



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

ECONOMICS LEGISLATION COMMITTEE

Consideration of Budget Estimates

FRIDAY, 8 JUNE 2001

CANBERRA

BY AUTHORITY OF THE SENATE

SENATE
ECONOMICS LEGISLATION COMMITTEE
Friday, 8 June 2001

Members: Senator Gibson (*Chair*), Senator Murphy (*Deputy Chair*), Senators George Campbell, Chapman, Murray and Watson

Senators in attendance: Senators George Campbell, Chapman, Conroy, Gibson, Newman and Schacht

Committee met at 8.03 a.m.

INDUSTRY, SCIENCE AND RESOURCES PORTFOLIO

In Attendance

Senator Minchin, Minister for Industry, Science and Resources

EXECUTIVE

Mr Tim Mackey, Deputy CEO

SPORT AND TOURISM DIVISION

Mr Robert Crick, Head of Division

Ms Kerry Rooney, General Manager, Best Practice and Program Development Group

Ms Janet Murphy, General Manager, Market Access Group

Mr David McCarthy, General Manager, Business Development Group

Dr Peter Robins, Director, Bureau of Tourism Research

Mr Jeff Dickson, Assistant Team Leader, Program Development and Management Team

Mr Aulis Mikkonen, Team Leader, Strategic Management Team

AUSTRALIAN TOURIST COMMISSION

Mr Bill Calderwood, Deputy Managing Director

Mr John Hopwood, General Manager, Business Services

Ms Margaret Hudson, Manager, Corporate Strategy

Ms Kate Pembroke, Government Relations

COMMONWEALTH SCIENTIFIC AND INDUSTRIAL RESEARCH ORGANISATION

Dr Geoff Garrett, Chief Executive

Dr Paul Wellings, Deputy Chief Executive

Dr Ron Sandland, Deputy Chief Executive

Mr Bob Garrett, General Manager, Corporate Finance

Mr Malcolm Mahon, Deputy General Manager, Corporate Finance

Mr Ian Rout, Manager (Budget), Corporate Finance

Ms Marilyn De Vere, Acting Manager, Ministerial and Parliamentary Liaison

Mr Ian Chalker, Manager HR Services, Corporate Human Resources

Mr George Harley, General Manager, Corporate Property

CHAIRMAN—Welcome. Last night we finished the Treasury portfolio, and this morning we have two items for the Industry, Science and Resources portfolio: CSIRO and the Australian Tourist Commission. Because the minister has an interstate appointment this

afternoon, he has agreed to start early, so thank you, Minister, senators, and everyone else involved for starting early.

[8.05 a.m.]

Commonwealth Scientific and Industrial Research Organisation

CHAIRMAN—Welcome, Minister, Dr Garrett and other officers. Are there any questions?

Senator SCHACHT—Dr Garrett, what will be the staff number reduction in CSIRO in this coming year?

Dr Garrett—As you probably would have gathered, since arriving a few months back, we have been through a significant process of re-evaluating where CSIRO is and forming a new approach to our business. The numbers that appear in the papers were to a large extent an extrapolation based on best knowledge at that time of the history, I guess, over the last 10 years. It is therefore not easy at all to give you a precise number of the staff reductions over the next 12 months. We are in a process of replanning. We are looking significantly at a whole set of new initiatives aimed around growing the organisation. In our business, which is obviously in the lead of change, significant turbulences happen and therefore areas move on: we move out of certain areas and we move into new areas. We are currently into the detailed planning.

Senator SCHACHT—But will there be a reduction over the next 12 months in the total number of staff employed when you consider them all as full-time equivalents, et cetera? Will there be a reduction in the number of staff employed?

Dr Garrett—That at this point in time seems likely, but on the other hand, the point I am trying to make is that we are in this transition period between the past and the future and we anticipate significant opportunities to grow into the future. But I cannot give you a precise number because we have not done our detailed planning.

Senator SCHACHT—Is it probable that you will lose 110 staff?

Dr Garrett—Again, you understand my reluctance to put a number on this, because this was an extrapolation of precise financial projections based on growth estimates of our business at that time. One of the things we have been doing significantly in the last two to three months, as I have indicated, is re-analysing our contribution in the way we make impacts, and we will be looking significantly at growing our business. As such, we have set ourselves some ambitious targets to grow the overall nature of our business, and therefore linked to that will be a re-evaluation of our staff numbers. I cannot give you a precise number. It might be 100, it might be 50, it might be none.

Senator SCHACHT—When you say you are growing the business, I take it that could lead to an improvement in the CSIRO staff numbers, not because of the government's appropriation but because you created further business opportunities. Is that correct? If you do not get these business opportunities, is it not true that you will lose at least 100 staff this coming financial year?

Dr Garrett—If that were the case, yes, but we do not have that negative view.

Senator SCHACHT—I know you do not want to be pessimistic. That is very good to hear. I do not want to encourage you to be pessimistic, but on the appropriation numbers, it will be about 100. I will come back to your optimism about growth and expansion because of what CSIRO will be doing later. Is it true that since 1996-97 staff numbers in CSIRO have gone down by about a thousand?

Dr Garrett—I will give you exact numbers. I will take it in two components: headcount—that is, warm bodies, if you like; and full-time equivalents. In the last five years, from June 1996 through to our latest data, which is May, the headcount has gone down by around 600, from 7,135 to 6,544.

Senator SCHACHT—Six hundred full-time equivalents?

Dr Garrett—No, that is the headcount. The full-time equivalents have moved down by about 800, from 6,755 to 5,941, over that same period. It is also important that over the last four years, particularly, the headcount has only moved down by 150 and the full-time equivalents have moved down by 400. So in the 1995-96 period there was a significant period of downsizing. I think it is also important to reflect on the balance of staff movements. For example, with the headcount over the last five years, of the 600 only about 80 have been in the research science area—I say ‘only’, but that is a significant component.

Senator SCHACHT—That is three-quarters of a division or something, isn't it?

Dr Garrett—Absolutely. I think that is a very important statement. So that is in the research science and the research project areas, and about 520 in the other areas. Obviously, the organisation is trying hard to say, ‘What is the core of our business and how do we protect that?’

Senator SCHACHT—You are saying that most of the positions that have gone have been away from, as they say in Defence, the pointy end of the ship and back to the administrative end of the ship?

Dr Garrett—My colleagues have worked hard at protecting, as far as we can under quite complex financial and environmental situations, the core of our business. I think it is also important to reflect on the additional staff in the broader CSIRO family. If we look at our numbers at the moment—the warm bodies or headcount—which is 6,500 or thereabouts, there is just over another thousand fellows, students and visiting scientists. We have a very significant number that add value in to our overall environment. So the broader family is around 7,500. That is the number that I like to use.

Senator SCHACHT—Just describe to me again the extended family of CSIRO? I know the minister is very interested in family policy issues.

Senator Minchin—That is a good jab.

Senator SCHACHT—I do not know whether these are adoption practices here for CSIRO, but just explain to me again the extended family.

Dr Garrett—First of all, I think it is important to recognise that, with an overall spend on R&D of about two per cent of the world spend, in Australia we need to be working very hard at our partnerships. One of our key strategies in CSIRO, over the next few years particularly, is to build the linkages and interfaces—what we are calling porous boundaries—with other institutions. So we have 350 studentships, over 100 people in joint venture activities, 120—

Senator SCHACHT—Just take it point by point. What are the 350 studentships? Are these people to whom you are paying some scholarship or fund or are you providing some assistance for them to attend a course at university? Are they people full-time in a CSIRO division and you pay their salary and wage while they do their masters or honours degree or something?

Dr Garrett—We are talking about ‘visitors’ who are using CSIRO support infrastructure, mentoring and supervision and who are working in cosupervision with the university environments. So they are people doing MSc and PhD programs in that environment.

Senator SCHACHT—Of those 350, are a number of those from overseas—people who have come to Australia to further their own development, as well as assist in—

Dr Garrett—Yes. I do not have the exact number, but certainly that is the case. They would be registered with Australian universities and, in partnership with our university colleagues, we have the activity infrastructure and the equipment to assist them.

Senator SCHACHT—Apart from the assistance in kind—that you give access to the facilities of CSIRO—do you actually pay any of them a stipend, a scholarship, a living allowance, an airfare or whatever? Is it just because they happen to walk through a laboratory one day a week that they are added to the extended family?

Dr Sandland—No, we do in fact pay them stipends. Generally speaking, they can either be top-ups to Commonwealth scholarships or they can be stand-alone scholarships. Generally speaking, it is quite generous.

Senator SCHACHT—What do you mean by ‘quite generous’?

