the selection committee. The selection committee puts up recommendations and the minister appoints.

**Senator O'BRIEN**—What is the role of the government in relation to the appointment of the board for the new company?

**Mr Stanton**—The government's requirements in relation to the board are, again, in the statutory funding agreement, but the appointment of the—

**Senator O'BRIEN**—They will be? You have not signed one yet.

**Mr Stanton**—That is right, they will be, but the appointment of directors under the constitution is by vote of the members, within the requirements of the constitution, as I said: a minimum of five, a maximum of nine, the managing director is a member of the board and there must be two independent directors.

**Senator O'BRIEN**—Is there an initial board at the time the company is formed and how is that established?

**Mr Stanton**—When the company is registered with ASIC it is necessary to have directors who sign on at that point in time. What we have done is invited the directors of the existing R&D corporation, not including the executive director, to become the initial directors of the

new company and to manage it through that transition phase until we can have the first annual general meeting and ballot of the members. We saw that as a good way to ensure that the existing R&D program can essentially keep going through the transition under the guidance of the existing board.

**Mr Ragg**—Just to clarify, it also excludes the government director on the existing Forest and Wood Products Research and Development Corporation.

**Senator O'BRIEN**—‘It also excludes’?

**Mr Ragg**—Yes, because the government take a view that they do not want to participate in this board, so neither the executive director nor the government appointed director to the R&D corp will be an initial director.

**Senator O'BRIEN**—Who will be on the board initially?

**Mr Stanton**—The chairman of the existing board is Mr Ron Adams. The other directors are Peter Zed; Dr Sadanandan Nambiar, a retired scientist from CSIRO; Mr Ken Last; Kathryn Adams; and, Mr David Hunter. They are the existing directors of the R&D corporation.

**Senator O'BRIEN**—They will be the initial directors until when?

**Mr Stanton**—Until we have the first annual general meeting. I guess it will be up to those directors to decide the exact timing of that process but there are a number things they had to do. Of course, the first is to create the company membership register. So, everyone who pays a levy to this new company will be eligible to become a member. They do not have to, but they will be eligible to. So, we will have to establish that register before we can hold a general meeting and have an election. I guess the general view is that this interim board, the existing board of the RDC, will probably operate for 12 months, or maybe a little bit longer, to get the initial process up and running and then hold the first annual general meeting and have an election.

**Senator O'BRIEN**—There are two types of payments the government can make to the contracted company, which, we take it, will be the company we have just been talking about. Presumably you have assurances that that will be the case?

**Mr Ragg**—I am trying to think of a second one. I am thinking of matching R&D funds; is that what you are referring to?

**Senator O'BRIEN**—No. The bill talks about forest service payments and matching payments.

**Mr Stanton**—So the government collects the levies from the industry and pays them to the company—

**Senator O'BRIEN**—That is the forest service payments, is it, the collected levies?

**Mr Stanton**—Yes. But that comes into government consolidated revenue, I guess, and then is paid out and then the government pays matching funds but only to match R&D expenditure, not to match marketing and promotion expenditure.

**Senator O'BRIEN**—The forest service payments are mentioned in 8(1)(a). I am just trying to understand the legislation. It defines forest service payments as payments mentioned in paragraph 8(1)(a), which states: 'payments called forest service payments'.

**Mr Stanton**—There are a number of different types of payments in that the domestic wood processing industry will pay a levy on the logs it receives. Importers pay a levy on the material they import. Growers will pay a levy based on the volume of wood harvested, and all of that will be put together as the industry contribution.

**Senator O'BRIEN**—I have seen the industry's explanation. I am interested to know, and perhaps you cannot answer this, why the legislation definition refers you to 8(1)(a), which merely says: 'payments called forest service payments'.

**Mr Stanton**—My colleague may be able to answer that or you might want to save that question for the department when they appear later on.

**Mr Ragg**—Forest service payments, as I understand it—and DAFF may seek to clarify it in their evidence—are payments collected by the Commonwealth from the industry and passed onto—

**Senator O'BRIEN**—I am just interested to know where it says that in the legislation.

**Mr Stanton**—That is a circular reference, but I am sure that is defined more accurately somewhere else.

**Senator O'BRIEN**—When did you first see this bill or an iteration of it?

**Mr Stanton**—When would that have been?

**Mr Ragg**—When it was introduced. Was that 10 May?

**Senator O'BRIEN**—Did you see any drafts before it was introduced?

**Mr Stanton**—No. We had discussions about what needed to be in there but did not see the actual words.

**Senator O'BRIEN**—You think it is intended to mean collected levies?

**Mr Stanton**—That is correct.

**Mr Ragg**—Yes, that is my understanding.

**Mr Stanton**—But as I said, the levies collected are not simple, particularly because of the importer charge. There is a slightly different collection mechanism.

**Senator O'BRIEN**—You say that the discussions about the statutory funding agreement have revolved around iterations of similar agreements for other incorporated bodies collecting industry payments engaged in research and development and also receiving matching research and development payments from government. And you have mentioned meat and livestock, I think.

**Mr Stanton**—Yes.

**Mr Ragg**—We have also looked at dairy and at eggs.

**Mr Stanton**—The Australian Egg Corporation is the most recent one, before—

**Senator O'BRIEN**—I thought it was. What are the improvements on those statutory funding agreements that we can see in the draft statutory funding agreement, which is at least at this stage in contemplation between the government and this respective company?

**Mr Ragg**—I am not sure I can answer that. I could not bring any specific improvements to mind.

**Senator O'BRIEN**—Is there something that comes to mind where you have looked at those other documents and where particular provisions have been revised in some way because of experience or a more up-to-date view of the way they work?

**Mr Stanton**—I would have to say nothing springs to mind. You are probably better off directing that question to government. As I understand it, most of the changes are things that they have brought to the table based on their experience.

**Senator O'BRIEN**—Who has been drafting the document—the government or the industry?

**Mr Stanton**—The government provided us with the initial draft and we provided input, but primarily it has really been in their hands.

**Senator O'BRIEN**—I assume there have been a number of iterations of the document discussed over a 12-month period?

**Mr Stanton**—More recently. We have certainly always had it in the back of our minds that that would be what we would go through, but we have really only seen the detail in the last six months.

**Senator O'BRIEN**—I am interpreting from your answers, but perhaps you can make this clear. Effectively, the new company—other than the officers who are no longer involved—will take over the functions of the body it is superseding and will occupy the same offices?

**Mr Stanton**—Yes.

**Senator O'BRIEN**—Will it use the same staff?

**Mr Stanton**—That is correct.

**Senator O'BRIEN**—So there will be a transition for staff between the Forest and Wood Products Research and Development Corporation and the new body?

**Mr Stanton**—That is right. The assets and the staff are transferred to the new body. Obviously that will not remain the same forever, but that is the initial arrangement. There will be some additional staff to deal with marketing and promotion, which is the key point.

**Senator O'BRIEN**—Senator Adams tells me that \$6.4 million will transfer across at that time. I think that was from the *Bills Digest*.

**Mr Stanton**—The R&D corporation have been working to try to reduce that surplus in recent years by expanding the R&D program, and we have been encouraging them to do that, but those are the retained funds. And of course they have ongoing liabilities to research projects. An average life for research projects is three to four years, and so they have committed to those projects. To some extent, those funds are committed to existing projects.

**Senator O'BRIEN**—How does the new structure propose to account to the parliament for public monies appropriated to it?

**Mr Ragg**—There is a requirement for it to produce an annual report, which is required to be tabled in parliament by the minister within either 15 or 28 days. I cannot bring the number completely to mind.

**Mr Loydell**—Fifteen sitting days.

**Mr Ragg**—As is the case with existing research and development corporations.

**Senator O'BRIEN**—What has to happen with the statutory funding agreement?

**Mr Stanton**—The other aspect to that is perhaps before the money is spent, in that there are requirements outlined in the statutory funding agreement for the organisation to prepare the necessary plans, for example, a corporate plan, a detailed R&D and marketing plan, and risk and intellectual property plans. Having those various plans in place and then the board being required to implement those plans is the up-front means of ensuring that the government's requirements are met as well. Once again, those plans have to be provided to the minister.

**Senator O'BRIEN**—What happens beyond that? Is there any requirement to table those plans or any changes to those plans in the parliament?

**Mr Stanton**—I cannot answer that question. It would have to be provided to the members of the company and to the minister.

**Mr Ragg**—Yes.

**Mr Stanton**—I am not aware that they have to be tabled.

**Mr Ragg**—Presumably the substantive part of them would be part of the annual reporting mechanism, which would be tabled.

