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**HOUSE OF
REPRESENTATIVES**

STANDING COMMITTEE ON INDUSTRY, SCIENCE
AND RESOURCES

Reference: Increasing value-adding to Australian raw materials

MONDAY, 18 OCTOBER 1999

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HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON INDUSTRY, SCIENCE AND RESOURCES

Monday, 18 October 1999

Members: Mr Lloyd (*Chair*), Mr Brough, Mr Hatton, Mr Lawler, Mr Allan Morris, Mr Nairn, Mr Prosser, Ms Roxon, Dr Washer and Mr Zahra

Members in attendance: Mr Hatton, Mr Lawler, Mr Lloyd, Mr Allan Morris, Mr Nairn, Ms Roxon and Mr Zahra

Terms of reference for the inquiry:

To inquire into and report on the prospects of increasing value-adding to Australian raw materials. The Committee will start with an evaluation of the current state of value adding in Australia, and how that compares internationally. This will provide a base from which to evaluate the following topics:

- incentives and impediments to investment;
- intellectual property rights;
- national/international marketing factors which may encourage or hinder Australian value-adding;
- government intervention, both nationally and internationally;
- the location of value-adding industries and projects in regional Australia;
- resource licensing/permit arrangements;
- the impact of vertical integration within particular industries; and
- the Australian skills base and any associated impediments.

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Committee met at 9.03 a.m.

DWYER, Mr Damian Michael, Senior Policy Adviser, Economics, Minerals Council of Australia

WELLS, Mr Richard Charles, Executive Director, Minerals Council of Australia

CHAIR—I declare open this third public hearing of the inquiry into increasing value-adding to Australian raw materials and welcome our witnesses, Mr Dick Wells and Mr Damian Dwyer, both from the Minerals Council of Australia. Thank you for giving up your time to appear before the committee. I must remind you that the proceedings here today are legal proceedings of the parliament and warrant the same respect as proceedings in the House and that the deliberate misleading of the committee may be regarded as a contempt of the parliament. The committee prefers that all evidence be given in public but should you at any stage wish to give evidence in private, you may ask to do so and the committee will give consideration to your request.

Mr Wells, would you like to make an opening statement?

Mr Wells—Thank you very much. I would like to make a few brief comments and then I am very happy to take questions, which is probably more profitable. We really do as a council appreciate the opportunity to appear before your standing committee and outline our views on what we think is quite an important issue.

The idea of adding more value to our mineral products by further processing has been often advanced. Value adding is seen as a way of increasing employment through jobs in processing; as a way of improving our net export performance through exporting higher value products; as a way of reducing Australia's exposure to price fluctuations in raw materials, as we have seen in recent periods; and as a way of improving regional and national income.

While such objectives appear attractive, there are some traps, and our submission seeks to explain some of these. To avoid these traps, the concept of value adding and how more value adding should be brought about needs to be clearly understood. It is important at the outset to recognise that mining, as such, is already a very high value-adding industry. For example, the value added to output ratio for mining is about double that for manufacturing. However, it is also important to recognise that for minerals, much of the value of the product accrues as a return to the owner of the natural resource, that is, the community.

Further processing of resources, because it requires the use of more material and service inputs, reduces the proportion of value added from each dollar's worth of production. This underlines the fact that value adding is a subtle concept. Decisions to encourage and undertake further value-adding must be taken in a manner that ensures that they do not subtract from the total economy by diverting resources from where they could be most efficiently and effectively used. Raising the value of a product through further processing is not synonymous with increasing value added. It is the net value, not the gross value of output that reflects total value added.

Sound macroeconomic management and a vigorous and continuous program of microeconomic reform is the key to encouraging further processing of minerals in Australia. For example, transport, energy and industrial relations reforms increase opportunities for further processing in Australia by improving the economic viability of such activity, which is inherently risky given the high volatility of prices of refined materials.

Another important influence on decisions to undertake new downstream processing investment in Australia, and possibly in the continued commitment to current levels of activity, is the impact of regulation, including environmental regulation. Such regulation should not impose unnecessary costs, time and administrative burdens. The mining and minerals processing industry therefore welcomes the initiatives designed to improve the efficiency of environmental and other regulations. For example, in its draft report, *Impact of competition policy reforms on rural and regional Australia*, the Productivity Commission notes that the phased and still incomplete deregulation of the gas market in Western Australia has seen gas prices for large industrial users, particularly in the Goldfields region, fall by more than 50 per cent.

This has been a catalyst for several major investments, notably the construction of the Pilbara-Goldfields gas pipeline. The pipeline passes through some of Australia's most significant mineral production areas. Mines and processing plants in these areas previously generated power on the site using diesel generators. Access to cheaper energy has cut production costs and is credited by business as providing a stimulus for new investment. Importantly, such cheaper energy may also help Western Australia develop major downstream processing industries—industries that were previously deterred by the relatively high energy costs.

The bottom line is that there are many determinants of profitability. These include infrastructure suitability and cost, taxation policy, labour costs, location issues through freight costs, fuel and energy costs, communications costs, and costs associated with meeting government regulations and tariffs on inputs and outputs. Countries compete for a share of global investment largely on the basis of how potential investors consider these domestic policies, and how the social environment contributes to prospective profitability. Government policy reforms, by removing regulations that restrict competition in the supply of key inputs and by implementing a more efficient taxation system, can do much to reduce these costs. If a reform program succeeds in removing market impediments, then further value added processing will be encouraged, to the benefit of a country's economic welfare.

I will close my comments there and I am happy to take questions.

CHAIR—Thank you very much for that very comprehensive opening statement. I did have a chance to read your submission on the plane last night. It does raise some interesting questions particularly into value adding per se and it is not always as straightforward as people would think. I will kick off with a couple of questions and then turn over to the other members.

Since your submission was written, the government's response to the Ralph review has come down. Do you have any comments on the government's response and whether it is going to assist with value adding?

Mr Wells—It is a project by project evaluation of different investment decisions. The lowering of the company tax rate will obviously make it more attractive for some companies to invest here. On the other hand, in regional Australia where up to 50 per cent of a project development cost is in infrastructure, it may work against that in terms of the removal of accelerated depreciation. So it will be a project by project assessment. But, overall, we think it is a pragmatic outcome. We think that the balance that has been struck will still encourage investment here in Australia. I think it depends on individual projects. That is the short answer.

CHAIR—What about the likelihood of quite a strong influx of venture capital? Do you think that that in any way would assist? Obviously, I think, it will assist with R&D but, in relation to value adding, do you think that it is a positive?

Mr Wells—Possibly. It is one of the factors. There are a whole range of factors—as I have listed—which impact. It is hard to dissociate one factor from the remainder. Certainly, I think in terms of the international attention it has got, there will be other companies with venture capital that will look to Australia to see whether there are opportunities here. But whether the package fits at the end of the day will be a project specific assessment.

CHAIR—You mentioned something in your submission about reforms to industrial relations. Do you see that the reforms that are already in place have been significant or do you think we need to go further with industrial relations reform? Have we got the balance right?

Mr Wells—Again, there have been huge productivity gains in certain industries by certain companies and not by others in the same industries. Some go back to company management in these circumstances. We have seen labour market flexibility mechanisms come into place. You can see in certain areas of the coal industry we have had as much as a 70 per cent increase in productivity. These are delivering huge gains. There are greater flexibilities that we would like to see come through in those reforms, but different managements succeed at different rates. So I think we cannot all rest on legislation. We have got to get out and do the business.

CHAIR—Fair enough. They are the only two questions that I wanted to put forward.

Mr NAIRN—You mentioned regulation. Regulation has been one of the impediments. Do you find stark differences in different parts of Australia as far as regulation is concerned? Is it a problem for some of your members in that in some projects they are working under different structures within one state compared with another state?

Mr Wells—It does cause some confusion. We look for national consistency, not uniformity. We respect the role of the states and the state legislation which governs a lot of our projects—state mining legislation and so on. To give you an example, we have been driving hard to get some consistency in the principles that are applied to the management of safety in the industry across Australia. We have had varying systems and philosophies governing this which has caused some confusion. Through the ANZMEC ministers, we are working very hard to try to get national consistency. That is one small area.

There are lots of different aspects to that. You can look at the reform of environmental legislation as well. Whilst we are disappointed to some extent with the outcome, the objectives of that are very clearly aimed at getting some standardisation and removing the uncertainties that occur across Australia both between states and between state and Commonwealth jurisdictions.

Mr NAIRN—Would your members would have been supportive of what we were trying to do to get some of that uniformity?

Mr Wells—That is always the trouble with Federation. We seldom ask for uniformity. We certainly ask for consistency and we do see a difference. We basically think that you must establish a principal framework which is consistent. As to how that is actually implemented in the states, there is some latitude, I think, that must be given.

Mr NAIRN—A number of your members would be controlled from overseas. Would you be able to give us any specific examples of member companies who have quite clearly chosen to do some of their processing elsewhere because of an advantage in another country compared to Australia? The minerals obviously come from Australia but they only take the processing to a certain level and then transfer further processing to another country in which those companies might be operating.

Mr Wells—Unfortunately, I am not able to provide you with that. It is commercial-in-confidence information I am afraid. You are well aware of the ones that are discussed in public at the moment in terms of Comalco's Gladstone investment and the trade-offs they are weighing up there. A lot of these things are things that you just never see. Uncertainty is one of the biggest difficulties we have. There are a number of projects and there is a commodity price on a whole range of uncertainties. If you look at the current environment there are big prospects for further processing of iron ore in Western Australia. The key determinant of that is going to be energy pricing and the energy regime. With the uncertainty around greenhouse policies and what that means for future energy investments, that is a significant uncertainty because the key determinant of competitiveness in those projects is energy.