Dr Sandland—It is generous in terms of the standard Commonwealth scholarship for postgraduate students.

Senator SCHACHT—What would an Indian postgraduate student in information technology get from coming out to do a year’s study?

Dr Sandland—Generally speaking, our scholarship holders are either Australian citizens or eligible for permanent residency.

Senator SCHACHT—If someone were coming to Australia who was very good and whom we hoped to snare to become a permanent resident and a citizen of this country because of what they can contribute, would that person be here for a year under this studentship arrangement? How much would they get?

Dr Sandland—I would have to take that one on notice. Generally speaking, we do not have very many of that type of student.

Senator SCHACHT—These are overwhelmingly Australian citizens already, young people working their way through the system of education, and you have spotted them as likely talent.

Dr Sandland—Yes.

Senator SCHACHT—How much would they get, on top of what they would get from normal scholarships?

Dr Sandland—It does vary from division to division, but it would be between \$5,000 and \$15,000, additionally.

Senator SCHACHT—That is basically a living allowance to help them.

Dr Sandland—Absolutely. In many instances, they are also given special allowances to attend conferences and, sometimes, to attend overseas conferences.

Senator SCHACHT—I do not want to send CSIRO on an unnecessarily lengthy paperchase, but you could take it on notice to give us a bit more information on the 350 studentships?

Dr Sandland—Yes.

Senator SCHACHT—You said that most of them are Australian, which is good to hear, in one sense. Could you also give us a rough idea of the range of assistance they get?

Dr Sandland—Yes.

Senator SCHACHT—That is the 350 in the adoption family procedures of CSIRO. What else is there?

Dr Garrett—We have 93 honorary fellows. These are distinguished scientists who may have been in the organisation, who come in two or three days a week and who receive some sort of remuneration. I am a great believer in the wisdom of the past helping the younger generation through.

Senator SCHACHT—These are basically retired CSIRO staff who have had a long and glorious history at CSIRO.

Dr Garrett—That is right—and university people.

Senator SCHACHT—Who you have recognised by their work.

Dr Garrett—We have about 120 visiting scientists at any one time, so these will be people on sabbaticals.

Senator SCHACHT—Let us go back to the honorary ones. For two or three days a week, what do you pay them—other than a free cup of tea, a pat on the back and a Bex when they have a headache? Do they get any other money?

Dr Garrett—They get cake and biscuits. I will have to take that on notice.

Senator SCHACHT—Over the years, I have come across plenty of those people, and I think it is an excellent idea. I am in no way critical of it. Are the 120 visitors people who have already made—

Dr Garrett—They are people from all around the world. We are keen to double or treble the number of our international linkages. Through connections, people who have interfaced with CSIRO scientists around the world—who have met at conferences—would have opportunities for sabbatical leave, would be working on joint projects, would publish together and would use our facilities. Typically, they would be here under their own steam. There may be some opportunities for getting travel scholarships, but we provide the facilities and work in collaborative teams together.

Senator SCHACHT—Do you share any of those who come out with universities?

Dr Garrett—Very much so. These individuals would then go back into the university environment, teach a course and give seminars. It is all about opening up boundaries and trying to increase the collaboration between our respective institutions. They are very important people in our lives.

Senator SCHACHT—Is it true that they pay their own way out? Apart from providing them access to the facilities, what do we give them? Do they get any extra payment for living allowance for their contribution?

Dr Garrett—I would have to ask.

Dr Sandland—In some instances, they do. It depends. It is all done on the basis on individual arrangements. In some cases, they do.

Senator SCHACHT—Is there an emphasis on particular areas of research where you would encourage the studentships, the retirees—I do not want to be in any way offensive in using that term—or the visiting people? Are there any particular areas of CSIRO activity that you encourage and want this to occur in?

Dr Garrett—There is no particular emphasis. We would encourage it across all our divisions. Again, I would have to get a detailed segmentation of that. Some areas would be more heavily populated than others. But we have not got a particular target at this point in time.

Senator SCHACHT—Is it up to the head of the division to be proactive in finding these people, responding to their own context and putting forward ideas for each of these groups of people to be added to the extended family?

Dr Garrett—That is correct, although in some new structural changes that we are making in the organisational arrangements we are increasing the representation on the executive team from our science community. We are creating a science forum, and we anticipate that this group will be doing things in the areas of information technology, biotechnology or nanotechnology. We need to be targeting particular institutions and encouraging finding ways for Professor X or Dr Y to come and spend time with us. I think it is a very important domain.

Senator GEORGE CAMPBELL—Dr Garrett, do you have any programs in place for interface between your scientists and business? Is there any regular communication with the business community that you are associated with? Do you have any interchange of your scientists into the business arena and vice versa so that there is a better understanding of the relationship between science and business?

Dr Garrett—This is a hugely important domain for the future. It is one of the growth areas that we can come back to. We believe we have a vast repository of capabilities and skill to add value to Australian business. If one looks at the bald numbers, last year the revenue from the Australian private sector was of the order of \$75 million. It has been at that level for three or four years. In my view, we can do significant amounts to increase that and in turn add value. Part of this is for our scientific group to better understand the needs of the industrial environment. That will include having secondments into business, working in partnership and belonging to business bodies. Obviously, a number of these interfaces are happening in a somewhat ad hoc fashion at the moment, but we are again changing things at the executive level to refocus our activities on the particular ways in which we work with business.

Over the last year we worked with 173 of the top 500 listed Australian companies and 116 of the next 1,000. But the overall level of interaction was quite modest. The average size of contract was \$122,000, and we believe that we can add significantly more value than that. The prime way in which we have interfaced with industry—and it has added great value in the last two or three years—is through our sector advisory committees. We have 22 sectors across the range of Australian business activities. They are typically populated with businesspeople who meet with our scientists on a regular basis and help very significantly to guide our investment processes in where we see the future, where we should be building our capability and how we work better.

In the discussions that we have had—and we had a great two-day workshop with the chairs of each of the sector advisory committees about six weeks ago—we believe we can enhance that activity significantly. I am a great believer in building the personal relationships. Therefore, your point about our people spending time in the business environment building

the relationships, better understanding the problems of the business environment and not just being in the laboratory is very important. It is a major growth area for the future.

Senator GEORGE CAMPBELL—Did you say that you are putting a program in place or you are developing a program to allow that to happen?

Dr Garrett—We have programs in place. We believe we need to ramp these up significantly in a targeted way to enhance our sector program, to look at our business development activities in a new light and to grow our contribution in that domain. It is one of our major growth areas.

Senator SCHACHT—Dr Garrett, what you have outlined there, in one sense, cannot be argued with; it is commendable. But I notice that the figures you quoted are about the connections you have with the top 100 companies or the top 500 companies. I think the biggest area of weakness in CSIRO's relationships is not with the big end of town; in fact, I think your relationship with the big end of town is hand in glove. I think you can go to a business dinner and sit with some bloke from a major company and make arrangements. The two bureaucracies can get together and sign a contract—your head scientist of a division and their head scientist. Where the thing really falls down is in the relationships with small and medium sized enterprises. In my view, that is an area that has bedevilled the CSIRO for a long time, and I think that governments of all persuasions have, from time to time, recognised this.

The biggest issue is cost. You can sign a contract with BHP Billiton Ltd, or whatever it is called now, or with CRA, Conzinc Rio Tinto, CSR or Pacific Dunlop. As I say, they are big organisations, they have big bureaucracies and they have dedicated scientists in their research sections. But if it is a small start-up enterprise with five people and a good idea, they do not have someone to go off and negotiate a contract. They are having a problem raising capital and go down to the CSIRO and say, 'It would be very useful if we could use the biotechnology division to do some applied research developing our project.' Then they get the suggested bill from the division, under your formula, and they say, 'We can't afford that; that just puts us out of business.' So the whole thing stops. What are you doing to address the cost issue? Are we going to be able to have, for small and medium sized enterprises and start-up enterprises, an independent assessment of what you charge those organisations when they want to come in and use the human resource infrastructure, the physical infrastructure and the very good services that CSIRO has, which are as good as any, if not the best, in Australia? And you are the only ones with those services in many cases.

Dr Garrett—Again, this is a very important area. The facts are that, in the last financial year, we worked with 1,440 SMEs—an SME is under 50 people. The average size of the contract between them was in the order of \$7,000, so it was very small beer. That is point 1. So there is a significant amount of activity. Point 2 is that we recognise that an engine of growth into the future in any modern economy is small business and that we need to find better ways of interfacing. When we have been asking the question of small business working with the CSIRO, the answers are: (1) it is too hard—there is a complexity of interface that makes it difficult; (2) it is too slow; and (3) it is too expensive.