**Senator O'BRIEN**—Could there be any problem with those plans being tabled in the parliament?

**Mr Ragg**—I would not have thought so.

**Mr Stanton**—I would not have thought so.

**Mr Ragg**—That is just a process.

**Senator O'BRIEN**—I understand what you are saying. The legislation is a very brief document. I do not know whether it is intended that there be regulations. Clause 16 of the bill states that the Governor-General may make regulations. Do you know whether regulations are required to flesh out the legislative package to cover measures that are not contained in the bill?

**Mr Stanton**—In terms of the levy collection arrangements, regulations are required to set the levy rates and that type of thing.

**Senator O'BRIEN**—Has the industry seen a draft of the regulations or the drafting instructions?

**Mr Ragg**—No. We are generally aware of the areas that they need to cover but, as I understand it, the regulations have not yet been drafted.

**Senator O'BRIEN**—When is it intended to commence collection of the levies?

**Mr Ragg**—As I understand it, the regulation for the hardwood sawlog levy has been drafted and the new levy commences on 1 August.

**Senator ADAMS**—1 July.

**Mr Ragg**—DAFF might be able to explain this better, but there is a subtlety between the existing levy, the expansion of the existing levy and the introduction of the new levy. The dates are a month apart. There is apparently a technical reason for that, which I do not fully understand.

**Mr Stanton**—The existing levies continue to be collected and go to the R&D Corporation until such time as it becomes the new organisation and the minister directs the funds by regulation to go to that body. The new levy will not be collected until the legislation is in place and the regulations can follow through. We are aiming for 1 August, but if there were a problem with the legislation that would have to be moved further out.

**Senator O'BRIEN**—Will the existing levies continue until new levy arrangements are put in place?

**Mr Ragg**—Not quite. The existing levies will continue and additional levies will be struck for the new organisation. The pathway of the existing levies will vary from one organisation to another.

**Senator O'BRIEN**—These payments are defined in a very circular way as forestry service payments?

**Mr Stanton**—Yes.

**Mr Ragg**—Yes.

**Mr Stanton**—Once again, that illustrates the issue that it is a collection of different levies from industry and from importers that make up the industry services payments.

**Senator O'BRIEN**—I think you indicated with respect to the levies that the hardwood sawlog levy was increasing. What is it increasing from?

**Mr Stanton**—From 22c per cubic metre to 29c per cubic metre, and that 29c is the softwood sawlog levy.

**Senator O'BRIEN**—What about the levies for softwood growers, MIS managers and hardwood growers MIS managers?

**Mr Stanton**—That will be 5c per cubic metre on every log regardless of type; the grower will pay that when harvesting from the forest.

**Senator O'BRIEN**—Is that a new levy?

**Mr Stanton**—That is the new levy—5c per cubic metre.

**Senator O'BRIEN**—Is the importer's levy of 72.5c an existing levy?

**Mr Stanton**—That is the existing one, and it continues. It is related to the levy on domestic production. There is a formula for that.

**Senator O'BRIEN**—I understand that the volume projected in industry calculations is approximately 1.026 million cubic metres?

**Mr Stanton**—I am not sure what the figure is.

**Senator O'BRIEN**—I have a table here that refers to proposed levy funding. It states that the figure is a best estimate. It is a four-column document, with 'levy-paying sector' and 'importers'. It has 'potential future funding under the new entity model'. The 'volume cubic metres' is 1,026,208 against the importer's column, and then the amount and 'funds raised', \$744,001.

**Mr Stanton**—That volume is actually a conversion. It is complicated because the importers are mostly importing sawn timber, whereas we are talking about a levy on logs before they are sawn up. There is a formula to convert the sawn timber into its log equivalent. That one million cubic metres is a modelled number based on the volume of timber that is imported and then converting that to what it would be in log equivalents.

**Mr Ragg**—The \$744,000 is not inconsistent with the current collect for that levy.

**Senator O'BRIEN**—Does the government currently match funding for that?

**Mr Ragg**—Not currently.

**Mr Stanton**—No, not for the importers.

**Senator O'BRIEN**—I understand you are discussing the possibility of that with government?

**Mr Ragg**—I understand that has been agreed.

**Mr Stanton**—Once again, they will only match expenditure on research and development. It is when the funds get spent on doing R&D that the government matches it. So if that importer's money is spent on marketing and promotion, it will not be matched.

**Senator O'BRIEN**—Is there a cap on the amount of matching funding the government will provide in numerical terms or in proportionate terms?

**Mr Ragg**—Consistent with other industries, it is up to 0.5 per cent of the gross value of production.

**Mr Stanton**—We are well under that.

**Mr Ragg**—We are at 0.3 per cent.

**Mr Stanton**—We are at about a third of what the government would match. If we could convince the industry to increase their R&D levy, the government would continue to match significantly higher.

**Senator O'BRIEN**—With respect to the structure of current and future research projects, are you able to advise us of the research projects which are underway and continuing under the current model?

**Mr Ragg**—Not specifically. What we can say is that those projects that are funded or in anticipation of funding in out years are covered by the existing research and development levy collect. There will be no less expenditure on research and development under the new entity than there is under the current entity.

**Mr Stanton**—The organisation is currently spending approximately \$7 million a year on R&D programs and, of course, that is reported through their current reporting mechanisms—the annual report. As I said, we are strongly supportive of that existing R&D program. We expect it will continue in similar terms, although we might see a bit of reorientation, particularly to take into account the fact that the growers will now contribute a levy; they might have a little more influence over some of the R&D that goes on. Broadly speaking, we expect the R&D program to continue.

**Senator O'BRIEN**—Who is doing the research? Is that contracted out?

**Mr Stanton**—That is contracted out by the R&D corporation. They do not undertake any of their own research. It is contracted out. I know CSIRO, particularly through their joint venture with Ensis, have made a submission to your inquiry. They are certainly one of the major research providers, but there is a wide range of research providers.

**Senator O'BRIEN**—I will probably need to ask some of those questions to the department to get some clarity. Thank you.

**Senator NASH**—I have a couple of brief questions around the ballot. You said there was strong support for it. What was the actual figure of support in the ballot?

**Mr Stanton**—Overall, 71 per cent of those voting voted in favour. That was the summary number; we have provided it to you broken down by the different levy categories. There were two questions asked. Everybody was asked whether they supported the proposal, and those sectors where there was a new levy or an increase in the levy had a specific question about the levy. In summary, overall support was 71 per cent. You can look at the detail of which did what.

**Senator NASH**—That is a reasonably high level of support. What reasons are being given by those who are against the change?

**Mr Loydell**—One of those is the hardwood sawlog levy payers who have an increase to their levy. It is impossible to say what each individual's reason was for voting the way they did, but it is probably telling that, given that particularly in Western Australia they are under a fair bit of pressure from further resource lockups by state governments, they are concerned about their financial viability and their ability to pay that. I would say that that is one of the factors.

**Senator NASH**—You just said that their levy was going to increase. How much is their levy going to increase by?

**Mr Loydell**—Seven cents.

**Mr Stanton**—From 22c to 29c per cubic metre. Just to give you a ballpark estimate, they might be paying anything from \$20 to \$80 a cubic metre for those logs. We are talking about a fairly small percentage on the cost of the logs to them. Just to make a general comment in terms of going to people and asking them to pay, it is always a challenge. There are people

who will always say: 'No, I would rather do everything myself, keep my money to myself, make my own decisions.'

**Senator NASH**—It does not matter which industry you go to; you will find that.

**Mr Stanton**—This is a relatively small contribution to a national effort. There is a lot of R&D and a lot of marketing and promotion that individual companies will do or groups of companies or sectors will do. This is the overarching high-level stuff, and we have a pretty good level of support for that.

**Senator NASH**—Just out of interest, in the environmental sustainability part of your submission you talk about research and development into biofuels. Can you expand on that and what the industry is doing with R&D into biofuels?

**Mr Ragg**—Lots of things. But that is flippant. The key technologies that are currently being looked at are the utilisation of fibre as opposed to starch to turn it into either renewable electricity or, more specifically, ethanol through a process called lignocellulosics, or maybe diesel through diesel pyrolysis. We see some huge opportunities in that context and, given the international fluctuation in the price of oil based fuels, those numbers are starting to look more attractive.

**Senator NASH**—I would like you to take on notice to provide some more detail, particularly around lignocellulose and what is being done.

**Mr Ragg**—Yes.

**ACTING CHAIR (Senator Siewert)**—As I understand it, the money that the government will be contributing is to be used for research and development, not for the marketing side of things?