Mr NAIRN—Energy is one of the biggest costs, presumably?

Mr Wells—It is one of the key determinants of competitiveness. One of the reasons why we built an aluminium smelting industry in Australia was that the Japanese disinvested in their own country and took advantage of the consistently lower energy prices here in Australia. We have the bauxite. We are matching that together with the energy. We produced a very world competitive aluminium industry.

That industry again is extremely susceptible to a change in energy pricing structures. I am not saying not to do anything about greenhouse, but what I am saying is be aware that it can have flow-on impacts to some of those energy intensive minerals processing industries. Energy is one of the clear advantages that Australia has.

Mr NAIRN—So we would have to look at individual companies and see where a company might be doing certain things. We may not have the detail as to why but we could

make certain presumptions about the reason for the process being in another country when the raw resource is here.

Mr Wells—That is right. Individual evaluation at board level on those sorts of things is quite often not privy to me.

Mr NAIRN—I understand that. I just thought you may have, as an overall organisation, some general views in that respect.

Mr Wells—The other thing that is difficult to dissociate there is the general process of globalisation which is occurring across all industry. The minerals industry has certainly been at the forefront of that. You have had the opening of a lot of different frontiers in the world. South America has opened up. It has become a much more stable place than it was. The taxation regimes and so on are quite attractive. So you have actually seen companies spreading their risk around the world. Australia is still an attractive place to invest and still attracts a significant proportion of minerals investment but necessarily some projects will locate elsewhere.

Mr NAIRN—The other part associated with that is the question of tariffs which you raise as well. Do you think Australia is leading the way a bit too fast with tariff reduction?

Mr Wells—Not from our point of view as a major exporter of \$30-odd billion of exports and as importers of equipment and those sorts of things. We had for many years been wearing the costs, as agriculture had, of the tariff regime here in Australia. We have been exponents of the view that tariffs should be brought down and supported those sorts of programs. That is domestic tariffs. Internationally we still suffer, particularly in Asia, from escalating tariffs on further processed materials. That is something which is on the agenda to remove through APEC and so on. That would improve things but we have to live in the real world and we are not just focused on Asia. The Asian market is growing. It should grow, but you still have to look at the size of the European and North American markets.

CHAIR—Damian, feel free at any time to come in with some comments, because often one person ends up doing all the talking.

Mr Wells—He should correct my errors!

Ms ROXON—I do not want to put words into your mouth, but it seems from your submission that you are concerned with policy issues that have an impact across all industries. You are concerned with taxation, tariff regimes and, potentially, industrial relations and other matters. You seem to be saying very strongly that we already value add and, other than the jobs it might provide, we will not get a great deal of extra profit out of all further processing. In fact, you even say that there are other industries that might gain benefits from further down-line processing or value adding. Is it really the Minerals Council's view is that, on this particular issue, we should be directing our attention to other industries where there is not as much value adding or where there is more potential for—

Mr Wells—If we have conveyed that, I do not think that was the intention. We believe in getting the policy framework right and to let investment flow. One of the dangers we see

in this debate is that there has been a bit of a cargo cult about at times saying, for example, 'Let's have another petrochemicals plant. Because we have LPGs and so on in Australia, it must be economic to do this.' A petrochemicals plant has been planned for Kwinana a couple of times, but it has never actually been built. The point is that people get carried away with thinking that, because the gross price at the end of the day is higher, that must be a good thing, and minerals processing itself is not necessarily a good thing in terms of national economic wellbeing. What we are saying is that you need a spread of both. Obviously, if it is economic for companies to process here in Australia and make a greater dollar, they will do so. So get the economy competitive, and it will come. What we have tended to see at times is a desire to see minerals processing, or downstream processing, as an end in itself. If the costs of your inputs into those secondary and tertiary stages of processing are too high, at the end of the day you are less competitive.

There is another thing you need to bear in mind. If you look at the fluctuations in iron ore and steel prices in the world market for finished steel products, if you were producing only steel and steel products you would be extremely vulnerable to world markets. You must have a balance. We must have some downstream processing, but if the whole of Australia's iron ore production was being produced in steel, we would be extremely vulnerable and it would not be a good risk management strategy for any of the companies.

We need to bear in mind that there is market fluctuation in terms of commodity prices, for sure, but there is also huge variability at the downstream end. You will find quite often that because a finished product has to be sold—it is on the market; it must go; it is like oil—if you get a supply and demand imbalance occurring, you can get a very savage change in commodity prices.

Ms ROXON—But those things are going to continue to affect your industry whatever recommendations this committee comes up with.

Mr Wells—Sure.

Ms ROXON—With the companies you represent, you may not say this so directly, but it seems to me that the major factors that affect the decisions for how far you will process—whether that is value adding or not—are driven by international markets. They are not driven as much by any policy directions that are provided at a national level. You may or may not have a view on this, but other industries we are looking at in a broad way in this introductory stage may actually be far more affected by strategic decisions that are made at a national level than the mining industry is going to be.

Mr Wells—This is the critical issue. I think the decisions to invest in Australia are very significantly governed. I thought I would go through the list of buyer decisions that are taken here in Australia. World commodity prices and prices for finished products are one-off and probably a dozen different factors go into that sort of decision. So you are quite right that a lot of those factors are the same. Whether it is wool, pulp and paper, cement or whatever, they are the same sorts of issues. The thing that perhaps distinguishes the minerals downstream processing from some of the others is the reliance on energy. Most minerals processing activities require significant amounts of energy, so I would identify that as one aspect of the domestic policy impact.

Ms ROXON—The other major distinction, presumably, is the extraordinary cost of the raw material in your industry compared with the dairy industry or the meat industry. I suppose there are some examples such as livestock trade and those sorts of things where selling without processing is actually beneficial. But that seems to also be a contrasting area and perhaps gives a little more scope for national decisions to have a direct impact.

Mr Wells—There is another distinguishing feature for our industry, and I mentioned it earlier. If you take a project like Murrin Murrin in Western Australia and the new laterite nickel project, about 50 per cent of their cost is actually in the infrastructure. It is in providing power, water, roads and rail. That is a significantly distinguishing feature. It was one of the issues we raised in the business tax reform agenda in the sense that you must recognise that if you are building a manufacturing plant in a metropolitan area, you can just connect to the mains and do those sorts of things; you do not wear that risk. If you are on a billion dollar project and you are spending \$500 million on infrastructure, it is a very significant additional risk. This is why we argue that case. We think there are issues to do with the loss of accelerated depreciation having an effect on infrastructure, but at the end of the day that is the package and we have to accept the balance in that package.

Mr ZAHRA—When you mentioned before that about 50 per cent of costs of development in regional or rural Australia are in infrastructure—and I heard your answer just before—what do you specifically mean? Are you talking about roads, rail and bridges—all those bits and pieces—and how much of that is provided by state governments by way of inducements to try to stimulate or encourage those investments?

Mr Wells—Again, it is variable and depends on the project, but in the remotest parts of Australia there is very little inducement. Certainly, there has been a tendency—and it is probably one of the few justifications for use of public funds—to remove impediments to provide infrastructure that would otherwise be provided by the public purse. You do tend to see that sort of thing: a state government will help with a port redevelopment or a railway line extension—those sorts of things—which is then available to other users. But in the remotest areas of Australia where there are no other users, you tend to wear the full cost.

Mr ZAHRA—That is right. There is a reluctance to do that work.

Mr Wells—It is a question of whether it is a good use of public funds, to tell you the truth. If there are other users, you can question that.

Mr ZAHRA—A group from within the department called Invest Australia has appeared before this committee. Could you tell me how often your members, be they international or domestic, would actually use the services of Invest Australia in trying to secure those developments for Australia as opposed to their going to another part of the world?

Mr Wells—I am sorry, I could not answer that question. You would probably have to ask Invest Australia in terms of their inquiries. Certainly from anecdotal discussions we have with people, very little use has been made of their service.

Mr ZAHRA—That seems to be a problem.

Mr Wells—Our industry does not tend to look to those sorts of special programs, except where there are major limitations. Obviously the major project facilitation projects—the Papua New Guinea pipeline, the Chevron pipeline, the Comalco development and a whole range of those sorts of things—are of a scale where significant competitive factors are related to infrastructure limitations. Governments look at those as special cases. The smaller end of the industry may use them, but my expectation is that most people find the administrative load involved in doing those sorts of things such that they prefer to get on with their business and take the other risks.

Mr ZAHRA—I was not sure whether you were referring to the group headed by Bob Mansfield when you were talking about major project facilitation.

Mr Wells—Two separate things. Yes, that was the one I was referring to.

Mr ZAHRA—And how useful have you found that process?

Mr Wells—Frankly, we do not see project facilitation such as that as a panacea for policy. Major projects in Australia have always had facilitation from governments.

Mr ZAHRA—Historically, the problem has always been the coordination, hasn't it?

Mr Wells—Part of what the Mansfield process was able to do was to bring a concerted effort across relevant Commonwealth departments where there were impediments and to streamline that process. What troubles us about that is it is basically dealing with a small subset rather than fixing the systemic problems. Whilst it is of advantage, you still have the systemic problems remaining.