There are a number of components to that. In our strategic action plan we have a specifically targeted program to review completely the way we will work with small business and the way we will manage those interfaces to make it much easier to work. I will come back to the cost issue. Part of the problem we have found in the past is that one has to look at the type of people who interface best in the small business and small contract area. Typically, part of the problems happen when you take busy scientists who are working on three- and five-

year programs and say, 'By the way, will you stop what you are doing and come and work for a week with this small company?' They see it as a disruption. On the other hand, there are many people in the organisation who, correctly trained and correctly supported, can see that as the focus of their activity. So we will be looking at restructuring our activities to make it much easier to work with small businesses.

Turning to the cost issue, we are most anxious to evaluate and recognise that an organisation of our size and our structure has overhead costs and that, as far as small business is concerned, it can be out of their league. The debate we need to have, I guess, in due course is a policy debate with the appropriate authorities to ask, 'Is it an appropriate use of appropriation money to subsidise these contracts?' If it is, we can do that. Are there other funding mechanisms to support small business to do business with organisations like ours? And I guess that is another policy issue. So these are the domains.

Senator SCHACHT—The divisions have been given targets for commercialisation. You may correct me on this but, as I understand it, CSIRO has commercialisation targets for various divisions according to the nature of the division. I cannot imagine there are a lot of aliens out there trying to do business with you in radio astronomy, so that target obviously will be somewhat less than the target for the research division in livestock, et cetera, where there is a direct benefit in improving the growth of sheep, wool, wheat or whatever.

Even allowing for that, do the commercial targets now being set for divisional directors—and this is how we are going to become more commercial—mean that, every time someone walks in the door and says, 'I want to use your facility and I'm willing to pay for it,' the divisional person immediately says, 'This is a way I can reach my target. Therefore, I'm going to charge them whatever I can so I can either meet the target or make myself look a really good boy with the boss because I have actually exceeded it, and then I will get a tick at the next annual meeting of all the divisional heads and an extra cup of tea and a biscuit?' I think that is a problem: the commercialisation target has actually reduced the flexibility of divisions to provide the informal assistance on the interface with small business, because every time someone walks in the door, they have to be charged now.

Dr Garrett—There is significant merit in the point you are making and in this whole area of debate, and it is certainly one we are taking very seriously. First of all, the key point is to ask, 'Which is the chicken and which is the egg?' Is our driving force these commercialisation targets, or do we say, 'Why do we exist?' Our job is to develop and get applied technology in partnership with the environment, and in so doing—obviously if we are providing relevant support—receive appropriate remuneration for that. As I indicated earlier, I think the way we do business with small business is an area for significant reflection. The sometimes dysfunctional driving force, as you have articulated, is something we are giving significant consideration to. But I would come back to the point that it is under review.

Senator SCHACHT—Where is it under review?

Dr Garrett—It is under review in our environment: how we can do the process better. Dr Sandland, for example, could talk about the radio astronomy. I think that is one example.

Senator SCHACHT—By the way, I am not trying to tell you to get out of radio astronomy. I think there are a number of intrinsic values in that, not the least of which is that, if you are the first one to find there are aliens out there or something, you will probably win the Nobel Prize hand over fist or have five American movies made about you. The track record we have in radio astronomy is outstanding, but not many small businesses are into

radio astronomy. They may want to come and talk to the radio astronomy division about how to build a better dish that they can then sell to pay TV satellite operators, and that is fine, but what I want to get to is: how are you handling the review to make it more friendly for a small business innovator? We do not want him walking in the door and being bamboozled by someone saying, 'Okay, mate, fill the form in here and give us 58 different versions, and then we will charge you \$120 a minute. With a bit of luck, we should send you broke within six weeks and then we can pinch your technology. We want a complete legal system of sharing the patent on your intellectual property,' blah, blah, blah. The bloke would say, 'I'm out of here.'

Dr Garrett—First of all, you are absolutely correct and we are fixing those systems. We agree that it is too hard for small business to do business with CSIRO generically.

Senator SCHACHT—Without being condescending, I am glad you actually put it that way: that it is too hard for small business.

Dr Garrett—Therefore, we need to simplify those systems and we also need to be finding those great people in the organisation—and there are many of them—who relish that interface and the shorter term projects that can help people with industry. Thirdly, under review is the way we do business. For example, if small business does not have the bucks up front, maybe there are equity sharing arrangements where we can participate in partnership, which I think is part of our mandate, too. So systems can be fixed, the people who are interfacing can be fixed and the nature of the business can be fixed, and they are all on our game plan for the next six to 12 months.

Senator SCHACHT—I look forward to more information being provided on that in the annual report and back here to the committee as this evolves, as well as in appropriate announcements. The most important issue is not to tell us but to tell the bloke who can walk in the door and not be intimidated. I was told years ago by some of the old hands before we got into all this formal commercialisation that, in many of the best divisions, someone would literally walk in the door and say, 'I'm stuck on this prototype machine I'm developing. Can you give us a hand for a couple of days on the design side?' and someone would just say, 'Okay. We'll help out.' Without signing contracts or setting it as a target, that relationship grew and often, after a couple of days of assistance, the bloke had his problem fixed and he was able to get on with growing his business. That is not in the commercial target. It might be that the businessperson got away with something for free from CSIRO and the question is: is that good for the taxpayer? Obviously in the end, he has got a better business going which puts more growth into the economy.

Dr Garrett—That is absolutely correct. There is another perspective to the question you asked earlier about staffing numbers. Another way of looking at the turnover we have is that many of our people who have left the organisation have gone into small business and created their own small business. Technology travels on two legs. That is part of our mandate, too. So it is not necessarily a bad thing.

Senator SCHACHT—I was going to come to that point. Can you provide figures for the last, say, three years of how many CSIRO staff that you know of who, with your blessing or knowledge, have left and taken their intellectual property, their idea or their general skill and started a business out of something they had an association with in their work in CSIRO?

Dr Garrett—First of all, we can try to give a broad picture. We do not have the detail. One of the things we are establishing in the near future is a CSIRO alumni organisation, because

once people have left the organisation, we do not have a formal way of keeping connected with them. I think that is a flaw. Therefore, I cannot give you the exact detail, so I will take it on notice to try to give you a broad feeling for that.

Senator SCHACHT—If you could, because rather than just saying, ‘This is encouraged,’ you can actually say, ‘In the last year, we know of 27 people’—or 227 people; I do not know what the number is—‘who have gone out and are now associated with a company developing this or doing this.’ Or perhaps they have gone off and joined a company and helped it develop. They have not actually started it, but they have been recruited.

Dr Garrett—One example of why this is so important is that there was a recent Bank of Boston study that showed that the business industry that has been spun out of the one institution, MIT—with people leaving and setting up on their own—now constitutes the 24th biggest economy in the world. So it really is in its own way an engine of growth: people spend 10, 15 or 20 years in the organisation and then go out to create wealth and create jobs. It is an important part of our mandate.

Senator GEORGE CAMPBELL—In that context, there also is the capacity at MIT and in the American system for people to go out of a system, set up businesses, commercialise their technology and then move back into the scientific community again. That same capacity does not exist, as I understand it, currently within our scientific community. It seems to me that is one of the failings: there is a lack of capacity for people to move out of CSIRO with ideas, move into businesses, set up their own businesses, set up their own companies, get the technology up and running and then, having commercialised, move back into the scientific community. Many of the people who do that are more focused on the development at the science end than they are in actually running businesses.

Dr Garrett—Totally correct.

Senator GEORGE CAMPBELL—A lot of their expertise in the initial two or three years is critical in getting the technology up and running. Is that something that you are having a look at and considering? That is where this equity issue becomes very important, I think.

Dr Garrett—We agree totally with you. That fluidity of movement and that flexibility are usually critical. We must move away from the idea that if this person has left, therefore they have gone. The ongoing connections and the coming back and helping in new areas is important. The three or five years in the industry give a totally new perspective that we need back in the organisation. This is the porosity and the extended family that I have been talking about.

Senator NEWMAN—Why doesn’t it happen?

Dr Garrett—I do not know. Any ideas?

Dr Sandland—There is really no barrier to people coming back, apart from this issue of holding equity. Our current policy relates to the potential for creating a conflict of interest if you are both applying appropriation money and holding equity in a company with which you might actually work. We are in the process of actively reviewing that. But it has happened in the past that people have gone out of CSIRO and come back. Alternatively, it has also happened that people have gone out of CSIRO—for example, in the company GroPep, which started out of CRC funding. A number of people left the CSIRO—about five, I believe—all of whom are now, at least on paper, multimillionaires as a result of doing that.