**Mr Ragg**—That is correct.

**ACTING CHAIR**—How are you going to pay for the marketing side for the new company? Will that be through the increase in the levy?

**Mr Ragg**—It will be through two mechanisms. It will be through the increase in the levy. When I say that, I refer to the 7c increase in the hardwood sawlog levy. But it will also be via the introduction of a new levy, which is the grower levy. That is a substantive levy which is anticipated to yield somewhere between \$1 million and \$2 million per annum. It does not necessarily follow that all of the grower levy will go to marketing and promotions, but the substantive growth in the levy is likely to be spent on marketing and promotions if you take the levies holistically.

**ACTING CHAIR**—The combination of the increased levy and the new levy will be what is allocated to marketing and promotion?

**Mr Ragg**—Yes.

**ACTING CHAIR**—You have a skill based board. Will that skill base include expertise in marketing and promotion?

**Mr Ragg**—That is not a decision for us to make. That is the intention. The constitution contains provisions about a selection process and also contains requirements to anticipate a

set of skills that are not specifically defined but would naturally incorporate all of those areas of activity of the company and other skill sets—for example, legal or accountancy skill sets.

**ACTING CHAIR**—As I understood your earlier answer, the government will match up to 0.5 per cent. I think you said at the moment it is 0.3 per cent?

**Mr Ragg**—Yes.

**ACTING CHAIR**—I am presuming that is 0.3 per cent of the hardwood levy?

**Mr Ragg**—No. It is 0.3 per cent of the gross value of production of the industry.

**Mr Stanton**—ABARE calculates the gross value of production of the industry and the government will match up to 0.05 per cent of that. When we said 0.3 per cent, that is actually a third of 0.05 per cent, so we are talking about 0.15 per cent.

**Mr Ragg**—We have a long way to go.

**Mr Stanton**—We are working on convincing the industry to contribute more in order to get that additional matching funding.

**ACTING CHAIR**—As I understand it, the government's matched funds all go into research and development?

**Mr Ragg**—Yes, the matched funds do.

**ACTING CHAIR**—Are they matched in terms of what the industry is producing?

**Mr Ragg**—In terms of processes, I understand that the government only matches the funds once they are identified as having been spent or allocated to research and development.

**Mr Stanton**—That is correct.

**Senator ADAMS**—I would like to ask you more about why the Western Australians are not happy about the levy. Could you expand on the issues that they have got?

**Mr Loydell**—They have a lot of issues surrounding the financial viability of their businesses. It is probably most significantly related to pressures on their resource. There was an example in the last month or so of further lock-up of resource from state forests, which is where these sawmills get their resource from, on the basis that new old-growth forest has been discovered. I understand the Western Australian government has taken a policy decision not to allow any old-growth logging and if they identify new old-growth forests then they thin them out of production. It makes it very difficult for the industry to manage their businesses over time when they have got a risk of their resource changing in future. The RFA that was agreed in Western Australia has not resulted in further resource security for them. That is probably the biggest contributing factor to their concerns about their ability to afford levies. They are under significant pressure at the moment and may not be there for very long in the hardwood sawlog sector.

**Senator ADAMS**—Are there any other issues?

**Mr Stanton**—I do not think we have had any specific concern about the detail, for example, their saying, 'If you change this aspect, we would support it.' It really is much more just the financial issue of another cost under difficult circumstances.

**Mr Loydell**—I was not at NAFI at the time, but I understand from our CEO that there were no specific problems raised by anybody, and the association did have discussions about the outcome of the ballot. But nobody has raised specific concerns about why they voted against the legislation other than that everybody knows the difficulties that the industry is facing.

**Senator ADAMS**—I will have to look a bit further into that.

**ACTING CHAIR**—We have just been told that the CMFEU cannot make it, so we will start with the Forest and Wood Products Research and Development Corporation after the break.

**Proceedings suspended from 10.24 am to 10.42 am**

**CHAIR**—I welcome representatives from the Forest and Products Research and Development Corporation.

**Mr Adams**—You obviously have a copy of our very brief submission, which we made on behalf of the current board. The ballot to determine support for Forest and Wood Products Australia took place before the current board was appointed and certainly before my appointment as chairman of the R&D corporation, which was in December 2006. You have obviously heard earlier discussion on the ballot process. However, I think it is fair to say that the former board and the current board support the transition of the Forest and Wood Products R&D Corporation to WPA as a desirable evolution supported by industry through that ballot process. It is also worth stating, just to confirm, that when the appropriate arrangements have been put in place the current board of the FWPRDC are willing to become the initial board of Forest and Wood Products Australia when those arrangements are concluded. I think perhaps with those very brief opening comments—

**CHAIR**—Thank you very much. Senator O'Brien?

**Senator O'BRIEN**—The submission that you have provided tells us that the statutory funding agreement follows the template of other contemporary statutory funding agreements for industry service bodies and that the corporation understands statutory funding agreements are currently being renegotiated with other industry service bodies. How do you understand that?

**Dr Kile**—I have been involved in the discussions throughout this process. When discussion about the SFA commenced, the department was able to present a template based on precedents set in other organisations. Obviously that requires a bit of customisation to suit this new entity; but there are quite a lot of standard clauses in there that they require of all of these industry services bodies. We have had access to that for some time. Gradually that has been refined over the last few months. We are also in contact through our networks with other industry services bodies, because we are interested in their experience and in learning from them. They have indicated to me that some of those bodies are renegotiating statutory funding agreements at the present time. The material in ours is fairly consistent with what is in those new agreements.

**Senator O'BRIEN**—How does the proposed statutory funding agreement differ from those currently in effect?

**Dr Kile**—It is mainly around the particular circumstances of this corporation and some requirements of the government in relation to funding. Those are the major issues that have to be dealt with in this new arrangement. There are some specific clauses that cover the funding arrangements for this one.

**Senator O'BRIEN**—Has the board been involved in discussions about the legislative framework that provides for the contracting of the new company?

**Mr Adams**—I think, as we put in our brief submission, the formation of the new organisation has really been overseen by an implementation committee which has basically had the industry's peak associations represented by the three gentlemen you were talking to earlier, along with government representatives, Dr Kile and one of the directors of the current board in more recent times. Obviously that implementation committee, as you would have heard earlier, has been in place for quite some time going through the process.

**Senator O'BRIEN**—When did you see the first iteration of the bill before the parliament?

**Mr Adams**—It was through the implementation committee.

**Dr Kile**—Essentially, people saw the bill when it was tabled in parliament, although there was quite a lot of discussion through the implementation committee and with DAFF about the general contents of the legislation.

**Senator O'BRIEN**—Did you see a draft before you saw the bill?

**Dr Kile**—No, but we saw the legislation that covers the Dairy Corporation and the Egg Corporation, from which much of the material is drawn.

**Senator O'BRIEN**—Do you know where this concept of forestry service payments came from?

**Dr Kile**—It is something the department is better able to answer. There are a number of descriptive terms around the levy payments and the imported timber charge, which is not strictly a levy, as I understand it. These are terminologies that—

**Senator O'BRIEN**—What is it?

**Dr Kile**—The importers are charged an imported timber charge. I think that is what it is called—

**Senator O'BRIEN**—It is like a tariff, is it?

**Dr Kile**—Yes, because it is collected through Customs rather than through the levies unit, and the funding is then transmitted to the levies unit.

**Senator O'BRIEN**—Should we understand that this is effectively a tariff that is allocated to industry research and development?

**Dr Kile**—I am not up with the legal terminology surrounding these things, but my understanding is that it was set up that way to provide competitive neutrality between domestic and imported material.

**Senator O'BRIEN**—Is that what you were told by the department?

**Dr Kile**—That is my understanding from when the corporation was set up in 1994. That has always been there and obviously was quite significant in helping the corporation get established back in those early days.

**Senator O'BRIEN**—Where would we find a list of the research activities currently being undertaken by the corporation?

**Dr Kile**—The most recent list was published in our annual report for 2005-06. We will shortly be preparing an annual report for this almost completed financial year, which will be tabled in parliament by mid-October. In the interim, we can provide an up-to-date list of all our current research projects if the committee is interested in those. We have a number of projects that continue from year to year. We have some finishing and we obviously start new projects during each financial year. We would currently have—I am not sure of the exact number—somewhere between 60 and 70 projects on our books.