Ms ROXON—Doesn't that tie in with your concerns about the changes to accelerated depreciation? The Ralph review saying, 'We will treat accelerated depreciation in this way, but we will still look at major projects on a one-off basis' does not give your members the stability to plan. You do not know whether you will or will not get the nod for a major project. That is what I am trying to say.

Mr Wells—That is right. And if the criteria for that program are the same—and I do not think they will be—as for the current Mansfield process, it is too exclusive. There are a lot of \$50 million and \$20 million projects in Australia that have similar characteristics to those that are going to be damaged from the loss of accelerated depreciation, such as their very long-life assets. Virtually any infrastructure project is going to have a long-life asset, low rates of return, and they are the ones that really suffer from the loss of accelerated depreciation. They would not get through the net in the existing Mansfield process. How the criteria are redrafted to take account of some of these is another matter. There are fundamental questions there, like: what is it to do—is it to alleviate some of the impact of the loss of accelerated depreciation on those types of assets? Is it to deal with regional development aspects? There is a whole range of policy questions before you can devise the criteria, and we do not know what they are.

Mr Dwyer—The basic point is a good one, though: if you help a specific project over a range of impediments and do not do anything about those impediments, then that is

obviously of benefit to that project in particular, but the impediments may remain at the end of the process and then other projects come up against them again.

Ms ROXON—So it would presumably be very helpful to your members if you could deal with the impediments if you can but, if not, you at least knew what the criteria were going to be for an assessment of major projects, and then you presumably could be coming to us and saying whether you thought that met the needs of your members who were interested in investing here or it did not.

Mr Wells—Yes, our first best option is to have a competitive framework—you are absolutely right, everything you say—so everybody can compete on an equal footing. As I say, large projects and large developers have always garnered government's attention and have a capacity to negotiate about whether you get an investment. It is the myriad of smaller and medium sized ones which are still worthwhile investments in Australia that we need to worry about in that net.

Mr Dwyer—And it is certainly the case that industries place value on policy certainty. I think this is an example.

Mr ALLAN MORRIS—Richard, if we look at the record for a moment on the iron ore one, I will just remind you of the figures. We currently export 130 million tonnes a year, worth about \$3 billion, and if it was all going out as steel it would be worth about \$36 billion, so there is a \$33 billion differential between what we currently do and the obviously extreme end of the total potential.

Your tax thing is quite interesting because in a way what you do is pick up these very generic issues. I want to raise an example. You say in your submission that mineral processing is located and things go where it is the most profitable—the commercial attractiveness. How do you explain, then, that so much of the resources are actually owned by the end user and that in fact they never tender for any intermediate process or explore any intermediate processing in Australia, whether it be Mitsubishi with their ships or whether it be a lot of the coal companies? How do you explain the relationship between the owners or the controllers of the resources and the end users of the resources?

Mr Wells—I am not sure I can explain it to you except that we have high demand for foreign capital to develop Australian and obviously in that process some take equity, some just do it on a loan basis, but there has been a tendency in recent years for foreign companies to take equity positions in these sorts of things. It is a market factor. I cannot explain it, I am sorry.

Mr ALLAN MORRIS—So we should therefore add to your submission, on page 7, 'except in such cases where the end user is actually the owner'?

Mr Wells—I am not suggesting I accept any amendment to my submission at the moment.

Mr ALLAN MORRIS—If I can just clarify here, it is very important that we understand this because your statement has quite strong currency in the community because you repeat it

often, that companies do things where they are the most profitable and the most competitive and therefore if they do not process here it is because we are not competitive and there are all these impediments. Yet, if substantial amounts of our resources are actually being controlled by the end user, because they own them, then that really does not come into play at all. So your explanation or rationale of what we should do—

Mr Wells—I am not sure I understand your line of questioning. When you say ‘controlled’, we basically have lots of shareholders in our companies and you have to look at the different shareholding structures of these different companies if you want to get into that sort of analysis. To the extent that there is access to foreign markets as well, it is sometimes garnered. Take Japan, for example. There is a perception of security of supply that comes from Japanese companies participating in our market. The quid pro quo is a sense of security in terms of access to markets in difficult times by having Japanese partners. It is a classic structure that you see all around the world. If we want to go into South America we would take a South American partner.

Mr ALLAN MORRIS—The point I am trying to make is that if you take, say, Swiss Al. or Century Zinc, neither of whom have ever looked at processing in Australia because they do not want to as they have processing plants elsewhere and are simply looking for a raw material, you cannot say that because they export the raw material therefore it is not competitive to add value in Australia.

Mr Wells—Again you have to look at specific—

Mr ALLAN MORRIS—Because it is not relevant to them.

Mr Wells—I am not saying that.

Mr ALLAN MORRIS—With those two examples.

Mr Wells—I am not going to deal with specific examples—you would have to talk to the companies. What I am saying is there are all sorts of market structures in the relationships in the market. In some instances, pre-existing relationships will obviously lead to materials going to processing plants offshore. But if we are talking about new investment in Australia, it is quite clearly the competitiveness of the framework that matters. If we have the raw material and we have the competitive factors of labour and energy and those sorts of things, then you are into a fair comparison. If you are looking at retrofitting a regime to an existing structure where there are relationships overseas, I think it is a difficult analysis.

Mr ALLAN MORRIS—No, it is not retrofitting. Probably the key paragraphs in your whole submission are those three or four paragraphs which explain why we do not have much value adding here because we are not competitive and because of all these problems—labour costs, government regulations, tariffs, inputs and outputs—and all these explanations as to why we are not competitive. I would really be grateful if industry could perhaps help us a bit more with this in terms of sourcing where the relationship between the end user and the owner of the resource is in fact related, because in many of these cases these matters do not matter a damn, they are never looked at. We may well have a comparative advantage in all these issues, but the owner is not interested in processing here because their whole

corporate strategy is based on getting raw material at whatever price they pay for it. All the things that you are putting forward here as to why we are not doing more value adding are in fact irrelevant because the owner does not want to add value here.

Mr Wells—I do not agree. The situation, obviously, is that people are looking to maximise shareholder value. If it was better to invest here in Australia than elsewhere in terms of returning shareholder value, the directors would be delinquent not to do so. When you are talking about pre-existing plant, which I think is what you are talking about in terms of some of these refineries overseas, obviously there are impediments to supplanting that investment in another country and bringing it here. But if you are talking about a brand new refinery in the world, then that is the issue: do we have a competitive framework? We are saying we are competitive on some parts. We are saying we have certainly increased our competitiveness dramatically.

Mr ALLAN MORRIS—Give me an example, then, of a current resource, whether it be gas or iron ore or steel or magnesium—that is an interesting one—or zinc, where there is currently a genuine attempt by a company to examine the processing in Australia of a raw material. Take Century Zinc—that is the best one of all. Century Zinc have never ever looked at processing in Australia. They are not interested in processing in Australia. There is not an opportunity for us to process here; we are not even compared in cost. Give me an example where a genuine assessment has been made.

Mr Wells—I will give you a general one. It is not appropriate for me to deal with specific company projects because they make their own assessments. If you really want to seek answers to those I think you should direct some of the questions directly to them. In terms of evaluation of further processing—and it depends how many stages you want to go to—take, for example, further processing of iron ore to the HBI plant for BHP. BHP has gone that route and incurred considerable market risk. Rio Tinto has gone an alternative route and it has fully evaluated—

Mr ALLAN MORRIS—It has stopped.

Mr Wells—Let me finish. It has fully evaluated the HIs melt process, but the key determinant of where that project finishes up in the world is energy. And I can tell that there is a significant uncertainty about whether you put in a \$2 billion investment in Australia in the current context. Sure, there are market factors, but at some stage they will build that plant.

Mr ALLAN MORRIS—I am sorry, Richard, on HIs melt the energy source is actually coal, and we are about the world's cheapest, so it cannot be the cost of energy.

Mr Wells—I am afraid the HIs melt plant in Western Australia would be reliant on gas.

Mr ALLAN MORRIS—No, it is coal.

Mr Dwyer—But, taking coal as an example, there is policy uncertainty about the future treatment of fossil fuels in the greenhouse debate which would impact on decision making in that area.

Mr ALLAN MORRIS—I guess I should say it out aloud, and do not take it to heart, but some could argue that this submission of yours is an explanation or an apology for foreign owners of our resources as to why they are not processing in Australia.

Mr Wells—We have got nothing to apologise for, nothing whatsoever.

Mr ALLAN MORRIS—I did not say you have.

Mr Wells—The premise of your questioning is that we do not do much processing and value adding here. We do a huge amount of value adding in Australia. The issue you are really on about is whether or not downstream processing is value adding. Historically it has not been competitive. It is now more competitive, but we have been asked to provide a submission about what are the factors that are key determinants in that competitiveness, and that is what we have done. If we continue down this path, we will certainly attract more of that sort of investment.

Mr ALLAN MORRIS—But isn't the relationship between the consumer and the owner of the resource a key ingredient in the decision making? That is what I am trying to get towards, and that is not mentioned at all in your submission.

Mr Wells—I do not agree. I do not think it is a key determinant. If the management of companies were basing decisions purely on that, they would not be doing the right thing by shareholders. As I say, they should be making decisions that return the greatest shareholder value. If that location is here or elsewhere, that is the correct basis.

Mr ALLAN MORRIS—Are there figures available that demonstrate the relationship between the end user and the owner of the resources?