Senator GEORGE CAMPBELL—I understood that there was some legislative constraint or problem—maybe more applied to the university area than it is to CSIRO—in terms of people being able to move out and move back in again?

Dr Sandland—A person can formally leave CSIRO, set up a company and then come back into CSIRO. There is an issue about holding equity in those companies as part of our current policy and that is what we are in the process of reviewing.

Senator SCHACHT—What about this case? A small business in microbiology says, ‘We have got the idea but we need some more critical mass and we know that you have two blokes down there in the appropriate division. We are willing to pay them for three years.’ Can you transfer them? They are going to be paid by the company for three years to do the work. They are going to sign a contract. At the end of the three years, can they come back into CSIRO without any specific loss of entitlements, standing, career structure, or whatever? Can they actually get the three years counted in their superannuation as long as they have made a contribution and can they actually get the three years experience counted as equivalent experience as though they were full-time in CSIRO?

Dr Garrett—That happens already. Two weeks ago, I was with one of our partner organisations in Sydney—CAP-XX, in the superconductor business. One of our senior scientists from Annabelle Duncan’s division is now the director of research of that group. He has been seconded for a three-year period on their payroll. All his terms stay there.

Senator SCHACHT—So that is okay?

Dr Garrett—It is a great system.

Senator SCHACHT—On the issue of equity, is there anything in the CSIRO act that prohibits you from directly taking in various forms 50 per cent equity, 25 per cent equity, 70 per cent equity in a company that is already established? You are going in to help it expand; you are at the developmental stage. It is not one of your own scientists going out and starting something up with an idea that has been developed in CSIRO. It is actually halfway there already. You are adding the critical mass to get it up. But the bloke says, ‘I can either have \$1 million worth of debt from the bank and go broke with a cash flow problem the next year or I can give you half a million dollars worth of equity and, when we make a profit in five years time, we will share the profit.’ Is there anything to stop you doing that?

Dr Garrett—There is nothing stopping us. In fact, Ron can talk about an organisation called Quickstep, which just got approved at the last board meeting. Do you want to give a quick thumbnail?

Dr Sandland—This is exactly that situation. The technology was originally developed by several businessmen in Western Australia and they came to CSIRO to see if we could add value to the technology and also to find potential users of this. This is in developing and building polymer composites which are used in the aerospace industry and being able to do it in about a tenth of the time that is the case in normal autoclaving operations. So it has huge potential international applications. We have added value to it. Our arrangements have not been on the basis of consulting fees but indeed in taking equity in that company.

Senator SCHACHT—You have turned the consulting fees to a value of equity.

Dr Sandland—Absolutely.

Senator SCHACHT—You might take on notice to draw my attention to the income you are getting from licence fees and return on profit from equity investments, et cetera. I am

going to run out of time here, Dr Garrett, so could you take that on notice—that range of income and the breakdown of the commercialisation. Are you getting it from licence fees and equity, et cetera? Even if the answer is, ‘Listen, you idiot, it is on page 337,’ just draw my attention to it and I will be happy to read it.

Dr Garrett—Last financial year, it was about \$8.2 million from licence revenue. The legal costs associated with it are about \$5.3 million. It is an area we want to grow very significantly.

Senator SCHACHT—You are a new face at the estimates table, Dr Garrett, and therefore you might have a fresh answer to this question, which I have asked at estimates for a long time now. Do we still have a dispute with Charter Pacific over intellectual property and contractual arrangements, et cetera?

Dr Garrett—The answer is no. I will ask my colleague here to confirm this. This was all settled just before my arrival.

Dr Sandland—Dr Garrett’s predecessor, Dr Adam, promised you that he would fix it up, and indeed he did, towards the end of last year.

Senator SCHACHT—I would appreciate it if you would provide whatever you can. What was the final settlement? I know a settlement was reached five or six years ago, then they disputed within a year and half and had another go. I am not going to get into the argument of the good, the bad and the ugly of the whole thing, other than it was initially a perfect example of—when you are giving seminars to young scientists—how not to write commercial contracts. On this, Charter Pacific is one.

Dr Garrett—If fact, we are using that as a case study in our educational process.

Senator SCHACHT—I am sure you are. If we get that value, the mangled Charter Pacific issue will have shown some value in how not to do it.

Dr Garrett—If I can give you the detail, under a new settlement CSIRO has paid Charter Pacific a global amount of \$5.9 million. This included a full payout of Charter Pacific’s rights, under a 1994 agreement, to share in CSIRO’s exelgram royalties until 1 July 2006.

Senator SCHACHT—I want to make one thing clear: there is now no contract in any way between you and Charter Pacific so that they can come back and have another go at saying that there is a breach of contract.

Dr Sandland—It was specifically aimed to end all relationships with Charter Pacific for all time.

Senator SCHACHT—That is what happened after 1994; there was still a relationship and they believed you were not carrying it out and therefore sued.

Dr Sandland—Correct.

Senator SCHACHT—In November last year, the government announced it would provide a \$50 million loan to CSIRO to facilitate the commercialisation of a new production technology for the light metal sector, in partnership with the Australian Magnesium Corporation. What impact is there on the headline and the cash balance and what are the terms and conditions of the loan, including terms of repayment, interest charges and who was administering the loan? Is it the department, CSIRO, both or someone else? You may wish to say that some of those issues are commercial-in-confidence. Being reasonable, I am happy to accept some restriction on commercial-in-confidence. But, as it is Australian public money—

Dr Garrett—With the change of dates, my colleague Paul Wellings, who is the executive responsible for finance, was not able to be here today. Is it okay if we take that question on notice and provide that information to you?

Senator SCHACHT—Fine.

Dr Garrett—We will do that.

Senator SCHACHT—Minister, is the \$50 million loan separate from the training and funding?

Senator Minchin—Absolutely. We have provided it additionally to the CSIRO in the form of a loan for them to then engage in the commercial arrangement.

Senator SCHACHT—But the CSIRO have not yet tried to put that permanently into the triennium base funding.

Senator Minchin—You are not suggesting they would, are you?

Dr Garrett—We can take that recommendation.

Senator SCHACHT—I know that trick, you see. Minister, was the loan just a straight appropriation provided in the budget?

Senator Minchin—Yes. It was a one-off additional appropriation spread over two or three years. There were very generous terms imposed by the government on CSIRO. They do not have to pay the loan out of anything other than royalties and only when income stream is available from AMC.

Senator SCHACHT—Now we come to what I think is always a bedevilling thing in these issues of some economic rationalist down in Treasury, and so you try to pick a winner and not show favour—and I know that the minister is not an economic rationalist, as such. I understand there is another company called Golden Triangle Resources, an Australian company, that is also developing a process for refining magnesium and it is seeking assistance from CSIRO. Because of the contract you have with the Australian Magnesium Corporation, are you absolutely precluded from providing any research, background or assistance to this other company that, who knows, might actually have developed a better technology for the production of such things as magnesium? How do you handle that issue?

Dr Garrett—I can give you a generic answer and take the specifics on notice. Generically, any business arrangement such as this one needs very rigorous confidentiality arrangements. It is therefore important for an organisation, and that is one of the advantages of an organisation of the size and muscle of CSIRO, to put firewalls between people working with one organisation and people working with another competing organisation. If it is not possible to put those firewalls in place, we have to recognise that we need to say, 'We cannot provide you with specific support, but here are the names of some other technology providers that may be able to help you.'

Senator SCHACHT—There have been endless arguments in the scientific community that because of CSIRO's big muscle, once they take a view about or take on a contract to sign for a particular technology, they will put up the shutters and can usually starve out anybody with a competing technology from the private sector or from another university or institution.

Dr Garrett—There is an important principle here that is ongoing worldwide in organisations like CSIRO and our sister organisations, and it centres on the competitive nature of technology. If your technology is available to everybody nobody wants it, because there is

no competitive advantage. So you are between the proverbial devil and the deep blue sea here. But, by getting into bed with organisation A, that shuts out organisation B and organisation A grows. So that is the debate that one has to manage on a case by case basis. As I have indicated, you can orchestrate it so that you can put up firewalls with sufficient organisational flexibility and capability to handle those situations.

Senator SCHACHT—I know of some specific examples from my own experience over some years. But I think the one area where the muscle of CSIRO has to be tempered is where CSIRO signs a deal with company A and is providing the research and has a commercial contract. Company B are also working in the same area but with a competing technology they think is better. When they go to seek funding from a range of industries, say, in the agriculture sector, where there are a whole range of livestock and research and development areas—there is the Wool Corporation, the Cotton Research and Development Corporation, et cetera—they find that the CSIRO muscle, informally, has said, ‘No, don’t touch them. We’re the ones who have got the best research. Their research is not up to scratch; you would be wasting your money.’ This is done informally, and people have found that it is very difficult to break into getting research funding. I can understand at the commercial level, occasionally, the muscle has to be used. But, in terms of letting a hundred flowers bloom or a thousand flowers bloom in scientific research, it is something that I think CSIRO should not be engaged in, even if it means that, occasionally, they are shown to have backed the wrong technology.