**Senator O'BRIEN**—You can provide a list of those projects?

**Dr Kile**—Yes.

**Senator O'BRIEN**—I would appreciate it if you would. We have a very short reporting time, so if we can get that in the next couple of days, it would be more helpful. Could you provide us with a list of the research activities undertaken over the last five years?

**Dr Kile**—They were all documented in our annual reports over that period. We can supply copies of our annual reports.

**Senator O'BRIEN**—Thanks for that. What do you believe are the future research priorities for the forest and wood products area?

**Dr Kile**—I think there are a number of key areas that we identify as priorities and operate in, particularly in the processing sector. We deal with what you generally categorise as improvements in efficiency and performance in processing, timber drying, timber quality control procedures, particularly new products, new technology for predicting the properties of timber—all those sorts of things. We do work on tree breeding, genetic improvement of our resource base and general understanding of resource quality and what is actually coming down the line. As we move increasingly to plantations and lower quality wood from regrowth forests there are some significant processing challenges and not always a clear understanding of what is actually out there in terms of resource, which can determine the profitability of processing.

We also work in sustainable forest management and work with water, which is obviously a key priority. At the other end of the spectrum, we work with timber standards, in that sort of area, understanding market knowledge. We are currently developing a life cycle inventory database for the forest and wood products industry, because there are so many claims around the environmental issues in the industry that we believe the only sensible way to go is to develop more quantified environmental information. We are doing work in that area. This is a major project, with a corporation investment in phase 1 of \$650,000. We hope that might lead to the adoption of life cycle inventory, life cycle assessment, more widely in the materials industry so that you will actually get more useful environmental outcomes in terms of reducing the impact of construction in particular. We cover a fairly broad spectrum with our

resource base, but there certainly are those clear priorities, I think, and the emerging issues around climate change—

**Senator O'BRIEN**—What do you mean by 'reducing the impact of construction'?

**Dr Kile**—Construction has a high environmental impact in terms of the production of greenhouse gas emissions and the consumption of water and energy. If you can use new low-embodied energy materials more widely, you can reduce the environmental impacts and produce aesthetically more pleasing buildings. The main thing is that there is reduction in energy consumption and greenhouse gas emissions. You would probably be aware of the move to energy ratings of buildings. Because that is simply based on operational energy, you can probably establish that, as a consequence of that, nobody has any difficulty in reducing operational energy, and you are favouring more energy intensive materials, such as cement; you actually get a worse policy outcome than you would by a broader life cycle assessment approach.

**Senator O'BRIEN**—When you say 'you', do you mean society or the government? Who is favouring cement over timber?

**Dr Kile**—I think it is just a counterproductive result of regulations. Reducing operational energy is an admirable objective, as is conserving energy and reducing greenhouse gas emissions. If you take the simple example of a standard house in Victoria, one with a suspended timber floor can get a four-star rating; one with a concrete floor with a greater thermal mass can get a five-star rating. There is an extra 15 tonnes of CO<sub>2</sub> produced in producing the concrete floor. From the savings you will make on greenhouse gas emissions through the savings on operational energy it will probably take you about 40 years to become greenhouse neutral. That hardly seems to achieve the desired policy result. Many of these rating systems do not actually take in the properties of the materials that are being used in construction. They take a relatively narrow focus on something like operational energy.

**Senator O'BRIEN**—That work is underway?

**Dr Kile**—Yes.

**Senator O'BRIEN**—When will that be—

**Dr Kile**—We are hoping to have our life cycle inventory database, or the first phase of it, completed by later this year or early next year.

**Senator O'BRIEN**—Who is doing that work?

**Dr Kile**—It is being done by the CSIRO essentially, but also with some other people from RMIT University in Melbourne.

**Senator O'BRIEN**—Is any work being done on carbon sequestration and forest product types?

**Dr Kile**—Yes. We do an increasing amount of work on carbon sequestration. We have supported development of growth models, which can naturally feed into carbon accounting systems. We are just commencing a study with the AGO to get a better handle on carbon storage in housing in Australia. Carbon storage in housing extends the benefits of storing carbon in forests. While it is not a huge pool, it is one that is reasonably significant and is

growing all the time. Some recent work in Victoria suggested that the annual amount of carbon being stored in new and renovated housing is probably equivalent to the emissions of 100,000 cars a year. There is some benefit in putting wood into long-term use.

**Senator O'BRIEN**—When are we likely to see the outcome of that research documented?

**Dr Kile**—That is probably a two- to three-year project.

**Senator O'BRIEN**—Is there work being done on areas such as plantations and regrowing forest?

**Dr Kile**—Yes.

**Senator O'BRIEN**—Old growth forest?

**Dr Kile**—We have one project that is related to native forest harvesting, and that is looking at variable retention harvesting in the Central Highlands in Victoria. This is work being done by David Lindenmayer from ANU. We have provided support into that work.

**Senator O'BRIEN**—You called that variable retention harvesting; is that otherwise called selective or—

**Dr Kile**—No, it is a little different from selective harvesting, where you might go in and take out a small patch of trees. Some simple work is being done in Tasmania in old growth logging. It is broader harvesting but where you leave islands in the landscape to break up the larger clear-felled areas.

**Senator O'BRIEN**—That is the only project you fund in that area?

**Dr Kile**—Yes, at the present time.

**Senator O'BRIEN**—How much is allocated towards that?

**Dr Kile**—I cannot remember. I think we have put about \$150,000 into that project.

**Senator O'BRIEN**—Are there any areas of research that the board would like to undertake but do not have the funding capacity to undertake?

**Dr Kile**—We are not limited at the present time. We do have an accumulated cash surplus in the corporation, which when I commenced as executive director was about \$10.9 million. At the end of this financial year, that will be reduced to about \$5.4 million. It has been the board's objective to bring that down by a million dollars or so a year. That has helped us to invest in many worthwhile projects that we have been able to develop.

**Senator O'BRIEN**—Was there a problem getting projects underway early on—is that the problem?

**Dr Kile**—There have been some historical difficulties with some of the corporation's activities, but they have been overcome in the last five or six years.

**Mr Adams**—In summary, Dr Kile was saying that from the board's perspective the executive would bring forward projects for approval to the board principally in four streams: principally sustainable forest management, as Glen has raised; resource characterisation, looking at the project streams at the resource end; processing and product efficiency; and marketing knowledge and development, which I think covers the full spectrum.

**ACTING CHAIR**—Sorry, what was the last one—marketing?

**Mr Adams**—Market knowledge and development, which really covers the full spectrum of the forest industry—the full value chain, if you like.

**Dr Kile**—We are required by the FWPRDC legislation to invest across the value chain.

**Senator O'BRIEN**—I understand the intention is that there will be no staffing change, but we are told that the executive director's position ceases on the incorporating of the new company. What does that really mean?

**Dr Kile**—It is obviously up to the board of the company to appoint the managing director of the new organisation.

**Mr Adams**—I think that the board has spoken to the current executive director, Dr Kile. Dr Kile has an employment contract that runs through until February next year, and the board has invited Dr Kile to work through that period. He will be transferring in that period. That is the transition that is being implemented.

**Senator O'BRIEN**—What is the optimum size of the board?

**Mr Adams**—Currently we have, as I think was mentioned a bit earlier, six directors. It was seven, but the departure of the government director brings it back to six, which represents three independents of those six. That is probably at the bottom end. The new constitution is referring to a minimum of five and a maximum of nine.

**Dr Kile**—Yes, a maximum of nine.

**Mr Adams**—With respect to the resignation of the government director—there was also the resignation of the previous chairman in December, from whom I took over—he was not replaced, obviously, on the basis of this transition. There have been some changes, but there have not been, if you like, top-up replacements occurring in the last 12 months on the strength of this.

**Senator O'BRIEN**—When will the company know how many directors it needs to go on?

**Dr Kile**—When and if this transition takes place, there will be opportunities to look at the skills of the board, the current directors. I think there was a question asked in a prior session about whether it is appropriate to bring someone on to the board who perhaps has some marketing and promotion skills. We think that would be a logical progression. Looking at the skill set of the board in the new environment would be an appropriate thing to do. Obviously, there is capacity—headroom—to make some appointments in that respect under the new constitution.

**Senator O'BRIEN**—What skills are on the board now?

**Dr Kile**—We have people involved in softwood processing and obviously sawmilling and softwood marketing. We have a director who has been involved for many years in hardwood sawmilling and the whole gamut of hardwood operations. We have a former CSIRO forestry expert on the board, now retired; he fits the category, I guess, of an independent. We have an individual who has now retired but has had a longstanding engagement in consulting in the commercial field, independent of the forest products industry. We also have the founding

executive director, or chief executive, of the research and development corporation on the board. I think all of the appropriate sectors are represented on the board.