Mr Wells—I do not know what figures you seek to actually demonstrate that. I certainly do not know of any figures.

Mr ALLAN MORRIS—We are trying to better understand. For example, if North West Shelf do not go to tender for a ship to supply their gas but rather get Mitsubishi to build it and they do not call tenders anywhere in the world, not just Australia, but simply commission Mitsubishi to build it, and Mitsubishi happen to be the people who buy the gas, then all those questions about comparative costs and all the rest of it, whether it be us or Korea or Singapore, are academic. That clearly happens without any competitive things at all. How many other examples are there where there are no normal market processes in play? How many of these alliances—for example, in servicing Shell's alliance where they use one company around the world to service their oil rigs and their drilling equipment and it never goes to tender, never gets tested, never gets marketed—are there where we do not know whether your whole rationale is in fact irrelevant? Your rationale on page 70 is the key. How many times is that just completely not relevant to the decision making?

Mr Wells—You are making an assertion there which I do not think we have the information to support one way or the other. I know of your longstanding interest in the North West Shelf project. I think with the details you raise you had better direct your questions to the North West Shelf joint venturers. There will obviously be examples where

there are established relationships which lead to some of those sorts of things, but by and large, as we have opened up the processes here in Australia and there is more transparency than there has ever been about these sorts of processes, you could equally argue that Australian companies going to South America and the like—and it happens—take Australian supplies with them.

We export something in the order of \$1.2 billion worth of technology and so on in the mining industry, about 70 per cent of the world's software for mining. That has all come through globalisation of our companies going offshore. So there is a quid pro quo in this. We have got to understand just as when you do business, if you have a track record of someone who supplies something to you and they have delivered on time and to your satisfaction in the past, to some extent you will return to them. But, if you look at the processes of the industrial supplies office and various other things here in Australia, there has been a lot of effort put into breaking down big tender packages to try to open that up and that has all been to the good of Australia.

Mr HATTON—We have a lot of bauxite. We turn that into a lot of alumina, but we do not do very well when it comes to turning the alumina into aluminium. Historically, why is that so?

Mr Wells—I cannot answer that exactly. I thought we did produce quite a lot of aluminium, to tell you the truth. We have five major plants here in Australia.

Mr HATTON—Compared to other countries in the world.

Mr Wells—A key determinant of aluminium is energy costs. Growth in the aluminium industry here in Australia really came on the back of greater supply security in some of the electricity agreements—which our colleague behind can talk about—which made it competitive here in Australia.

Clearly, the Japanese, who were one of the key investors, saw an advantage in moving here. I would have to say that future investment—as the Aluminium Council has made clear—will be questionable if we do not sort out our energy pricing policies in Australia—keenly, the greenhouse issues. If we start imposing impediments in Australia or increments in the cost of energy when no other competitor countries are doing it, you clearly have to see that boards would weigh that up.

Mr HATTON—The reason I made that statement is that the Department of Industry, Science and Resources has said that relative to most other countries that turn their bauxite into alumina—except for Jamaica and Surinam; we come in front of them—they have a better performance record than we have. So it is primarily energy. There was a very high cost for the old forms of energy production we had. There were possibilities of aluminium plants that did not go ahead with those smelters as a result of that. What is your situation with gas and what is your assessment of the natural gas cost? How does that change the equation?

Mr Wells—To take Western Australia as an example, we saw energy costs for certain mineral and mining industries fall as much as 50 per cent. It is partly competition as such—

electricity on gas and the like—but it is also the displacement of very high cost diesel in some of those areas. In Western Australia, gas has certainly brought competition and opened up those markets. I do not think we will see such a reduction in eastern Australia because they have a more competitive electricity grid already with a number of suppliers, but there is no doubt that gas will play an increasing role in the energy supply in Australia. For a long time to come, our coal based electricity generation will provide a very competitive base load security for Australia. If you look at resource life, with black coal we have over 200 years, with brown coal we have 1500 years. We clearly have a competitive advantage in using that. We need to deal with the emissions and so on that come from it and put research into that, but clearly that is where Australia has a significant future.

Mr HATTON—What about copper, lead, titanium and zinc? Why do we have such a poor record there?

Mr Wells—I cannot explain that for you. It is partly historical. When it was developed, we obviously did not have the technology and the capability here. As the member was saying, relationships developed in terms of exporting that. With new plant coming on, I think that is changing. We have certainly seen greater processing in nickel and those sorts of things here in Australia. It is a case by case analysis.

Mr HATTON—When all of the world's great extractive companies from North America and Europe historically extracted their raw materials and then processed them in Europe and North America, why would they now, in the current circumstances, be looking at establishing plants to add higher value in the countries that they have been historically extracting from for so long when they could get that higher value back in their home bases? And whatever the competitive regimes are supposed to be, are they establishing lots of plants in the places where they actually extract or are they continuing to do most of the value adding back in Europe and in North America?

Mr Wells—I have not done a full analysis of that, so I can only give you my assessment off the top of my head. I think both things are happening. If you look at the evolution of these sorts of things, take Japan as an example, there was a movement out because it became less competitive in Japan to do those sorts of processing. It is not just Australia; they have moved to Thailand and various other places. They process wool in Zanzibar and in various places like that. In North America and Europe, there are obviously a whole range of concerns to do with the environment and issues which make the regulatory costs of establishing these sorts of things more difficult because of the population densities they are dealing with in those countries. There is a whole range of issues. There has been a tendency to do a full evaluation of whether it is economic to develop the processing plant nearer the bulk material, but again, it is a range of probably a dozen or 20 different factors. Australia has a lot of those factors which make us competitive. We just do not want to fall down on some of the others that perhaps historically have kept us out of the market.

Mr HATTON—So because of the increase in regulation, the dirtiness of a lot of the processing, is it more probable that in the under-developed countries where they have not got the regulation that there is elsewhere, more processing will actually take place there because of the cheapness of it and the lack of control?

Mr Wells—No, I do not agree with two things there—the dirtiness and the lack of control. Modern processing plants do not do the sorts of things—

Mr HATTON—Relative to the greenhouse effect?

Mr Wells—Basically, relative to the greenhouse effect, there is the prospect that if Australia leads the world, we will lose some competitiveness relative to some other country, particularly non-annex 1 countries who have no qualms about these sorts of things. If you take, for example, our code of environmental management, it binds our companies that are signatories to that to operate plant consistent with that wherever they are around the world. So we would be pretty disappointed if they went to another country and, if you like, built, in your terms, a plant which did not meet modern standards.

CHAIR—Thank you, gentlemen.

[9.52 a.m.]

ORCHISON, Mr Keith William, Managing Director, Electricity Supply Association of Australia Ltd

CHAIR—Welcome, Mr Orchison. I remind you that the proceedings here today are legal proceedings of parliament and warrant the same respect as proceedings in the House. The deliberate misleading of the committee may be regarded as a contempt of parliament. The committee prefers that all evidence be given in public, but should you at any stage wish to give evidence in private, you may ask to do so and the committee will give consideration to your request. Would you like to make an opening statement?

Mr Orchison—Thank you, Mr Chairman. I am conscious of the committee's time but it might be helpful to touch on four or five brief points. The first one is to make the point that electricity supply contributes 1.6 per cent to GDP—that is a 1997-98 figure. To put it in context, the mining industry, from which you have just heard, contributes about 4.1 per cent, and textiles, clothing and footwear contributes about a half of one per cent.

The contribution of electricity to the economy will need to be sustained through the next decade by substantial provision of new generation capacity. At present, generation capacity in Australia is of the order of 42,000 megawatts. My association expects that, by the year 2010, we will have a capacity of the order of 55,000 megawatts. Demand for electricity—which, of course, is driven by economic growth and population growth—is expected to be about 40 per cent higher in 2010 than it was in 1998.

I think it is worth making the point to the committee that electricity supply is pre-eminently driven by business demand in Australia. Residential demand for electricity amounts to just under 28 per cent. The rest is taken up by industry, which is 46 per cent, commerce, which is 23 per cent, and then small amounts for agriculture and transportation. So a strong part of the community benefit from electricity supply, apart from the access to some of the world's cheapest residential electricity, on average. Therefore electricity is relied on as a low input to business. You heard something about that from the Minerals Council.

I think it is important to make the point to the committee that real—that is, inflation adjusted—average electricity prices for business are now at their lowest level since 1988. Eighty-six per cent of our business customers are in New South Wales, Victoria and Queensland; indeed, 67 per cent of them are in New South Wales and Victoria. We have an average price for electricity for business now of just under 8.6c a kilowatt hour compared to just under 10.6c in 1988-89. In New South Wales and Victoria, the prices are well below that average figure and have fallen faster than elsewhere in Australia, which of course is a product of the introduction of a competitive market.

The only other point that I wish to make to the committee—and really it echoes, I suspect, some of the points made by my colleagues from the Minerals Council—is that the challenge for government in Australia in the next decade is to reconcile a range of competing policy objectives. The drive for four per cent per annum economic growth, the need for increasing downstream processing and manufacturing, the need to maintain low energy prices and the need to meet the Kyoto greenhouse commitment that Australia made—

to do all of that is going to require some very strong performance on the part of industry and government and is going to require integration of policies in a very careful way. I will leave it there, Chairman. I am happy to answer questions from the committee.

CHAIR—Thank you. It is great to know that the cost of electricity in Australia is coming down. How does it compare to world costs?