Dr Garrett—I would say in response—and, again, there is significant merit in what you have articulated—that the role of CSIRO in helping Australian industry, particularly in pre-competitive domains, is very important. We had a very good meeting this week with the Grains Research and Development Corporation about the way that, over the next five to 10 years, we can partner with them. Obviously they have a wide range of suppliers and stakeholders and, therefore, we have a significant role in partnership with them, providing technology support to a whole industry as opposed to specific companies. I think this debate will help craft CSIRO’s mission plan into the future.

Senator SCHACHT—Is there a code of practice in CSIRO about how to handle all of these issues, including how to temper the commercialisation target with the view that CSIRO is a pre-eminent applied science organisation?

Dr Garrett—We have a very extensive commercial practice approach manual that provides guidelines. This is reviewed on an ongoing basis. In the near future, we will be appointing at the executive level a new commercial director to help us re-craft our approaches into the future.

Dr Sandland—That is absolutely true. That is an evolving document, and we review that every year. In light of our new developments, new business practice and new business development modalities we will be reviewing that. So the points that you have raised explicitly about handling those commercial conflicts I do not believe are currently in the commercial practice manual.

Senator SCHACHT—May I suggest, Dr Garrett, that you could at least take it on notice that I think that should be put on the agenda. There are always examples coming around and, in the end, they ring us up as members of parliament. So we turn up at estimates and spend a lot of time, and we probably should not, arguing over or trying to raise an issue. And, if it goes bad, you end up with something like Cassagrain or Charter Pacific, which are all things that we want to avoid.

Dr Garrett, 'A new CSIRO for a new Century' was announced in May, a matter of only a week ago. You have mentioned here this morning that the new philosophy is to go for growth, and you have emphasised that you are going to have to do this by improved revenue from commercialisation.

Dr Garrett—Amongst other things, yes. There is the licensing as well.

Senator SCHACHT—Yes, the licensing arrangements and all of that. As I understand it, the plan 'outlines a new business model and a five-year mission, including a goal of a 50 per cent increase in the total business to \$1.3 billion by June 2006'. But, in that—the appropriation, the training and the funding—how much is going to be funded by an increase in appropriation?

Dr Garrett—We will, over the course of the next three months, as I have indicated, be developing in detail the various components of our business, what the individual growth targets will be and how these will cascade down to our portfolio of divisions over this period of time. Obviously, we will be seeking to demonstrate—and I think it is one of the areas that we have articulated in the document where we perhaps have not communicated well—the amazing things that are happening in CSIRO. I have been on this journey of discovery of Australia as I have been discovering CSIRO, and I wish there were some technology that could give you a 15-minute crystal ball gaze of the sorts of amazing things that are happening. I do not think we have done this as well as we should have. But I think we will be working hard to demonstrate to parliament the benefit of investing enhanced appropriation money for specific outcomes in CSIRO. So it will be one of our growth areas, but we have to demonstrate what we can do.

Senator SCHACHT—The growth of this plan, as commendable as it is, is basically going to be what you can grow out of the full variation of commercial activities and arrangements. It is not going to be growing out of significantly increased appropriations from the government, other than what is in the triennium or the CPI index.

Dr Garrett—I am not going to take that one lying down.

Senator SCHACHT—I am trying to help you. I want you to get into the bloke next to you and ask him for money. You have to understand, Dr Garrett, I am on your side.

Dr Garrett—I think there are some wonderful opportunities for us to demonstrate increases are justifiable on behalf of the taxpayer in CSIRO, and we will be talking about that.

Senator SCHACHT—Last year the government made a major announcement about science and innovation, et cetera. From my recollection, though that money was handed out around the place quite significantly, out of that I do not think there was any increase or any particular specific money for CSIRO. Is that correct?

Dr Garrett—No specific line item, but if you look at the list of initiatives under the innovation action plan there are a number where CSIRO already are bidding quite significantly. We are interested in the MNRF. We are in 14 of the new CRCs. We are talking to the ARC—

Senator SCHACHT—Oh, I see. So you believe you will get your hands on some of the money by coming in through the side door by reaching agreement with some of those institutions that have got the money?

Dr Garrett—I do not see it as a side door; I see it as a front door.

Senator SCHACHT—The front door, then.

Dr Garrett—I believe there is merit in those competitive processes—in partnership.

Senator SCHACHT—Did CSIRO make any specific bid up front that you should get funds for specific projects to meet the government's objectives in that announcement?

Dr Garrett—My understanding is that the chairman and the acting chief executive made a bid for support of a number of millions for pre-seed funding to get work in our environment venture capital ready. However, I should say that there is \$78-odd million in the pre-seed funding out of the innovation action plan and we will be working hard, in partnership with other institutions, to access that money. So it came in a different way. It did not have a line item.

Senator SCHACHT—So you think you got some of it through a different way.

Dr Garrett—Yes.

Senator SCHACHT—Obviously your success or otherwise in all of that will come back through annual reports about how you did it. You mentioned CRCs. In the past, people in CRCs in which you are a partner have wanted to establish some sort of corporate structure. I forget the technical terms, but the CSIRO has always taken a view, when they are involved, that they do not want a particular corporate structure—

Dr Garrett—Incorporation.

Senator SCHACHT—I have heard a lot of complaints from CSIRO, even ex CSIRO scientists who are now in a CRC—they may still be on your payroll—think that your view about opposing incorporation is a restriction. Has there been any change in the senior management of CSIRO about that issue of incorporation of the structures of CRCs?

Dr Garrett—First of all, I place on record that CSIRO is totally committed, and increasingly so, to the CRC programs. There has been a history where our commitment to the programs has been considered to be patchy—

Senator SCHACHT—You have done well out of them because you have got a lot people paid that you might not have got paid directly on your own appropriation. There has been good benefit for CSIRO in enabling you to go in and be a partner and then get a lot of your staff paid, quite rightly, as a partner.

Dr Garrett—Sure. And in that process I think there has been a significant contribution from CSIRO from its own resources to that process. It is a good program that is going to be increasingly nurtured and supported. The specific answer to your question is that this is under review as we speak.

Senator SCHACHT—Good.

Dr Garrett—There is a debate that we are having with our colleagues about it and we are not taking a fixed view. I needed to understand the upsides and the downsides. You are correct in saying that my previous colleagues had said that there was a particular approach. I think we need to be flexible and understand how things are moving and the advantages of taking a different approach, and we are reviewing it right now. The university environment is also reviewing these new approaches. I do not think there is a unified acceptance that one model is better than the other. That is a debate that we are having internally and with our external colleagues.

Senator SCHACHT—It might be very useful for the committee to get those pros and cons, as you see it—the argument why incorporation might be a favourable outcome for the CRC and why it might not be a favourable outcome.

Dr Garrett—I am happy to do that.

Senator SCHACHT—From the CSIRO perspective, of course. Others will have a different perspective. But if you say, ‘If we incorporate this, these are the downsides as well as the upsides,’ as far as CSIRO is concerned, I would be very pleased with that.

Dr Garrett, it has been unfortunate that because of a range of other issues we have only had an hour in this estimates, and this is your first estimates. By the time the next estimates come around I think the positions will be reversed—one of my colleagues will be sitting next to you and your present minister will be sitting down here. But if that is not the case, we look forward to further opportunity at estimates.

Senator Minchin—I think that is a revelation of your arrogance about—

Senator SCHACHT—No, no; I never take anything for granted. But the November estimates will be cancelled, I suspect, because there will be an election campaign which you being a good public servant will not want to be directly involved in. Nevertheless, I think an institution which has a budget of—well, you want to get to \$1½ billion, which is no small amount of money—approaching \$1 billion of public appropriation in one form or another, direct or indirect, should have more than an hour at the estimates. It is because of other issues. This in no way shows that we lack interest in this place in CSIRO. I can assure you it is much greater than the hour we have given you. Thank you very much, and I wish you well in your new job and so on. All the best.

Senator Minchin—Can I thank the committee for its interest in the CSIRO and commend Dr Garrett on the fantastic job that he is doing, at only four or five months in the role. I think he is a great acquisition to the nation. Indeed, it is an example of brain gain in managing to secure for Australia someone of Geoff’s experience and skill. It is a real addition.