A comment was passed in the earlier session about increased funding coming from the grower contribution, and that increased representation from the forest owners and forest growers sector could be a skill that the board would be considering. There is an opportunity to review the skill sets of the current directors and, as I said earlier, there is basically the headroom within the current number to do that.

**Senator O'BRIEN**—I understand that this is an industry that is not without its hazards. Is there any specialisation on workplace safety?

**Mr Adams**—The directors representing the industry are engaged in the industry and would obviously be very much engaged in occupational health and safety. All companies in the forest products industry are. I would suggest that is one of the suite of skills that the industry and the current directors would be bringing to the table.

**Senator O'BRIEN**—There is nothing specific? You just think that they might have some knowledge because they work in the industry?

**Mr Adams**—I would not say 'no knowledge'.

**Senator O'BRIEN**—I did not say 'no knowledge'. I said they might have some knowledge because they work in the industry, but no specialisation or no special knowledge?

**Mr Adams**—I am not aware that there is any particular specialisation.

**Senator O'BRIEN**—Thank you for that.

**CHAIR**—Senator Adams?

**Senator ADAMS**—Yes, I have a couple of questions. As far as projects are concerned, have you done anything with biomass?

**Dr Kile**—We have done work in this area. We do not have anything particularly active at the present time, mainly because there are technologies out there that could be applied. It has really been the economics that have probably prevented the uptake of some of those technologies. As those change and particularly as we move to a carbon trading regime, I think the economics around some of those things will change over time. There are a number of technologies out there that could be applied. We keep these issues under review all the time. In fact, we are about to commission shortly another review to look at residue utilisation in the industry. Obviously, there is a fair degree of residue utilisation, anyway, between different sectors of the industry, and the industry itself does generate quite a bit of its own energy, so there is a lot of material that is already utilised. Certainly there are opportunities for lignocellulosic material to be used for energy generation to replace fossil fuels and to provide liquid fuels, and we would certainly look at those. As those projects move into major development, they require a different stream of funds than probably we were able to provide through simple R&D projects.

**Senator ADAMS**—With respect to hardwood plantation timber, do you have anything to do with that as far as research is concerned?

**Dr Kile**—Yes, we have quite a lot to do with the hardwood plantation sector. One of the challenges has been the declining size and quality of logs from native forests but also the advent of logs from plantations that are potentially utilisable for the production of solid timber and veneers. We produced a major review on management for sawlog plantations a couple of years back. We have a number of projects looking at sawing and drying of that material. One project has included material from a number of states—another specific project in Tasmania. That is a major stream of work for us and we certainly look to technological innovation to try to solve some of the problems. This young material is quite susceptible to a number of drying defects, both internal checking and surface checking particularly. It is a major focus for us.

**Senator ADAMS**—I have a question about wood products and termites. Do you do anything on that?

**Dr Kile**—We do not have anything current on termites, but we have done quite a lot of work in relation to wood preservation technology and termite management. Much of that has now passed into the hands of the suppliers. There are well-understood termite management systems/termite protection systems out there that are being applied in the marketplace. We do not see any pressing need at this stage but obviously we keep these things under review.

**ACTING CHAIR**—I have one question. You listed the four research functions earlier when you were answering questions from Senator O'Brien. The last one that I asked you to repeat was market knowledge and development. Is that fourth stream where the marketing work and promotion work comes in?

**Mr Adams**—No, the market knowledge and development stream, as currently carried out, is basically under research and development. It is market research in particular and market statistics. It is not covering a program that could be carried out under the new corporation structure, which would be very much marketing and promotion, but having a research—

**ACTING CHAIR**—This is looking at what products are required and where you can target products? Is that the sort of—

**Dr Kile**—It covers a number of areas. We have work on market statistics. We support the national forest and wood product statistics. We have work on standards and codes. They are very important in terms of market access, so we support the technical research that is necessary to develop those standards. We do some market research in its own right on consumer attitudes to timber products involving certification and these sorts of issues. It is a suite of activity in there.

**Senator O'BRIEN**—The CFMEU were not able to be here today, but I have just been handed their submission. The CFMEU suggest that they have a long involvement with forest, wood and paper industry issues and in bodies such as the Forest and Paper Industry Council and that it would be appropriate that a major organisation such as theirs would not unreasonably have expectations to be involved in this body. They similarly say that Timber Communities Australia, who seek representation on the new entity board, could be appointed on merit. What is the view of the board on those matters?

**Mr Adams**—The view of the board currently is that the board is elected on merit. That does not preclude anybody from nominating themselves or an organisation for a position on the board, but currently there is a selection process that is needed to go forward. I do not think

there is anything that precludes any individual from nominating or from being nominated for consideration for a position on the board specifically. Under the current guise there are no predetermined positions or seats allocated to different representatives. It is probably a case of where do you start and stop. At the moment it is very much based on merit and on the skills of the individual, but there is nothing precluding anybody.

**Dr Kile**—I just reinforce that. It is clearly set out in the draft constitution of the company. I understand that, under the Corporations Act, that is probably not allowable anyway. The key point is that nobody is excluded. There is a process there that will take in suitable candidates from any sector of the industry.

**Mr Adams**—The constitution also references a minimum of two independent directors. If the definition of ‘independent’ is a non-levy-paying member then there are two positions there.

**Senator O’BRIEN**—Is that what it means?

**Mr Adams**—I believe that is what the reference to ‘independent’ is. I do not have that in front of me, but that is my definition.

**Senator ADAMS**—With these boards it is a mix of skills. Everyone puts forward a nomination and they are assessed on certain criteria. It is certainly not about representing this body or that body. Normally you are independent in the fact that you have that leeway to have independent members. As you were saying, it allows you to bring in someone with marketing and promotion skills, with finance skills or with whatever skills you are really missing from the mix of skills on your board so it works properly. But it is certainly not a representative board.

**Senator O’BRIEN**—I take it that it is a majority vote that elects all directors?

**Dr Kile**—Yes.

**Senator O’BRIEN**—I am not sure of the method.

**Mr Adams**—There is a process defined in the constitution.

**Dr Kile**—Yes. There is a board selection process that has to be voted on at the AGM.

**Senator O’BRIEN**—So there is a recommendation and it is yes or no?

**Dr Kile**—Yes.

**Senator O’BRIEN**—Thank you.

**Senator NASH**—In your submission you talk about the formation of this new body having a lot in common with the formation of the Egg Corporation. Has there been any work done in looking at when organisations like the Egg Corporation were set up and where the pitfalls were to make sure they do not happen again with this changeover?

**Dr Kile**—Yes. It has happened at two levels. There is the departmental level, which they can talk about in terms of the legislation and the strategic funding agreement. From the corporation’s perspective and being involved in this transition, we have had our own discussions with those organisations to talk about the pitfalls and what we could learn from

them. They have been very helpful to us in alerting us to some of the things that we need to look out for.

**Senator NASH**—I would like a bit more detail around any of the pitfalls and negatives that you have seen and that you will look at addressing in this instance. I am happy for you to take that on notice.

**Dr Kile**—The legislation around these organisations is relatively standard. What they have alerted us to more are many of the issues that we have to deal with in the transition from one organisation to another, from a PIERD Act to a Corporations Act company and all the things that need to be done there. That is where their experience has perhaps been most valuable.

**ACTING CHAIR**—Thank you for appearing today.

[11.19 am]

**NIELSEN, Mr Robin, Acting Manager, Forest Industries Branch, Department of Agriculture, Fisheries and Forestry**

**PEARSON, Mr Andrew, Manager, Research and Development Corporations Policy, Rural Policy and Innovation, Department of Agriculture, Fisheries and Forestry**

**PELLEW, Ms Anna, Manager, Legislation and Policy, Levies Revenue Service, Department of Agriculture, Fisheries and Forestry**

**QUINLIVAN, Mr Daryl, Deputy Secretary, Department of Agriculture, Fisheries and Forestry**

**SMITH, Ms Courtney, Policy Officer, Victoria, South Australia and Western Australia Section, Forest Industries Branch, Department of Agriculture, Fisheries and Forestry**

**ACTING CHAIR**—I welcome officers from the Department of Agriculture, Fisheries and Forestry. I remind senators that the Senate has resolved that an officer of a department of the Commonwealth or of a state shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits only questions asking for opinions on matters of policy and does not preclude questions asking for explanations of policy or factual questions about when and how policies were adopted. Officers of the department are also reminded that any claim that it would be contrary to the public interest to answer a question must be made by a minister and should be accompanied by a statement setting out the basis for the claim.