Mr Orchison—Australia is quite a low cost energy supplier. A study that was undertaken by an international association in the electricity industry based in Brussels and published in January 1999 that looked at 17 developed countries showed that Australia was the second cheapest behind South Africa and ahead of Canada. Our prices for business electricity are considerably cheaper than in, for example, Italy, Japan or Germany. Mind you, in answering that, I should also add that, because of deregulation in Europe, which has now begun, prices for electricity in countries like Germany are falling very rapidly indeed. We cannot afford to stand still. We are going to have to keep moving at a very smart clip in order to remain competitive.

CHAIR—Are there any figures available on reliability, because it is not only cost, it is also reliability and basically the quality of the end product—that it is consistent as well, that it does not have spikes in it and that sort of thing?

Mr Orchison—I think there is quite a large amount of data available on reliability. The basic point that can be made as far as Australia is concerned is that we compare well with similar developed operations around the world—for example, the west coast of the United States, which is very similar in its characteristics to the Australian seaboard. We have an improving record for quality of supply, which is not simply an assertion by ESAA; it is borne out by the work that has been undertaken by the Office of the Regulator General in Victoria and by IPART in New South Wales.

Of course, the factor that is very important in this is that, in order to maintain quality of supply in a community where demand for providing power for computers in all their manifestations requires a very considerable investment, there is a robust and ongoing debate with the regulators as to what return my members should receive for future investment in these areas.

CHAIR—To my mind there seems to be a great amount of publicity on the cost of electricity, but I do not see that there is an emphasis on reliability of supply. Possibly, incidents like the blackout in Sydney and Darling Harbour the other day may heighten interest in reliability of supply. I know a lot of companies in my own area look carefully at reliability, and in many cases it is more important to them than the final cost. In fact, a number of companies have located to my area from overseas because, although the cost was slightly higher, the reliability of supply was far greater than in many other countries.

Mr Orchison—Reliability of supply is one of the most important factors that we have to deal with, and there is a very major effort going on across the country in terms of this. There are always problems with electricity supply, not least because it is exposed to the elements. Undergrounding electricity, as a report to the parliament indicated about a year ago, would

cost about \$23 billion in the urban areas of Australia, and there is not anyone volunteering to spend that amount of money.

CHAIR—Do you see the danger of losing public benefit R&D with the deregulation of the industry? It is a little bit outside the scope of this inquiry, but it still relates very much to reliability.

Mr Orchison—I have given evidence to other parliamentary inquiries with regard to this in the last two years. There has been a significant reduction in collective research by the industry since competition policy was introduced. Part of that is the result of much more focus on short-term needs by companies. Part of it, as we have international companies investing in Australia, is because very often the research has been done already for them somewhere else in the world. There are very major electricity research efforts in Europe and North America.

Also, part of it is because in the competitive environment that we have now, the profit margins are extremely low. I have tried very often over the years in my present position, and in others, to bring home to people that companies do not invest in research and development in any sector of the economy from gross revenue, they do it from profitability.

Mr ZAHRA—I represent the good people of the electorate of McMillan.

Mr Orchison—Indeed, I know, Mr Zahra.

Mr ZAHRA—We produce 90 per cent of Victoria's electricity there. The Latrobe Valley power generators have a problem, which I am sure you would be aware of, which relates to the move to the national electricity grid. As a result of the privatisation of our industry, we have made substantial advances in the Latrobe Valley in terms of productivity and efficiency. However, it seems that other parts of Australia are not being required to make those same sacrifices and those same reforms and are therefore able to compete unfairly against our power generators which, as you would be painfully aware, is causing them a fair amount of grief.

It is a bit like the good old level playing field: we are all in search of it but no-one seems to be able to find it. What that means for us in the Latrobe Valley is that we are suffering as a result. Do you recommend in your submission that this would be a component of it?

Mr Orchison—We are very conscious of the concerns of the Latrobe Valley generators. Of course, the New South Wales generators are members of my association as well. It would be fair to say that there is a very strong difference of opinion between the two sets of generators. This will no doubt work its way through in the marketplace to a certain extent.

The situation is going to be somewhat exacerbated when the present development in Queensland comes into being and the interconnector between Queensland and New South Wales is built. The competition is not going to be any less. The argument as to whether Victoria and New South Wales are operating on a level playing field is one where I have two lots of members who simply do not agree with each other. Industry associations on these

occasions are inclined to say that it is a matter then for government to sort out. How government can sort that out I think rests more with having a review of how the market is working.

One of the interesting things that is happening at the moment is that the Business Council of Australia has launched an investigation into the workings of the energy markets and has engaged Mr Rod Sims, a former adviser to Prime Minister Hawke, a former Deputy Secretary to the Department of the Prime Minister and Cabinet, to undertake that investigation for them. Even before something may emerge from government, we may see a view from the business community in regard to all of this some time in the year 2000.

Mr ZAHRA—In this type of situation where I can understand the awkward position you are placed in as an industry association where you do have two conflicting views from within your membership, there is right and there is wrong in this debate. Someone is right and someone is wrong. It is my contention that the people in Victoria do have a very strong case for what is quite clearly an uncompetitive framework which exists which they are paying the price for.

We have gone through all the pain in the Latrobe Valley in the name of being more competitive. It seems that we are unable to capitalise on that now because of some of these impediments to competition. In this inquiry which we might hold into it, what would you propose be the machinery which resolves some of these disagreements which exist within your membership to try to put in place a fair regulatory environment which no-one is unfairly affected by?

Mr Orchison—I can understand where Mr Zahra is coming from in this. Again, from an industry association point of view we operate on a consensus amongst our members as to how we should go forward. There is, in fact, a considerable amount of interest in the industry in terms of how to improve the competitive market. There is dialogue going on between the generators collectively and between the various sections of the generation industry and the various regulatory authorities.

One of the problems we have got is that we have layers of regulation in all of this. There are difficulties in getting anything to move very quickly in this area. If you will forgive me, I do not think that I am in a position today to offer possible directions for solutions to it. It will have to emerge from a dialogue between the regulators, governments, the various sectors of electricity generation and the people who are the customers for whom, at the end of the day—as the chairman said, and I think rightly so—reliability is important. When you are talking about energy intensive industry, the only three things they are interested in are price, price and price.

It is a particularly awkward problem at the moment, Mr Zahra. I quite understand why you would push the point. From an ESAA point of view I am not in a position today to offer you solutions to it.

Mr ZAHRA—I understand. I do not wish to place you in an awkward position other than to stress the point that we do need to find a resolution to it and, hopefully, fairly quickly. I would be aware, of course, of the good work of the Greenhouse Project Office,

which, as you would be aware, has been led primarily by the work of the Latrobe Valley power generators. I am just wondering whether you can give us a bit of a briefing as to exactly where that is at now. There is a lot of misinformation which goes on about greenhouse and emissions trading and the like. I think it might be useful for everyone on the committee to get a precis from you as to where we are at with that.

Mr Orchison—As the committee would appreciate, it is a very large topic. There are some quick points that could be made. The electricity industry was among the first to propose and embrace the Greenhouse Challenge program. By next year the efforts of the 41 electricity companies that have committed to that program will be producing reductions in CO₂ emissions of the order of 3½ million tonnes a year. By the year 2003, that figure will be of the order of six million tonnes. We are also engaged at the moment in a government state and federal working group that is looking at power station efficiency and that group is close to making a report to the governments that it represents. The intention there is to be able to achieve another five million tonnes a year of CO₂ savings without imposing unreasonable demands on the suppliers.

Emissions trading is an issue that there is a very strong interest in not only in my industry but in energy supply and energy intensive industry across Australia. The great difficulty in that is first of all establishing when the international community is going to move on it because for Australia to move on its own would in effect impose a tax on industry in this country. The second issue is then how to work out an equitable and efficient arrangement for trading and my association is confident that, between government and industry, we can do that.

The other issue that does need to be addressed in all of this is that, while it is very understandable that stationary emitters of greenhouse gas should be targeted, there does need to be a more integrated approach on the part of government at all levels to ensure that we have all sectors that are involved doing more.

Having said all of that, the present outlook is quite difficult in terms of Australia meeting the commitment that it made at Kyoto. I had the possibility of a question about this in mind when I said in my opening comments that there were a series of challenges that government has to reconcile. If government is going to pursue significant additional downstream processing, then energy prices are a very important part of it. If we impose cost burdens on ourselves that countries with whom we are competing for investment do not impose on themselves—and that was a point that my colleague Dick Wells made a few moments ago to this committee—then of course we are going to have a problem. Our view as an association is that we supported the government in making the commitment it made at Kyoto. We believe that there has to be a prudent and positive approach to this issue. We believe that virtually all the members of ESAA who are in the power supply chain, including the Latrobe Valley generators, are making a genuine commitment to reducing the emissions at a time when it is important that we should be able to show internationally that we are active in this area.

Mr ZAHRA—Just one last question: we talked a bit about the need for there to be a cheap electricity supply as a way of attracting investment here and improving value adding. What seems to me never gets talked about enough is the additional advantage which we do

have in Australia, not just in terms of our average price of electricity but in our specific location price in areas like Newcastle and in the Latrobe Valley of course. Apart from the work which has been done by Barry Dunstan and La Trobe Shire in my part of the world, has there been any work done to your knowledge by the department or by any other group in terms of marketing this additional advantage which will increase our advantage in securing opportunities for value adding?