CHAIRMAN—Thank you very much, Minister. On behalf of the committee, thank you very much, Dr Garrett. We commend you for what you have been doing, for what you are doing, and we agree with the minister’s sentiments.

[9.07 a.m.]

Australian Tourist Commission

CHAIRMAN—Welcome.

Senator SCHACHT—This question is basically to the commission. The department or the minister may wish to make comment as well, but I put it to the commission. For the financial year 2001, how much will the tourism industry earn in terms of export dollars? I know we have not finished the year, so what is the estimate?

Mr Calderwood—For the year 2000-01, the projections are that the export earnings from tourism will be in the vicinity of \$15.4 billion.

Senator SCHACHT—And where does that put you in the league of our export industries?

Mr Calderwood—It places us around No. 4.

Senator SCHACHT—For the coming year, 2001-02, going through the next three years, what will your estimate be, all things being equal, in terms of growth? I presume that you are aiming for growth.

Mr Calderwood—Yes, we are indeed. According to the Tourism Forecasting Council, over the next 10 years the forecast averages out at something like 7.8 per cent growth in terms of arrival numbers. Our expectation is that in terms of export sales it would be in excess of 7.8 per cent, because we have a forecast obviously to try and improve the yield faster than the actual numbers. We have had a look at the actual figures from the Tourism Forecasting Council: by the year 2001-02 it would increase to 16.68 per cent, and all the way through to 2009-10 the actual export earnings would be something just under \$30 billion.

Senator SCHACHT—Then will you be second in the league—when do you get the premiership?

Mr Calderwood—It all has to do with the price of coal, I think!

Senator SCHACHT—I do not want to undermine the price of coal, but when do you get the premiership?

Mr Calderwood—I do not know the exact answer to that, but the expectation is that we would move into second or third position by that time.

Senator Minchin—It depends on car exports, too; we are working hard to get them up.

Senator SCHACHT—It would be fantastic for South Australia if we get \$30 billion of car industry exports. We would not be sitting here at the estimates committee, would we, if our state was doing that?

Senator Minchin—That is right.

Senator SCHACHT—What are the contingent issues, apart from the broad macro about not having a world recession or a major recession in Australia, that could affect these projections adversely?

Mr Calderwood—Not in any particular order, the issues which can certainly impact on arrivals would include the overall world economic situation.

Senator SCHACHT—I presume that in whatever economic model you use the tourism industry is absolutely sensitive to the economic circumstances of the country and the world in total?

Mr Calderwood—Indeed. Another issue which will affect it is obviously the aviation capacity, access to Australia. The third issue which would affect it would be our ability to maintain an effective and competitive voice through our advertising campaigns in overseas markets.

Senator SCHACHT—Does that mean that is contingent upon government funding appropriation to the Tourist Commission for its campaigns?

Mr Calderwood—A combination of government appropriations and our success in actually encouraging industry to invest alongside us.

Senator SCHACHT—In these budget papers you have out years up to four years. In the outlays that the government has put on the appropriation, is what is provided for you to promote tourism internationally to Australia adequate? In another two years it does not suddenly drop off? You are not going to get a big slashing cut?

Mr Calderwood—The additional allocation of \$50 million which we received came into effect for the first year in 1998-99. That runs through to 2001-02 and then we revert back to the previous levels.

Senator SCHACHT—Which is what?

Mr Calderwood—The level which we have for 2001-02 is a \$91.9 million allocation.

Senator SCHACHT—After that, if that program does not continue, it would drop back to what?

Mr Calderwood—It drops back to \$82.5 million.

Senator SCHACHT—So there would be a decline.

Mr Calderwood—There would be a decline.

Senator SCHACHT—Every government has got the opportunity to adjust those out years according to circumstances, the value of your submission and your lobbying to break the minister's arm next to you.

Mr Calderwood—We will be working very hard to try and put up a very persuasive argument for next year's budget, obviously.

Senator SCHACHT—Yes. I understand that. As I said just a few minutes ago to CSIRO, I trust that you may have a sympathetic ear from one of my colleagues by this time next year.

Senator Minchin—Dangerous overconfidence.

Senator SCHACHT—No, I said 'maybe', 'I hope' and 'I trust'.

Senator Minchin—Oh, 'maybe'. Okay.

Senator SCHACHT—I am never overconfident about election results.

Senator CONROY—If Senator Schacht is sitting here next year, you can keep smiling, right?

Senator SCHACHT—You might want to take this on notice. In regional Australia, what does the ATC estimate the impact of inbound tourism to be in terms of jobs and tourism expenditure?

Mr Calderwood—We will take it on notice. I can make a very quick response to indicate that on average about 40 per cent of new jobs created in the tourism industry are jobs which are created in regional Australia. We can take that question on notice and give you more precise detail.

Senator SCHACHT—Which countries represent the emerging markets for the Australian tourism industry?

Mr Calderwood—The markets which we have been focusing on over the last three years have been China, India, the Middle East, South America and, to a lesser extent, South Africa. The three main markets which we have been looking at are China, India and the Middle East.

Senator SCHACHT—The Middle East covers a variety of places and differences.

Mr Calderwood—Absolutely.

Senator SCHACHT—I have to say that there are some places in the Middle East that I would have thought, because of political issues, may not be easy to deal with. Can you give some breakdown within the Middle East? Are we aiming to get a large number of tourists from Iraq?

Mr Calderwood—No, not at this stage but perhaps sometime in the future. The bulk of the market from the Middle East comes from the Gulf states and also from Israel. That would be the two main focuses we have.

Senator SCHACHT—The Indian market is targeted because of the growth of the Indian middle class. But in India—with around one billion people—apart from the emerging middle class, are there any particular regional areas within India which—

Mr Calderwood—Three years ago, at the time when Qantas moved into India with new services, we saw an opportunity to work with them. We established a representation based in Delhi. We see the three main markets being Delhi, Mumbai and Chennai.

Senator SCHACHT—Right. Now that you raise Qantas—and he falls of his chair immediately in laughter—do you have any difficulty in convincing Qantas that they have got to put in a little bit of an investment? It is the argument of the chicken or the egg: you cannot grow tourism from some of these areas unless there is already a reasonable air service available.

Mr Calderwood—We have a lot of dialogue with Qantas. We do not always win the arguments. But it is true to say that Qantas is the largest single partner with the ATC in terms of investing overseas to promote Australia. Qantas, obviously, will make decisions based on what is right for them in a commercial sense, but they have in the past, if you look at some of the emerging markets we have spoken about, moved in at an early stage with us. They have done this in India, China and South America. Unfortunately, they are no longer in China. But they are still there in India and they have increased services. They have also increased services in South America.

Senator SCHACHT—I am glad you mentioned China. I visited China a month and a half ago on the way to Seoul, and the first thing I discovered was that I could not fly Qantas. I could fly Qantas apparently, but the plane was not a Qantas plane. It was a Qantas flight number, but it was certainly not a Qantas flight. Did they just say the business was not there?

Mr Calderwood—Both Ansett and Qantas moved in approximately three years ago. They discovered that they could not sustain the services because they said the yield was not there. They have withdrawn within the last six months. I think it was a combination of things: the yield was not satisfactory and, more importantly, they could find a better return and a better yield by reallocating those aircraft to different routes. That is the way of the world in terms of the airlines nowadays.

Senator SCHACHT—Have you had any complaints from our end, from the people who want to go to China as tourists? Have you had complaints from tourist operators in China saying, 'We're trying to promote Australia as a destination, but when it comes to the crunch we have difficulty getting enough seats on planes now that Qantas has withdrawn'?

Mr Calderwood—We still have adequate capacity coming out of China because of the Chinese airlines themselves. We have enough capacity to sustain the growth patterns which we will have in the next couple of years. There have been no complaints of any significance from the Chinese operators. The only complaint you would normally get would be from Australian expatriates who would obviously like to fly Qantas.

Senator SCHACHT—Including members of this parliament.

Mr Calderwood—Indeed.

Senator SCHACHT—Because of the time, Mr Calderwood, I will put a series of questions on notice. I know my colleague Senator Conroy wants to ask some questions as well. I want to now move on. Has there been a delay in the release of overseas arrival and departure data due to a change in the system used for processing passenger cards, which I presume has led to difficulty for you getting up-to-date information?

Mr Calderwood—There has been a delay. As a result of DIMA going to a new system, the last figures which we received were for July 2000. Since then, we have been receiving preliminary figures, which are generated on a different basis and which give a good indication. The only problem we have with that is that it does not cover all major markets, so you have some markets like France or Hong Kong for which we have no recent data. The consequence of that is that it is obviously harder to do forward projections.

Senator SCHACHT—In your next annual report, will you be able to publish data on the key performance indicators—which I understand you have had in every annual report since the 1960s—or won't you be able to because of the delay in getting adequate information?