**ACTING CHAIR**—I invite you to make a brief opening statement and then senators will have questions.

**Mr Quinlivan**—We are happy to forego the opening statement and move straight to questions.

**Senator O'BRIEN**—When was the bill that is before us drafted?

**Ms Smith**—It was drafted during February of this year.

**Senator O'BRIEN**—Has the draft been the subject of consultation with any organisations or individuals?

**Ms Smith**—Not the draft of the actual bill. We have discussed, through the implementation committee, the concepts that would go into it and talked about previous examples like the Egg Corporation, dairy, wool and others that may have been of relevance—but mainly the Egg Corporation—but we did not consult with them on an actual draft of the bill before it was introduced into parliament.

**Senator O'BRIEN**—Has the draft changed since February?

**Ms Smith**—We worked on various drafts within the department with the drafter, and then it was sent out to other Commonwealth departments for their comments. So there were subsequent amendments to those drafts before it was introduced.

**Senator O'BRIEN**—Are there regulations required under this legislation to give effect to the decision to implement the regime that is being described by the industry and by the board of the current entity, soon to be the board of the new entity?

**Ms Smith**—There are a variety of regulations needed. There will be an amendment to the Primary Industries Excise Levies Regulations 1999 that will increase the levy rate for the hardwood saw log. This has already gone to the Executive Council, was passed there and is currently registered on the federal register of legislative instruments and is due to commence 1 July. All the other regulations are still in development. These include an amendment to the Primary Industries Excise Levies Regulations 1999 to impose a new growers levy, an amendment to the Primary Industries Customs Charges Regulations 2000 to impose the new growers charge on exports where the new levy was not previously collected, and an amendment to the Primary Industries Levies and Charges Collection Regulations 1991 to impose the new collection arrangements as a result of the new growers levy and charge. The Forest and Wood Products Research and Development Corporations Regulations 1993 will have to be repealed. There will be a new regulation under the Forestry Marketing Research and Development Services Bill 2007 for the calculation of the gross value of production for the purpose of Commonwealth matching funding as that was previously under the FWPRDC regulations. They are the regulations that were going to be produced.

**Senator O'BRIEN**—Are any of those regulations in draft form?

**Ms Smith**—No. We are still providing instructions to the drafter.

**Senator O'BRIEN**—When do these instruments have to be promulgated to meet the timetable that this legislation apparently has?

**Ms Smith**—Before the new company is up and running.

**Senator O'BRIEN**—Is that before 1 July?

**Ms Smith**—That is hopefully the start date for the new company but we are not sure how that will go depending on the legislative process and that sort of thing.

**Senator O'BRIEN**—We have got just under two months and there is no drafts of the regulations at this stage?

**Ms Smith**—I have spoken to the drafter of these this week and have been told that they will be quite straightforward to put together and will not take too much time. Unfortunately they have had other priorities to work on this month.

**Senator O'BRIEN**—How long has it been known that these regulatory changes would be necessary? Is it since February?

**Ms Smith**—Possibly. We met with the Office of Legislative Drafting in late March to discuss what would need to be covered in the regulations, so we are still working through some of the finer details with them. But we were also made aware of their timetables in relation to drafting and generally there is a wait of several months for them to proceed to the point of getting a draft ready. We have certainly been in communication with them, so they understand what they are doing and we assume that there will be something that we can review shortly.

**Senator O'BRIEN**—How long did they have the drafting instructions for the bill?

**Ms Smith**—The first lot of drafting instructions were submitted on 1 December last year but a drafter was not assigned until February this year. The second lot of drafting instructions were presented in early January this year but then, as I said, the drafter was not assigned until early February this year.

**Senator O'BRIEN**—How long has this bill been ready to present to the parliament?

**Ms Smith**—It was ready in time to submit for the legislation approval process before it was introduced into the House.

**Senator O'BRIEN**—When was that?

**Ms Smith**—When was it introduced into the House?

**Senator O'BRIEN**—No, when was it submitted for the legislation approval process?

**Ms Smith**—I would have to take that on notice.

**Mr Nielsen**—My recollection is 11 March.

**Senator O'BRIEN**—You said the drafts have not been provided to any person between then and the presentation of the bill to parliament?

**Mr Nielsen**—No.

**Senator O'BRIEN**—Any reason?

**Mr Quinlivan**—Once the material is all in the property of the parliamentary draftsmen, the bill becomes the property of the parliament.

**Senator O'BRIEN**—Are you saying that the bills have not been circulated in draft form before?

**Mr Quinlivan**—No, I am not saying that. I am saying with my limited experience in these areas it is not the normal—

**Senator O'BRIEN**—It is not that limited.

**Mr Quinlivan**—It is not normal for us to circulate draft bills for commentary outside government.

**Ms Smith**—I would like to elaborate. Draft bills have a classification and cannot be shown to the public before they are introduced into parliament without prior approval of the Prime Minister.

**Senator O'BRIEN**—Whenever they have been circulated would it have been with the approval of the Prime Minister?

**Ms Smith**—Yes.

**Senator O'BRIEN**—Do I understand that correctly, Mr Quinlivan?

**Mr Quinlivan**—I could not comment on what approvals were going when others circulated draft bills.

**Senator O'BRIEN**—What about this department?

**Mr Quinlivan**—I was only reflecting on our own experience, which is that the draft bills are usually held very tightly before they are introduced. Occasionally you will find other ways of discussing contents of them with people outside government, of course, but not the draft bill itself.

**Senator O'BRIEN**—How? Is that by circulating drafting instructions?

**Mr Quinlivan**—Or by finding other ways of characterising the content. If there is an issue of substance that you can discuss you do not always need to have the exact text to have that discussion.

**Senator O'BRIEN**—I understand the department was involved in preparing a draft statutory funding agreement with the industry. Who was doing that?

**Mr Nielsen**—Yes, we were.

**Ms Smith**—Yes, we were.

**Senator O'BRIEN**—The industry told us today that they understood, and indeed your submission suggests, that the draft was based on a number of previously established industry funding agreements and they are listed in your submission.

**Mr Pearson**—Yes, that is correct.

**Senator O'BRIEN**—In addition, the changes were based upon developments taking place in the renegotiation of existing agreements for prospective and new industry funding agreements. Is that right as well?

**Mr Pearson**—Certainly the whole intent of the statutory funding agreement process is one of continual improvement so that, stemming from particularly the Senate inquiry in relation to AWI, we have as a department been constantly working to try to improve the compliance and governance associated with our statutory funding agreements. It is a process of continual improvement.

**Senator O'BRIEN**—Can you point us to the parts of the draft of the 8 May 2007 agreement between the Commonwealth and Forest and Wood Products Australia Limited—under this draft no such company yet existed—where the improvements in existing or proposed statutory funding agreements are reflected in the document?

**Mr Pearson**—I can work my way through it. The first one I would point to would be clause 14 of that draft, which relates to the audit compliance report and certification report. These are now formal requirements in statutory funding agreements. The audit compliance report deals particularly with the processes and systems that the company puts in place to ensure the statutory funding agreement is implemented correctly. In addition, the certification report, which is referred to in paragraph 14.6, is a specific statement that is signed by the chair and the managing director of the company. These two certification compliance reports are also in addition to the standard requirements under the Corporations Act for the audited financial reports. We have here an extension of the Corporations Act requirements, which we feel adds extra surety in relation to the handling of the funds. That would be one I would highlight.

The next I would highlight is in relation to clause 10 of this document, which is the requirement for other plans. The other plans as detailed in 10.1 relate to a risk management plan, a fraud control plan and an intellectual property management plan. These are specific requirements in addition to what has traditionally just been the strategic plan and the annual operating plan.

Another one I would highlight would be the definition of funds, which is in the first part of the agreement, on page 4. The funds there relate to all the funds received by the company, including the income derived. This is a response in fact to the recommendation 2 of the AWI Senate committee's report. Again, the department has been building this in as a standard.

**Senator O'BRIEN**—I recall the protestations from a certain witness about the fact that there was no need to account for income earned off the activities of that particular entity in reporting to the minister. I take it that this is designed to make sure that the claim cannot be made in future?

**Mr Pearson**—Yes. Another I would highlight would be the definition of 'agri-political activities', which also follows on from the Senate discussions. The definition itself is on page 2. It relates, as we have clearly identified, to engaging in or financing any form of external or internal political campaigning, which is also a direct reflection of some of the outcomes from that AWI Senate inquiry. That standard sentence is now one that we are using across all of our statutory funding agreements.