Mr Orchison—The Department of Foreign Affairs and Trade has been active in this area over a number of years. There was a report presented to the parliament, I believe I am correct in saying, by former minister Beddall with regard to how both to promote coal sales overseas and to leverage off the expertise Australia had in coal fired generation in order to build investment here and build sales abroad. And, of course, at state government levels across Australia there are government departments that spend quite a lot of time dealing in this area. It is very competitive and there are governments around the world who are prepared to offer incentives that go beyond energy prices in order to secure investment.

Ms ROXON—The submission was really useful for me in explaining the impact the electricity industry has and the role that you play more broadly. What I am interested in is that your members are in a quite privileged position in that they are negotiating with different industries, all the time encouraging them to invest in particular regions, no doubt selling the fact that we do have very competitive electricity prices. Do you have any view that you can express to us about which particular industries might have some of the highest potential if the environment was right for further processing and value adding? I do not know if it is something you would prefer to take on notice, but I imagine your experience in the area means that you would have a sense of, ‘Look, we are going to have a boom in this industry, or we could have in another industry.’ Can you express any view on that?

The other question I have which may be a bigger one, if we are short of time, is whether you have any views about the impact that the GST will have in your industry?

Mr Orchison—If you will permit me, I will take the questions in reverse order. The association has used the services of Arthur Andersen to model the impact of the GST. Our view, on their advice, is that the net impact of the GST on electricity prices will be of the order of eight per cent. We have something of a difference of opinion with federal Treasury in that regard. They believe the figure is 6.6 per cent. The issue is a source of concern to us because my members have to persuade the regulators to allow the pass through of the costs. But, between the federal Treasury and ESAA, the view would be that it lies between 6.6 and eight per cent.

With regard to your other question, yes, we do see things from a particular perspective, but, really, that does not place us in a position to anoint various businesses as being the most appropriate. The electricity industry’s view is that, given what we have done to improve productivity in this industry, given the fact that our costs are exceedingly low by world standards, Australia has an important platform on which to go out and try to attract business.

The chairman’s point about reliability comes into this when you are talking about the IT side of things. IT’s requirements for quality of supply are very high indeed. Energy intensive industry also has a high requirement for quality of supply. The aluminium industry does not

react terribly well to finding itself having to repair damage caused by sudden failure of supply.

Ms ROXON—I was thinking that dairy must be another, with milk, ice-cream, those sorts of things.

Mr Orchison—Yes, the dairy industry is indeed one that would have the same view. Australia's reliability of electricity supply and the cost of electricity supply are such that there is a lot of opportunity for development. One of the things that is being pursued in Mr Zahra's constituency at the moment is work to try and attract energy parks to the Latrobe Valley. These are clusters of various industrial developments leveraging off a proximity to the suppliers. There are opportunities to follow that line in virtually all parts of the seaboard and in Western Australia. As a personal opinion, if there was one thing that we could do better and more of in Australia it is to pursue that idea of energy parks with greater vigour.

Mr ZAHRA—Which is what Barry Dunstan has been involved in.

Mr HATTON—Mr Orchison, I am a bit stumped and you might be able to help me. The Minerals Council has just said one of the big problems with turning alumina into aluminium is the high cost of energy. You are telling us that we have got very low cost electricity, we are extremely competitive. Is their comment more historical, prior to the competition changes, or is it a case of the energy not being where the minerals industry would require it to be to transform that alumina into aluminium? When I quoted the DISR figures and said that we had a low proportion being turned in, the Minerals Council said we produced a lot. But we only convert 23 per cent of the alumina that we produce into aluminium, whereas in the United States you are looking at something like 145 per cent and even Russia does 280 per cent. Most of the others far exceed us. So it is a bit of a conundrum. What is the problem?

Mr Orchison—Chairman, I think Mr Hatton needs to examine the aluminium industry as to the detail of it, but there is no doubt that that industry, because it is such a huge user of energy, is very focused on electricity prices. There is also no doubt that Australia has done something right with regard to this because over the past decade and a half there has been a flow of investment in Australia in terms of aluminium projects. These kinds of projects tend to seek to negotiate special deals, so very often, in fact I think in every case at the moment, the actual prices that are being paid for electricity by that industry are not really open to scrutiny. However, because they are such intense users of energy, they tend always to be receiving the lowest prices, and our electricity prices are amongst the lowest in the world. So the two things follow.

It is a natural and understandable tension between energy suppliers and energy intensive industries, but the question is always: how low can you go? There have been vigorous debates in Victoria and elsewhere over the years as to whether state governments have in fact gone too low in their desire to attract these industries. Our business, as the electricity suppliers, is to ensure that the prices we offer are both world competitive and compatible with the overall robustness of electricity supply. To date, I think the record would indicate that in that regard we have done quite a good job.

Mr HATTON—A number of state premiers would probably regard the definition of extractive industries in a different way, given their experience in the past, which you alluded to.

I would like to ask you about the most recent research in Britain in relation to using coal as a source of energy for electricity. It was recently reported on the *Science Show* that the British had made a breakthrough where, using new furnaces—rather than retrofitting furnaces; they argue that would be much too expensive—and burning coal at 750 degrees Celsius or at 1,000 degrees Celsius, you produce the same amount of CO₂ but you get a much higher efficiency and much greater electricity generation. How aware are you and your organisation of that research? What do you think the prospects are for Australia in terms of adding value, because of almost a doubling of energy output, as a result of that kind of approach? And what capacity is there for us to build new plants that could take advantage of that, particularly close to the raw materials that are being extracted?

Mr Orchison—There are rather a lot of questions in Mr Hatton's question, but I think I can answer in this way: between the electricity industry and the coal industry there is a significant amount of research and development going on around the world, not just in Britain, to find ways to make use of what is one of the largest energy resources we have. There are cooperative research centres in Australia for both black and brown coal which are working very actively in these areas. There are significant opportunities to develop more efficient coal fired power both in the sense of providing more energy per tonne of coal and in the sense of reducing CO₂ emissions.

The devil in all of this is always the high capital cost that is involved, and that flows through into relatively high prices. I am aware that there have been some occasions here in Australia in the recent past where companies planning to invest in coal fired generation have looked at more advanced coal technology but have been confronted with the prices in the competitive market.

I think the opportunities are significant. Australia has both engineering skills and research skills that will enable it to pursue these opportunities. We are perhaps 10 years away from being in a position to move to those generations of technology. Our immediate focus is how do we attract investment in the next 10 years and how do we meet our Kyoto commitments in the next 10 years. I can assure you that, from an electricity industry point of view and from the point of view of our colleagues in the coal industry, there is a very strong Australian focus on how to pursue these opportunities and to find ways to integrate them into Australia.

I am conscious of your time, but one point that perhaps needs to be made is that one of the areas of technology that ESAA and some of our members are interested in is technology to capture CO₂ at the power station and then to dispose of it either in now unused petroleum wells or in shallow aquifers. At the moment the technology would double the price of electricity, but we are particularly interested in pursuing this area. We have made a proposal to the federal government for the greenhouse funds that are becoming available to look at the possibility of establishing a reasonable sized pilot project somewhere in Australia in relation to that. I understand it will be the end of the year before we know how that money is going to be spent.

Mr NAIRN—Earlier on you were talking about the advantage that Victoria, particularly the Latrobe Valley, has in electricity generation and in your submission you talk about the need for further deregulation of the industry. Am I correct then in assuming that the real push for further deregulation is going to be led by Victoria, particularly the Latrobe Valley, in a similar way that the push for deregulation in the dairy industry has come from Victoria?

Mr Orchison—I think that there is a vested interest in all the states that are engaged in the competitive market and those who will be joining the competitive market, particularly Tasmania, to find ways of gaining advantage in all of this. Tasmania and Victoria are very keen to develop the so-called Basslink—an underground transmission link between northern Tasmania and Gippsland.

Mr ZAHRA—There are a few problems there.

Mr Orchison—Yes, there are some concerns in relation to the environmental impact studies, but hopefully those are going to be resolved. I think we are getting to the stage in the whole competitive market where government will need to have a look at where we have got to and where the problems are. One of them is in the area of overlapping regulation, overly intrusive regulation and not particularly efficient regulation. There is an allowance in the agreement that the government has made through COAG for a Productivity Commission review of regulation about three years after the start of the market, and we are just about coming to that time. ESAA's view is that it would be useful if the Productivity Commission could look at the workings of the market and give advice to government. But so long as we have states there will be jockeying for position, and national industry associations with members spread across all the states tend to walk a little carefully in some of these areas, for reasons you would well understand.

Mr NAIRN—You have walked very carefully in answering my question, and I understand the problem that you have. You mentioned environmental issues just then and you also mentioned it in your submission. Is that one of the areas in which we also need to sort out the consistency between the states? Do you have any comment on the legislation that the federal government was putting forward to try to get some of that uniformity nationally in environmental issues?

Mr Orchison—There are several points there. The last one first—the Environment Protection and Biodiversity Conservation Act. In the main my association welcomed that legislation as an effort to bring some order into an area that was not particularly well ordered. There are some aspects of it that we and other industries have concerns about. They mainly relate to the possibility for vexatious litigation under those new arrangements. I would say through you, Mr Chairman, to Mr Zahra that, under the provisions of that act, it would be possible for people who wish to stop the Basslink proposal to go on and on and on being difficult with very little to impede them. So we have a concern and we expressed it forcefully to government at the time. Regrettably, it was not taken on board. Having said that, the act as a whole is a step in the right direction.