Mr Calderwood—We will certainly continue to report on key performance indicators, but there will be qualifications in terms of some of the figures which we can quote. I might ask my colleague Margaret Hudson to make a further comment on that.

Ms Hudson—As my colleague has pointed out, the arrival data for a number of those key markets is not available. The follow-on issue from that is that the publication of the International Visitor Survey, which is produced by the Bureau of Tourism Research, will not be able to be completed until the arrival data is available. Hence, we also will not have key performance information such as visitor expenditure, the number of nights spent in different parts of Australia, et cetera.

Senator SCHACHT—And you are telling us that this delay is because of a procedural change in Immigration?

Mr Calderwood—Yes.

Senator SCHACHT—Did they consult you about the change and warn you that there would be these problems?

Mr Calderwood—There was some consultation. There was some advance advice that there would be a change, but the expectation was that the disruption would be minimal. The delay has been far greater than we anticipated.

Senator SCHACHT—There must be some teeth grinding in the tourist industry about the fact that this information—the preparation of your material for budgets, strategic market activity, et cetera—is now seriously affected.

Mr Calderwood—Indeed. It has an impact in that we have to make some major assumptions, and we are making some of those assumptions with incomplete information.

Senator SCHACHT—As I understand it, the tourism market can be volatile; there can be rapid changes in sources, according to domestic economic circumstances, which we have no control over.

Mr Calderwood—Indeed. That is certainly the case. There is another factor we need to recognise, of course, and that is that we can sometimes get good indications from the outbound data from the source markets. If we have not got the latest information in terms of our inbound arrivals, we can always use some outbound data from some of those markets, which can give us some indication on how they are trending as well.

Senator SCHACHT—Can you explain to me about a document you produce called *Pulse*? Does that ring a bell?

Mr Calderwood—*Tourism Pulse*?

Senator SCHACHT—Yes.

Mr Calderwood—*Tourism Pulse* is a document which is produced, normally on a monthly basis, to provide an update to the industry on the various market trends.

Senator SCHACHT—Is that still being produced by the ATC?

Mr Calderwood—Yes, it has been produced up until recently. We are now about to replace it with a more comprehensive combination of market intelligence reports, to make it even more useful for the industry.

Senator SCHACHT—Is the reason that you are having some new document, or that you have not been able to produce *Tourism Pulse*, the lack of information coming from—

Mr Calderwood—No, that is not a factor. The new approach that we are taking is designed to provide additional information, and we are using our overseas offices in conjunction with state tourism offices to provide more market intelligence information, which the industry has been asking for.

Senator SCHACHT—Have you raised with your own minister, Minister Kelly, the issue of the difficulties you are having with the fact that you are not getting the full, timely provision of information on arrivals and departures?

Mr Calderwood—Yes, we have raised it with our minister, and our minister has also raised it with Minister Ruddock.

Senator SCHACHT—What is Minister Ruddock's excuse for why this has fallen apart? Sorry, Minister Minchin might be able to answer that.

Senator Minchin—I am not sure that that is really—

Senator SCHACHT—I should not ask Mr Calderwood.

Senator Minchin—It is hearsay, really, for the Tourism Commission to be saying what Mr Ruddock thinks. I do not know what Minister Ruddock's position on that is, so I am happy to take that on notice and find out from Mr Ruddock what the position is. I do not think it is fair on the department.

Senator SCHACHT—Has the department had any information from Immigration, explaining why this foul-up has occurred? They are not boat people we are dealing with; that is another issue Immigration gets wrong.

Ms Murphy—No. In talking with the officers from Immigration, the department has been implementing a new automatic passenger card reading system. The previous system was manual and, according to DIMA officials, there have been delays in implementing that—

Senator SCHACHT—So the old manual system worked; the new computer system does not.

Senator Minchin—Just like the Florida vote counting system. I do not know much about this issue, Senator Schacht, but there are always transitional issues in moving from manual systems to automatic systems; and I am sure that the Tourism Commission and you would support much more mechanised, automated systems.

Senator SCHACHT—Not if it means that the old manual system was better and quicker and provided more timely data.

Senator Minchin—It is certainly my experience that whenever you make these sorts of transitions there are teething problems, and I assume that they are short-term and will be overcome.

Senator SCHACHT—I am sorry, Ms Murphy; the Minister and I interrupted your answer.

Ms Murphy—No. In fact you completed the answer, Senator.

Senator SCHACHT—There may be some follow-up questions on that which I will put on notice, but I can understand the frustration of the tourism industry. Have we any indication from Immigration when the problem will be fixed to the satisfaction of the ATC, so that they get timely information?

Ms Murphy—Our advice from Immigration is that from September 2001 we should be obtaining the final figures for the previous—

Senator SCHACHT—And how long has this been going for—a year, a year and a half? Mr Calderwood, for how long have you been half in the dark?

Mr Calderwood—The last complete figures which we had were for July 2000. But, as I say, we have received preliminary figures—

Senator SCHACHT—So it has taken them probably a year and a quarter to get this fixed and to introduce the new method.

Senator Minchin—I think that these are matters you should pursue with the Immigration estimates.

Senator SCHACHT—Unfortunately, Immigration estimates have passed.

Senator Minchin—You missed your chance, Senator.

Senator SCHACHT—I missed my chance.

Senator Minchin—You should be more probing—

Senator SCHACHT—I will get it next time around. Mr Calderwood, you are not publishing *Tourism Pulse*. It has not been produced for the last four months; is that correct?

Mr Calderwood—That would be correct.

Senator SCHACHT—You said that the new magazine or the change in this has nothing to do with the provision of the data. What is the reason that *Tourism Pulse* has hit the fence for four months and you are now going to a new publication?

Mr Calderwood—The newer information which we will be providing to the industry has evolved as a result of discussions with industry and also the states. It will be both a hard copy publication and also information online. The hard copy information will be primarily produced by the overseas offices of the ATC and the state tourism bodies. The whole idea of going online is so we can provide a much quicker response and more timely information to the industry. That was a new initiative which we have been working on for a couple of months. We announced it one month ago to the industry as part of a new initiative called 'Talkback'.

Senator SCHACHT—I may have some follow-up questions on notice on that. Moving on to the passenger movement charge, what impact does the department see the increased passenger movement charge having on outbound tourist numbers?

Mr Crick—At this stage we have made no assessment to suggest that there would be any impact on inbound tour numbers. The passenger movement charge is proposed to go up by \$8. In terms of inbound tourists coming to Australia, all our inbound tourists—apart from our New Zealand friends—are really coming on a medium or long haul.

Senator SCHACHT—You reckon that the \$8 will not be noticed?

Mr Crick—It is eight Australian dollars, too, which is less than \$US5 on top of a fare—

Senator SCHACHT—You are not commenting about the success of the government in putting the dollar down, are you, as an achievement in tourism?

Senator Minchin—It is very good for tourism, actually.

Mr Crick—I was not suggesting the government had that much influence over the rate of exchange. But no, in terms of the decisions and the financial commitment that tourists are making to come to Australia, an extra \$8 on a departure charge would not necessarily deter them.

Senator SCHACHT—Does the department recall that the focus of the PMC increase in 1998-99 in the Treasury budget papers indicate that the increase was temporary and to pay for Olympic Games passenger facilitation, as per the following quote from the budget paper:

The \$3 will raise an estimated \$77.3 million in additional revenue over the four years to 2001-02. This will help meet the additional costs arising from the movement of people and games-related equipment across Australia's borders at the time of the Sydney 2000 Games.

So the \$3 was supposed to go off, but now it has not only not gone off but gone up \$7; is that correct?

Mr Mackey—As you know, the increase in the charge was directed towards paying for the foot-and-mouth disease measures, and so it was a specific response to that high priority.

Senator SCHACHT—So it is forever and a day that the \$7 will stay on to pay for foot-and-mouth disease prevention?

Mr Mackey—Not necessarily. That is a matter for future governments to decide in the context of future budgets.

Senator SCHACHT—Does this mean that you have extra trays of antiseptic for people to step in or sprays in cabins of aeroplanes?

Mr Mackey—The actual measures themselves, of course, are not the responsibility of our department.

Senator SCHACHT—You may be lucky that they are not your responsibility. Does the department accept that the 1998-99 budget papers clearly link the funding of the Australian Tourism Commission with a much larger revenue raised from the PMC?

Mr Mackey—As I said, in the context of this year's budget, the government took the decision to apply the charge to what they viewed as the very high priority of additional measures to combat FMD.