**Senator O'BRIEN**—How does that fit with the marketing intentions in relation to the funds collected from industry by this new entity?

**Mr Pearson**—As to the expenditure of any funds that the company has from whatever source, those funds cannot be used for any agri-political activity. Basically, if you are involved with the government through this statutory funding agreement there is no agri-political activity that the company can undertake. In that sense it is a blanket coverage. Would you like me to identify another one?

**Senator O'BRIEN**—Yes.

**Mr Pearson**—Another one I would highlight is clause 12, which is the one relating to review of performance. This is a particularly important one, because what we are requiring is an independent performance review to be undertaken in the last period of the statutory funding agreement's term. This is likely to apply for a five-year term. Towards the end of the fourth year there will be a review of the performance of the organisation, which helps in our assessment of whether a statutory funding agreement should be continued for a further term. There is a real expectation from the government's point of view that these companies do live up to their undertakings and their strategic plans and the expectations of government in relation to a whole range of things, for example, on research priorities. These are assessed by an independent reviewer, neither government nor from the company, and that provides a very strong analysis of how the company has been going.

Another one I would highlight is article 11, reports and meetings. Under 11.2 is the requirement to provide six-monthly financial reports, again signed off by the chair or the managing director. Again, we are not just leaving things to progress; we are maintaining a series of checks and opportunities for scrutiny and assessment of the performance of the

company. As well are the requirements in 11.6 for meetings with the minister. They are the major elements that have followed on, and we will be continuing to review, assess and make these funding agreements as best practice as we can.

**Senator O'BRIEN**—We would expect these matters to appear in the next iteration of funding agreements with existing research and development bodies?

**Mr Pearson**—They are certainly already coming through. This year we have finalised funding agreements with Dairy Australia and Meat and Livestock Australia, and we are currently in final drafting and development of the new statutory funding agreement that is being proposed for Australian Wool Innovation.

**Senator O'BRIEN**—I would be interested to see those documents when finalised. Are they normally tabled?

**Mr Pearson**—Only some of them. The requirements vary. A number of the companies generally prefer to keep them as a document which they see as their specific contract, so they are not generally put on the website as such.

**Senator O'BRIEN**—Are they tabled in parliament?

**Mr Pearson**—Some of them are required to be tabled, but not all of them.

**Senator O'BRIEN**—What about in this case? Is the final agreement required to be tabled?

**Ms Smith**—Yes, it will be.

**Mr Pearson**—Perhaps that is something we might look at as part of further SFAs.

**Senator O'BRIEN**—Where in the legislation is that required?

**Ms Smith**—In sections 6, 7 and 8 of the Forestry Marketing and Research and Development Services Bill 2007—within 15 sitting days.

**Senator O'BRIEN**—What about the other financial statements that are referred to in the statutory funding agreement? Given that public moneys are involved, when are those matters available to the parliament and how does the act provide for that?

**Mr Pearson**—The annual report provides the companies law requirements. The audited financial statements are provided there. The others are provided to the department as part of the assessment of the performance of the company. They are not specifically identified for tabling. Normally, the minister receives a report of the performance.

**Senator O'BRIEN**—But the parliament is entitled to be able to scrutinise the expenditure of public moneys, and in this case I understand \$3.5 million a year is expected to be the public contribution to research and development. How does the parliament adequately scrutinise that in the absence of access to these documents that are referred to in the new iteration of the draft statutory funding agreement?

**Mr Pearson**—That is a question that I do not have an answer to, I am sorry. The annual report is the public document.

**Senator O'BRIEN**—That is a Corporations Law requirement. This is a piece of legislation that deals with payment of funds from the Commonwealth to the company. How do we deal

with that aspect of these financial arrangements and the parliament's entitlement to be able to scrutinise those payments?

**Mr Pearson**—All of these are provided to the minister. That is the requirement under the statutory funding agreement. The information is there.

**Senator O'BRIEN**—In the minister's hands?

**Mr Pearson**—Yes.

**Senator O'BRIEN**—What is the next step? How does that information find its way to the parliament? The executive has got it when the minister has got it; the parliament has not. Mr Quinlivan, can you help us?

**Mr Quinlivan**—The delivery on the contract, I would assume, is a matter that is examinable at Senate estimates hearings. I do not know whether that has been the case with the other statutory funding agreements, but certainly we would be in a position to account for delivery under the contract. I am not aware of any other material that would be made available in the ordinary course of events.

**Senator O'BRIEN**—In terms of what might be provided in the ordinary course of events, as has been indicated, there have been some serious concerns about the performance of companies of this type. That is occasionally, not generally.

**Mr Quinlivan**—The measures that Mr Pearson has talked about were designed to try to address those problems.

**Senator O'BRIEN**—I understand that, but will the parliament have access to the documents presented by the companies to the minister?

**Mr Quinlivan**—The answer that has been given is at present, no, and we would need to take that up with the minister if the committee wished to pursue it.

**Senator O'BRIEN**—I am not asking you to explain government policy, but is that the government policy as reflected in this legislation?

**Mr Quinlivan**—Mr Pearson said that it is the practice that is present in these arrangements for all of the companies, so, yes, it is an expression of policy.

**Senator O'BRIEN**—What do you say about the circular definition of forestry service payments that I raised earlier in these hearings? The definition in clause 4 tells me that they mean payments mentioned in paragraph 8(1)(a), and paragraph 8(1)(a) states:

The Minister may, on behalf of the Commonwealth, enter into or vary a contract with a company so that the contract provides for the Commonwealth to make payments of the following kinds to the company:

(a) payments called forestry service payments.

**Ms Smith**—The total amount of funds collected and paid into the Consolidated Revenue Fund is outlined in the 'tax related amounts' definition. The sum of that total list gets paid into consolidated revenue. However, the amount that gets paid out of the Consolidated Revenue Fund to the new company will not be the total amount that goes in. Therefore, they have been identified as the forestry service payments that get paid to the company.

**Senator O'BRIEN**—How can that be better expressed in the legislation? Forest service payments mean forest service payments, according to the definition. You are saying that forest service payments actually mean payments set out in the definition of tax related amounts minus something?

**Ms Smith**—Clause 9(2) talks about the appropriation and the overall limits for the forestry service payment and matching payments.

**Senator O'BRIEN**—‘Forestry service payments’ means not more than the appropriation of the so-called tax related amounts but probably less?

**Ms Smith**—Yes. Clause 9(3) does state that the contract does not oblige the Commonwealth to pay out the full amount of money appropriated under clause 9. For example, the administration costs incurred by the Levies Revenue Service, which collects the levy amounts on behalf of the industry and pays them out of the consolidated revenue, are taken out of those amounts before they are paid to the new company.

**Senator O'BRIEN**—Is there an explanation as to why we have such a circular reference in the definitional clause, if we are really going to have a definition of ‘forestry service payments’? Is that just the mysterious work of drafting?

**Ms Smith**—Mysterious work of drafting. It is outlined a bit better in the funding contract.

**Senator O'BRIEN**—That is not what is before parliament. Can we improve on this? It is delightfully vague.

**Mr Quinlivan**—We would be happy to have another chat with the drafter about this particular issue, but we cannot offer any undertakings about what might result from that. We will talk to the drafter again about the problem.

**Senator O'BRIEN**—Just for the edification of the committee, Ms Smith has said that the forestry service payments contemplate the sum of the amounts of charges imposed and levies collected, described as ‘tax related amounts’?

**Ms Smith**—Yes.

**Senator O'BRIEN**—Less what? There is a qualification on that?

**Ms Smith**—As I just explained, for example, less the administration costs incurred by Levies Revenue Service for the collection of the levies. That is one cost that comes out of the amount.

**Ms Pellew**—That is the only cost.

**Senator O'BRIEN**—Minus administration.

**Ms Smith**—I will correct that. That will come out and, if there are any refunds due from perhaps a previous overpayment, we are able to make adjustments in any payments. That just covers off any administrative work there.

**Senator O'BRIEN**—I thought we might have found something that could help us, but it doesn't. I am taking from your answer, Mr Quinlivan, that you will come back to the committee with either a suggestion of what might take the place of the current definition or some other message as to why that should not be changed?

**Mr Quinlivan**—We will endeavour to talk to the draftsman as soon as possible and come back to you with whatever it is that emerges from that conversation, whether it is a better approach or the draftsman's explanation of the approach that has been taken here.