Turning to the broader area of how we manage all of this process, it has to be done on the understanding that state boundaries are becoming more and more irrelevant in some aspects of energy competition. In energy competition and energy supply we are going to

need to have a better integrated activity. State governments tend to give lip service to the national greenhouse strategy without really being as active as they might be. There are areas—for example, minimum energy performance standards—where we have had a decade of messing around and really it is at the door of the state governments.

In terms of the overall issue of policy, regrettably, I would have to say that at this point in time the greenhouse issue is one of the greatest uncertain factors in investment decisions in Australia. There must be many companies which are looking at investing in energy supply or in energy intensive industry and which must be worrying a great deal about exactly where we are going to be a decade from now—the point being that a decade is not a very long time in terms of these investments.

So, we and other industry associations are very concerned. We are making the point clear to ministers at state and federal level that there needs to be a much stronger focus on integration of policy in this area.

Mr ALLAN MORRIS—Mr Orchison, given the time, can I give you two questions on notice? That might be easier.

Mr Orchison—Yes, certainly.

Mr ALLAN MORRIS—Firstly, concerning the \$50 million you specify as the cost of regulations and it being a burden on industry, you must have documentation of that somewhere. Could you provide the committee with that documentation? Given we are talking to state governments during this inquiry, we may be able to dig a bit more into those.

Secondly, I assume there is some collaboration between yourselves and various sectors looking at possible investment options where electricity can be used as part of an investment. Those kinds of cross-sectoral collaborations are fairly normal. This is partly what Ms Roxon was talking about. Perhaps you could give us some areas where the greatest fertility is. In talking to industry groups as we go around with this inquiry, we may be able to raise with them whether or not they are talking with you and, if so, how we can progress that.

Mr Orchison—As far as regulatory costs are concerned, we will provide a brief paper for the committee and do it quite quickly. It is easy for us to do that.

With regard to investment opportunities, it is a little difficult for ESAA on its own to do that. But we are in constant communication with eight to a dozen other national industry associations and so I will talk to my colleagues there about how we might respond to that and, if possible, we will come back to the committee with some comment. It would be difficult for me to make an outright commitment on it.

CHAIR—Thank you very much, Mr Orchison, for your detailed evidence. It has been very informative.

Mr Orchison—Thank you.

[10.37 a.m.]

HEARN, Dr Simon, First Assistant Secretary, Portfolio Policy and International Division, Department of Agriculture, Fisheries and Forestry—Australia

QUANG, Ms Paulette, Assistant Secretary, Economic Policy Branch, Portfolio Policy and International Division, Department of Agriculture, Fisheries and Forestry—Australia

WILSON, Mr Michael, Assistant Secretary, Food and Agribusiness Policy Branch, Department of Agriculture, Fisheries and Forestry—Australia

CHAIR—Welcome. I remind you that the proceedings here today are legal proceedings of the parliament and warrant the same respect as the proceedings in the House. The deliberate misleading of the committee may be regarded as a contempt of the parliament. The committee prefers that all evidence is given in public, but should you at any stage wish to give evidence in private, you may ask to do so and the committee will give consideration to your request. Dr Hearn, would you like to make an opening statement to the committee please?

Dr Hearn—Thank you. Mr Chairman. I will keep it brief, two or three minutes if that is all right by you, because I am conscious of the fact that you have a number of other people to see.

The submission from the Department of Agriculture, Fisheries and Forestry has basically outlined for your committee where we think we are at present. I am conscious of the fact that you will have further submissions later on looking more to the futuristic aspects of your deliberations.

In my opening comment I would make the point that since the last changes in the structure of government departments, this department now has responsibility not just for agriculture, fisheries and forestry, but also for the food sector. There is a logic to that. We wish to bring, and the government wishes us to bring, a food chain approach to the provision of policy and program management, and that is part of the reason why the government took that decision.

The main point I would like to make in this introduction is that the title of value adding to raw materials is one that all of us need to look very carefully at in trying to get the right parameters round it. Value adding, as we point out on page 7 of the departmental submission, is a very all embracing concept. I am sure you have seen this in other submissions. Therefore, talking about value adding as only being processing, which one sometimes tends in thought processes to do, would be a very narrow interpretation.

In fact, that would not be doing commercial justice to the many players in the agricultural and food sector who add value from the day the tractor gets into the paddock to the day the piece of bread hits the plate—if I can put it that way. I would certainly not wish to detract from the whole through chain value adding process that goes on. Obviously, processing is an important part of that value adding.

The challenge, as we sit here today, is to see both the agricultural and food industries work more closely together in order to get the through chain communications and integration. Trade, both domestically and internationally, is increasingly a through chain competitive process. I do not wish to inundate the committee with statistics. They are in here if you want them, but the fact is that there is one very telling statistic. The OECD suggests that by the end of next year 75 per cent of international agricultural trade will be in some form or other value added and processed. That shows the trend as to where things are moving.

What we have endeavoured to do here is to ask, 'Where does Australia stand today?' There is a common belief that somehow in Australia we do not add sufficient value. There are two questions that we would be only too happy to look at. One is, 'Where do we stand?' If you look at some fairly aggregate figures—and I know statistics will tell you anything you want—the fact is that on the basis of GDP, our food processing and value adding is very comparable in size, as a proportion of GDP, to those of other countries such as the United States, Germany and France. That statistic does not tell us an enormous amount, other than GDP proportion.

The important challenge for all of us in our different areas of responsibility is to answer the question, 'What is the capability of Australia, both in the commercial sector and in the government sector, to do more in terms of value adding and getting increased returns?' There is a role for the commercial parties as they are the best judges of what the commercial realities are, but the critical question is, 'What is the role for government?'

Within this portfolio there are a number of areas of responsibility where we can contribute. This includes the operation of the Australian Quarantine and Inspection Service. Within the central part of the department we have a food and agribusiness division, a new division, which is putting added impetus into our contacts with the commercial sector. The Australian Bureau of Agricultural and Resource Economics also has a new section which is looking at food and agribusiness. And we have the food safety aspects where there are some governmental responsibilities.

These are not exclusive to government. Where there are regulations, do we have the best regulations that can enable the commercial sector to move ahead? Where we have to have regulations, are we applying them in the most efficient manner? These are all challenges that have to be constantly under review to enable the private sector to move ahead.

There are a number of areas where people need to have a clear understanding. The food manufacturing industry in Australia, by definition, is mainly processing, although not exclusively processing. The food manufacturing sector is the second largest manufacturing sector in Australia and employs 162,000 people. It makes up a little over five per cent of the GDP and has a turnover of \$47.3 billion. Therefore, it is a significant achievement to date.

My final point is that internationally, food, as with agriculture, faces a lot of tariff impediments. I think there is a challenge for industry and government to look at, particularly with the prospective new round of trade negotiations, opening up new opportunities for our food sector to trade internationally. At present it is trading under the impediments of some very large tariffs, particularly in some of our natural Asian markets.

That is a brief introduction. Thank you.

CHAIR—Thank you. Mr Nairn can ask the first question as he has to leave soon.

Mr NAIRN—I know the committee will probably cover a variety of these, so I will just stick with a couple of brief ones. On the dairy industry and the push for deregulation, one of the arguments put forward by processors is that, in a deregulated situation, they will compete better, particularly with New Zealand, in not only the Australian market but the world market. That has been part of the big push from Victoria. In formulating the package that the federal government said that they will facilitate if deregulation does happen, did the department do any work in relation to the potential for expansion of value adding in the dairy industry under a deregulated market at all and what the extent of that might be?

Dr Hearn—No. In the sense of having a definitive piece of work which we could put before you to say that this will be the longer term implication of deregulation, I am not aware of any study we have done in the portfolio that would be conclusive in that regard. Certainly, in terms of the interactions that we have had with the commercial sector, the view that the farmgate prices—and I think you are well aware of this; I do not wish to go over the arguments since perhaps I am using up time. The question is: to what extent, after deregulation when the farmgate price is destined to be reduced, provided all the states comply with that? As we sit here today we are at a sensitive time in terms of where state and Commonwealth decisions will finally finish, so much depends on the detail there. But, yes, there is the theory that the price of the milk at the farmgate must come down. I do not know whether your question is also looking at the longer term. There is the question of what exactly that will mean in terms of how the market will pick that up through the processing chain. At least, in theory, one would have to expect that you would have a cheaper raw material in the form of liquid milk. That, I suppose, goes without saying. That is the basis on which I believe Victoria and others have approached this question.

Mr NAIRN—In that regard, on pages 30 and 31 of your submission you give some percentages of value adding in dairy—the 1997 figures. What happened in, say, the five years prior to that, because you could, I think, correctly argue that the dairy industry has known for at least six or seven years that it was heading towards a deregulated situation. That was the assumption at the end of the DMS when it was brought in by the previous government. What has the industry done in that time as far as developing their export markets, which really is related to our value adding, rather than just satisfying the market milk requirement in Australia. Their increased production is presumably going more towards more butter, more cheese and other dairy products. What has been happening over that period of time that gives us some sort of indication of what is likely to occur any further as the market deregulates further?

Dr Hearn—I refer you to page 12 which, on the statistical side, might partially answer your question. My comment on that is that one's natural supposition is—

Mr NAIRN—I am sorry.