Senator SCHACHT—So the \$300 million revenue from the PMC, compared with the budget of \$90 million for the Australian Tourism Commission, means that the ATC has no advantage out of the increase at all?

Mr Mackey—As I am sure you are aware—

Senator SCHACHT—I am not aware of anything. I want you to tell me, and then I will be aware.

Mr Mackey—In Britain, when FMD had such a significant outbreak recently, foreign tourism revenue losses were estimated at as high as £3 billion, so I think the government took the view that the tourism industry in Australia would be a significant beneficiary.

Senator SCHACHT—Does the Tourist Commission agree with the view that foot-and-mouth disease prevention has a significant plus for the tourist industry in Australia?

Mr Calderwood—Yes, we do. We have long promoted Australia as a clean, safe environment, and therefore we certainly would support the need to ensure that a foot-and-mouth outbreak would not occur here, which could obviously impact on inbound tourism arrivals.

Senator SCHACHT—Minister, has there been any active consideration of using the increase in the PMC—either the increase from \$27 to \$30 in 1998-99 or the increase from \$30 to \$38 in this present budget—to provide base government funding to the ATC to avoid the annual budgetary bunfight?

Senator Minchin—The government decided in the context of this budget that all of the increase in the passenger movement charge should be directed towards the quite expensive measures that the government is implementing to do all that it can to prevent the outbreak of foot-and-mouth disease in Australia. It was considered that that was the highest priority. We were aware of suggestions that part of that charge should be diverted to tourism promotion or additional funds to the Tourist Commission, but the government took the view that all of the revenue raised should be directed to foot-and-mouth disease activities. I do not think it goes anywhere near actually covering the additional cost that will be involved in the government's proposals for doing everything we can to prevent foot-and-mouth breaking out in Australia. We believe such an outbreak, as has been said, would be much more devastating for tourism than anything else if it were to occur.

Mr Crick—The inbound tourism component of the total cost of the new measures is about 30 per cent. Over the four-year period, inbound tourists would be contributing about 40 per cent of the total cost of the new quarantine measures.

Senator SCHACHT—I may have further questions on notice to you about that matter of the PMC. Minister, irrespective of that matter about foot-and-mouth disease—we all support keeping Australia free of foot-and-mouth disease for all the well-known reasons, obviously—the passenger movement charge is a hypothecated charge to what it costs to provide the service of the barrier running, et cetera. Because it is hypothecated to provide cost recovery, would the government at some stage in the future give consideration that there should be, therefore—as there is at CSIRO or at the ABC—some trading of funding arrangements for the ATC? Now that you have a guaranteed funding base coming from the hypothecated PMC—it is not going to go down—should you say, 'This is paid for by tourists coming into Australia. We should hypothecate a proportion of that to go to the ATC, and give them a triennium basis of funding'?

Senator Minchin—I do not think it is actually hypothecated as such in any budgetary documents. It is not a trade-off; it is not shown as income and outgoings as such. It is simply a policy, and the previous government had a passenger movement charge, and most governments do have passenger movement charges of one kind or another. It is a mechanism by which there is a contribution by tourists to the cost to the nation of servicing what the taxpayer has to pay for in terms of government activities to facilitate tourism. The question of the ATC's budget is dealt with as a separate item. The government considers, in this case on a four-year basis, the appropriate level of resourcing for that commission. As has been said, that will occur in the next budget round. The current four-year cycle ends in the coming financial year, and there will be a review of the appropriate level of resourcing for the commission over the next four years.

Senator SCHACHT—I put the issue on record and I expected your answer. I now want to turn to the issue of the impact of the GST on tourism. What is the government's total expected take from tourist spending in 2000-01 and then 2001-02 from the goods and services tax on the tourism industry?

Senator Minchin—That would obviously be a matter more appropriately put to Treasury. We will get you an answer, but we obviously do not have those figures here.

Senator SCHACHT—Does the ATC as a statutory authority have any information about what you think the impact will be?

Mr Mackey—Do you mean the arrivals?

Senator Minchin—You mean the revenue generated.

Senator SCHACHT—Yes, the general revenue.

Senator Minchin—They can speak for themselves but I will be very surprised if—

Mr Calderwood—Any figures which we record would be a very rough rule of thumb. We quoted before that for 2001-02 the export sales would be \$16.68 billion. To then take a broad sweep 10 per cent against that would be misleading.

Mr Mackey—We can take that question on notice and attempt to find out for you.

Senator SCHACHT—There are two levels. There is the question of the total tourism take in Australia at both the domestic and international level as an industry. The GST is a service tax and this is a service industry. Then there is \$16 billion from inbound tourism—that is, airfares, accommodation, food and entertainment of the international tourist when they are in Australia. That is correct, is it?

Mr Calderwood—The \$16 billion consists, as you said, of international airfares, land content and any other services which they buy when they are here, whether that be food, beverages, entertainment, et cetera.

Senator SCHACHT—Would an estimate of \$5 billion for the GST from the tourism industry be too generous an estimate?

Mr Calderwood—\$5 billion relating to what?

Senator SCHACHT—The total tourism industry in Australia.

Mr Calderwood—In terms of what?

Senator SCHACHT—The revenue. I will talk to Treasury and try and get an answer, but we will probably get a man on Mars before Treasury get back to us with an answer on that.

But we will try. Has any work been done within the tourism industry of Australia—the various components of the tourism industry—suggesting what the impact of the GST take will be as a tax on the tourist industry?

Mr Calderwood—I am not aware of any information of that type.

Senator SCHACHT—My time is about to run out but there will be further questions I will put on this issue of the GST take. I have a list of questions on regional tourist programs to both the department and the ATC. I think I will put those on notice. Do we have anyone from the Tourism Forecasting Council here?

Mr Crick—We do not have anybody from the council itself, but we in the department support the council.

Senator SCHACHT—I will have to put questions in that area on notice as well.

Senator CONROY—I was wondering if I could get a breakdown by agency—you will probably have to take this on notice—of the number of trips taken in the last 12 months by senior ATC staff? What would be your understanding when I say ‘senior’? Who do you think that would mean? I do not want you to go and look up 200 people, that is all. I am just trying to narrow it down.

Mr Calderwood—I think we would be talking about the senior executive team based in Australia. We would take that on notice.

Senator CONROY—Yes, no problems.

Mr Calderwood—I guess we are talking about overseas trips?

Senator CONROY—Yes—overseas trips. Could I have an explanation of where they were up to, the purpose and outcomes and whether reports were provided upon return. Are all these trips required to be approved by the minister? What is the mechanism?

Mr Calderwood—There is a mechanism. The trips for the managing director are approved by the minister. The trips for other senior executives are approved by the managing director.

Senator CONROY—Were all the trips of the managing director approved by the minister? I presume, therefore, that the managing director approved all of the trips of the senior executives. Could I have that confirmed?

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

Senator CONROY—Could I have a breakdown of the expenses for travel, accommodation and entertainment? I will now move on to the Olympic Games period.

Mr Calderwood—Can I clarify that question of expenditure breakdown? Are we talking about the MD here?

Senator CONROY—Yes. I am happy to leave it at that for the moment. Could you take me through a very brief explanation of the targeted visitors program during the period of the Olympic Games, just before and after?

Mr Calderwood—Approximately 50 of the key partners from around the world were invited by the ATC to come to Sydney during the Olympics. These key partners were groups from both the media and the tourism industry who we saw an opportunity to develop further business ties with. They were hosted here for an average of three or four days in that period.

Senator CONROY—Could I have a list of those individuals and the costs involved?

Mr Calderwood—Yes.

Senator CONROY—I understand the PM's department issued a set of guidelines about use of the Commonwealth facilities during the Olympics. Are you familiar with them?

Mr Calderwood—Yes, we are familiar with them.

Senator CONROY—Did the ATC comply with those guidelines at all times?

Mr Calderwood—As far as I am aware, but we can take that on notice and get back to you to confirm it.

Senator CONROY—Could I have a breakdown of the travel, accommodation and entertainment of Mr Greig McAllan and Mr Andrew Woodward?

Mr Calderwood—In what period?

Senator CONROY—The last 12 months.

Mr Calderwood—Yes.

Senator CONROY—Are you aware of any anomalies in relation to those two gentlemen?

Mr Calderwood—I am not aware of any anomalies, but we can provide the information.

Senator CONROY—Particularly in the entertainment area.

Mr Calderwood—Right.

CHAIRMAN—That completes the committee's estimates hearings. Thank you to the officers of the department for appearing this morning. Thank you, Minister, Secretary, officers of the committee and Hansard.

Senator Minchin—Thank you, Mr Chairman, for the efficiency with which you have conducted the proceedings this morning.

Committee adjourned at 9.49 a.m.