**Senator O'BRIEN**—We have to report by next Tuesday.

**Mr Quinlivan**—We will endeavour to do that as soon as possible.

**Senator O'BRIEN**—In terms of the process leading to the promulgation of this legislation, we were told there have been discussions over the previous 12 months. Has the department been conducting discussions, or has the minister's office been conducting those discussions with industry representatives and the board of the corporation?

**Mr Nielsen**—The department has been conducting discussions with the industry representatives. We have been part of, first, a steering committee and then an implementation committee which involves industry representatives, Dr Kile from the FWPRDC and one of the directors of FWPRDC. The chair of that committee is the chief executive of A3P, Neil Fisher.

**Senator O'BRIEN**—Have there been any discussions about the development of this package outside of that body?

**Mr Nielsen**—No, except within the department and with other relevant government departments; no, not to my memory.

**Senator O'BRIEN**—You are not aware of anything further, Mr Quinlivan?

**Mr Quinlivan**—No, I am not.

**Senator O'BRIEN**—Did the minister have any discussions with any organisations or entities about this matter?

**Mr Quinlivan**—We could not speak for him. We are not aware of any. To the best of our knowledge there have been no requests for information or material coming back from them as a result of any such discussions. We are just not aware of—

**Senator O'BRIEN**—The department is not aware of any such discussions, I am taking from your answer; is that right?

**Mr Quinlivan**—No.

**Senator O'BRIEN**—I am taking it that it is most likely that these regulations will be tabled out of session of parliament, is that right, given we have got two weeks and you have not got the regulations back from the draftsman?

**Ms Smith**—Presumably, yes.

**Mr Quinlivan**—If we could just go back to that last matter about other discussions, I should qualify that by saying I am not aware of any specific discussions but the general proposition and the main elements of the concept here have been discussed widely, including at ministerial council meetings with the states and the standing committee where the CEOs meet, because there are a lot of Commonwealth and state issues involved in this. Not the actual bill but just the generality of the proposition has been widely discussed. It has also obviously been widely discussed within the industry. And I am sure there would have been

quite a number of conversations again of a general character with the ministers over the last two years. Certainly those conversations have happened but, to our knowledge, nothing specific in recent times that bears on the bill.

**Senator O'BRIEN**—I am taking from all of your answers that this is the type of structure envisaged for all such marketing and research and development bodies approved through the government legislative process.

**Mr Pearson**—That is correct. It has been the process that has generally been followed in the past and is likely to be in the future, although I am not aware of another RDC that has actually commenced discussions with industry on such an arrangement.

**Senator O'BRIEN**—Perhaps I missed it in your submission, but does the minister have to give any approval to the research program adopted by the company?

**Mr Pearson**—The ministerial arrangements in relation to strategic plans, which include the research, are provided to the minister. They are not submitted for approval but you have a requirement that in developing the strategic plan there is discussion including with the minister as well as other stakeholders, and that strategic plan is provided to those stakeholders as well as the minister.

**Senator O'BRIEN**—Does that imply an approval process or how should we understand that?

**Mr Pearson**—I think it is a process of providing a copy of the strategic plan—

**Senator O'BRIEN**—And a consultation about its development?

**Mr Pearson**—Certainly, I think that is a reflection of the importance of the government as one of the stakeholders in this new company, but it is not a requirement for the specific sign-off of the plan by the minister.

**Mr Nielsen**—Clause 9.2, I think it is, talks about strategic and operating plans. One of the areas in which the strategic plan is required to cover matters—sorry, that is in the statutory funding agreement—is the research and development priorities, which are the research and development priorities as communicated to the company by letter from the minister.

**Senator O'BRIEN**—Where, sorry?

**Mr Nielsen**—At 9.2.A.

**Senator O'BRIEN**—Okay. How should we understand that?

**Mr Nielsen**—The research and development priorities are defined in the statutory funding agreement as research and development priorities as communicated to the company by letter from the minister. Essentially, the information about research and development priorities is to be communicated under the statutory funding agreement, and the strategic plan of the company needs to take account of that through the annual reporting process.

**Senator O'BRIEN**—So, that is effectively a direction process from the minister to research—

**Mr Nielsen**—It is provision of advice to the company and then the board obviously gives effect to—

**Senator O'BRIEN**—They are required to?

**Mr Nielsen**—Yes.

**Mr Pearson**—No, this is not a direction process; it is a consultation process. I am sure you have seen and would have heard the rural research priorities that were part of Minister McGauran's statement on budget night. I am happy to provide a copy. These are part of, certainly, the expectation that as a key stakeholder our priorities—that is the government priorities as well as the priorities of the industry—are given due weight in developing the strategic plan.

**Senator O'BRIEN**—The research and development priorities are drawn up by the minister?

**Mr Pearson**—These research—

**Senator O'BRIEN**—No. According to the draft statutory funding agreement, the strategic plan has to cover the research and development priorities which are defined as those determined by the minister.

**Mr Pearson**—No. I do not think the determination is. They are communicated by the minister. I do not think that quite equates to determination.

**Senator O'BRIEN**—What does it mean that they have got to be covered by the strategic plan? Is that those that are communicated? It states that those research and development priorities communicated by the minister to the company by letter are to be covered in the strategic plan. What does that mean?

**Mr Pearson**—In terms of strategic plans the practical application of that would be, for example, if we were considering a draft of the strategic plan from the company we would expect to see specific identification of where any of the strategic priorities that were set out in the plan are, for example, linked with or fill the areas of priority that had been identified in that communication from the minister. I can say that in terms of strategic plans which we are looking at with other of the R&D corporations that is the sort of thing we require, that there is a specific identification of linkages between strategic plans and the rural R&D plans of the government.

**Senator O'BRIEN**—When the minister sends this letter to the company, is it made public? Is it tabled in parliament? What happens other than it is sent to the company?

**Mr Pearson**—The practice has not been to table a ministerial letter to a company. That has not been the practice in the past.

**Mr Quinlivan**—The R&D priorities are a public document.

**Mr Pearson**—These are a public document. These have been well and truly promulgated so that there is certainly broad awareness of what the government's R&D priorities are.

**Senator O'BRIEN**—That is so if that is how they are reflected in the letter that is referred to in the draft statutory funding agreement, assuming that becomes the form of words in the statutory funding agreement. When is it expected that the new entity will sign such an agreement? Is there a prospective date for its signing and coming into effect?

**Ms Smith**—No actual date has been set.

**Senator O'BRIEN**—Okay. Thank you very much.

**ACTING CHAIR**—That means you are done?

**Senator O'BRIEN**—Yes, I think so, unless something else arises, if anyone asks a question.

**CHAIR**—Senator Adams?

**Senator ADAMS**—No.

**ACTING CHAIR**—I have a clarifying question. A while back in your evidence I was a little confused about the start date. Is it 1 July or 1 August?

**Mr Quinlivan**—Yours was 1 August.

**Mr Nielsen**—There was an original hope that it could be 1 July for the sake of simplicity in terms of transition, that being the end of the financial year. We now do not believe that we will be able to meet that time frame because there is not enough time. So, 1 August is our current plan. The bills provide for a continuation of the FWPRDC until such time as the FWPA is formed and they are declared the industry services body and then the transfer process happens in an orderly fashion.

**ACTING CHAIR**—Senator Adams?

**Senator ADAMS**—The performance review is due on 1 January 2012. Is there any reason to have a performance review earlier in case something is not going just quite right? Is there anywhere that that can be done within the legislation or within the contract?

**Mr Pearson**—Not specifically within the contract. The performance review is a very substantial point of view and—

**Senator ADAMS**—I realise that. It is just that in another organisation that performance review is not due till 2010, which has caused a lot of problems. I am just wondering is there any clause in here that allows that performance review to be brought forward if there was reason to see that things were not going quite as well as they should be?

**Mr Pearson**—In terms of the contract that specific performance review is identified there. I think through the other processes that I outlined in terms of areas where the statutory funding agreements have been strengthened, through the fact that we are having consultations required with the minister and that we are seeing financial information from the organisation, if it was felt that there was such a series of issues or problems with the company then it would be quite reasonable for the government to be raising and pursuing those. Whether that might take the form of a similar performance review would have to be based on the circumstances of the time. But, certainly, there is a very strong monitoring and accountability requirement which the department maintains on all of the statutory funding agreements in the companies.

**Senator ADAMS**—I was very pleased to see that tightening up, but just suddenly I thought that 2012 is quite a long way away if something did occur. Anyway, we will keep an eye on that.

**ACTING CHAIR**—If there are no further questions we conclude today's hearing and the committee stands adjourned.

**Committee adjourned at 12.08 pm**