Dr Hearn—No, that is quite all right, because I think those comments need to go round the table. The supposition has to be the cheaper raw material. We will indeed be more

competitive as a manufacturing industry. But the international market for dairy is not a totally free market, even by comparison with other markets. It is still very corrupted by export subsidies, and what may happen externally to these deliberations will have a very big influence on how much manufacturing product we can export.

Obviously being more competitive to export is a very good move in the right direction in terms of creating opportunity. We remain very hopeful that export subsidisation from the European Union, the United States and others will be eliminated in the next round but, put that to one side, we certainly hope it will not increase—certainly not into markets where we have a very clear competitive advantage already and we hope to build on that competitive advantage. Of course, New Zealand—which is not a subsidising country in the main but it does have a single desk at present—has a very competitive industry and, without the subsidy consideration from the less efficient producing regions, that is our main competitor in those areas. We are seeing structural change occurring in the New Zealand industry; they have now amalgamated into two large processing companies with a very large turnover and a lot of competition. So one's expectation and hope is that that will improve, but there will be these other factors, including export subsidies, that we have to be aware of. They are risks which our industry is well aware of.

CHAIR—I have one question, mainly on the chicken industry. I have become quite an expert on the chicken industry in the last 18 months because of the major outbreak of the newcastle disease which occurred in my electorate. In your submission, you made the comment that the chicken industry has concentrated very much on the domestic market and continues to escape serious overseas competition because of quarantine protocols. I wonder whether you could make some comments on that. Is it because of those quarantine protocols that the chicken industry has not expanded into other markets? Why do you think the chicken industry has not expanded into export markets?

Ms Quang—There are a number of factors accounting for the very limited international exposure by the chicken meat industry. The number one factor is the cost competitiveness of the chicken meat industry, and that is due to a number of other factors accounting for that. The recent benchmarking study showed that we are disadvantaged compared to the US, which is one of the largest exporters of chicken meat in the world by about 30 per cent. The lack of international competitiveness that we suffer is throughout the value adding chain, not just particularly in one segment of the market. That is due partly to the economies of scale and scope because our chicken meat industry is, very largely, located in different states with a very small sized scale plant, usually run with one shift. Therefore, the degree of cost competitiveness will suffer as a result of that.

Of course, having a domestic market totally protected from US sales tends to give the marginal producers a better chance of competing than in a very fiercely competitive market, whereby people are now 30 per cent cheaper than US sales. So that has also been a factor accounting for the lack of competitiveness in our industry, and the industry recognises that. We have been working with them to a certain extent to improve their outward orientation and address some cost competitiveness issues. We are funding a second international benchmarking exercise through the industry to the tune of \$179,000 to look at again—compared to the United States and Brazil—how we stack up, where we suffer the largest degree of disadvantage and how we could address that.

CHAIR—I am pleased to see that we are exporting 75 tonnes of chicken feet every month. It is something I learnt from the submission which I did not know.

Ms Quang—We also export offal. With the Asian migration here, we began to sell offal in the supermarkets. Now we are selling chicken feet, chicken wings—the tip of the wing—as well as offal to Asia. It is very lucrative because we normally throw it away as pet food. Now we have a value added product that we would have normally wasted. So we are earning income where we can. But the real test is to be able to export value added products to the market on the basis of our own thing, such as thigh chicken meat or crumbed chicken or something like that. That is the real test of competitiveness. We have to work very hard towards that.

Mr ALLAN MORRIS—Can I say to you, Dr Hearn, firstly that I found your submission very good. I do not often say that about departmental submissions by the way, but it is very coherent and all encompassing. I learnt a lot from it and I want you to pass that back to the people who originated it. It has been a very useful contribution. In fact, I would like to see it circulated more widely to be honest. I think a lot of parliamentarians would benefit if they were to read it.

One subject that was missing, I thought, was vegetables. They are not mentioned at all in the submission. That surprised me because you raised the question of transport but you raised it in the context of Pink Lady apples. I would have thought that transport had much more relevance to the overall vegetable exports in particular to the Northern Hemisphere. Can you comment on that aspect?

Dr Hearn—There is no particular reason why we left it out and, if you would like, we could perhaps get a reflection on vegetables for you as an addendum to this submission. But let me say that many of the considerations that apply to vegetables, although perhaps technically a little bit different, in the broader horticultural arena would be very similar. We have for vegetables some very real opportunities in a number of ways. In the Asian markets there is a move by consumers towards fresh chilled product, not least in horticulture. We have for once in our history a locational advantage. In the Northern Hemisphere, there are counter seasonal opportunities if we are able to get our marketing correct. We see marketing very much as part of value adding. In the Northern Hemisphere we are confident that there are tremendous opportunities for fresh and processed vegetables. As with horticulture generally, I am sure that with vegetables we can pick up more.

Mr ALLAN MORRIS—One of the reasons suggested some years back for our lack of success with vegetables was that people like Heinz and the other international companies that control a lot of our market already had their own set-ups all over the world. Therefore they were not interested in intersectoral trade because they would be competing with themselves. So the global production and marketing structures of the very big companies like McCain, Heinz and so on was, in fact, a structural impediment to our people.

Another reason that would come up, particularly in places like Hong Kong and Singapore, was the constant fluctuations in quality because lots of our small suppliers that were trying to export were not necessarily reliable in quality or continuity of supply. Those were two things that came up in the past. They may not be current nowadays. That is why I

wanted to put those two things forward. You have touched on them in most other areas but not in connection with vegetables.

Ms Quang—I think there is another factor in that Asian requirements for vegetables are sometimes different from ours. For example, we like oblong watermelons; they like the ming-lee one which is really awful to eat, but that is how they like it. Therefore, we have really to cultivate the variety that they want to eat, rather than growing the vegetables that we are used to growing. Pumpkins are not just pumpkins and watermelons are not just watermelons. We have to grow the variety that they want and it is quite a demanding job.

There is also the issue of quarantine in some markets, of course, because of pest and disease prevalence. It is a much trickier proposition to export vegetables than fruit in some ways. They have a very short shelf life so you have to actually airfreight out of here. It is very interesting that bean sprouts are exported to Hong Kong in very large quantities by a Chinese immigrant. He built a business exporting fruit and vegetables to Asia and he actually exports bean sprouts, which are the most perishable and the most difficult product to shift very quickly. He did it very successfully.

Mr ALLAN MORRIS—The process used for Pink Lady apples involving containers and nitrogen and the other kinds of things that you are doing with CSIRO and others to retain freshness, rather than by chilling, are very applicable to vegetables. We all expected when those technologies were being picked up that they would be used much more widely. That is why I am trying to find out whether those things are being used.

Dr Hearn—We will come back with a little bit more information. Chairman, did you want us to make a comment on the point made about corporate involvement by international and multinational companies?

Mr Wilson—I could comment. The mention you made of the possibility of multinational companies having an impact on this is something that comes up from time to time. As far as we can see, there are stories that go both ways. There is the issue of decisions being made about exports by large multinationals overseas that may disadvantage Australia. That is true, I suspect. Equally, though, we hear that those companies are quite ruthless about where they have things produced. If Australia can produce a commodity or a product more cheaply than that same company in another country, then that decision will be made to produce it in Australia. It cuts both ways. But certainly we can say that the multinational companies in Australia are among the 10 largest companies. Certainly there is an overproportion of them there. They are large employers of Australians. They are our largest exporters. As for those stories, it is difficult to know where the truth lies and I do not think we will ever know really. They are company-company decisions.

Ms ROXON—I have to add to what Allan said because I found the submission really refreshingly helpful and very much directed at the sorts of areas that we are looking at. It was really useful. I do not want to put words into your mouth but it seemed to me that one of your major conclusions is that areas such as marketing, identification of new markets and distribution seem consistently, through a number of the industries that you have gone through, to be issues that you say we need to look at and consider much more when we are

talking about value adding. If that is one of your major conclusions, do you have a view on the role that government can play in assisting the industry in those ways?

Also, out of the variety of different industries that you have dealt with, is there a particular one that you think would be a good model for us to look at that would provide helpful information for many of the other industries? Is there one that is at a particular stage that would be helpful for us to look at now?

Dr Hearn—I will make a general comment. I might ask Mr Wilson to pick up on some of the work that is currently being done. The general comment is that, when we look at the role of the government, it is quite clear that the commercial parties—the corporations through to the farmers—obviously are going to handle the commercial operations. It is not the role of government to get actively involved in day-to-day commercial aspects. Government's role is primarily in facilitation. In broad areas of both trade negotiations and food safety aspects there needs to be government involvement. In terms of inspection, quarantine and the role of Austrade in helping to facilitate, there is a broad area of government involvement. In addition to that, there are other day-to-day types of activities where the government can get involved. I will ask Mr Wilson, being in that division, to give a quick summary of some of the things that are happening and to pick a particular industry that might serve. I have one in mind but I will see what his choice is.

Mr Wilson—I will not make a choice. I will just talk about the programs. Last year, the department, in conjunction with Supermarket to Asia, produced this document, which looked at some of the successful through-chains that are operating not only in Australia but overseas and what we can learn from them. From that program we came to the conclusion that there was a role for government in assisting chain processes, if you like, and in demonstrating those. In the last budget, \$9.3 million was allocated for a three-year food and fibre supply chain program. I do not know if you are aware of—

Ms ROXON—You mentioned that in your submission but you do not give us the information of where that is up to, which would be helpful.

Mr Wilson—The guidelines have been released only in the last month or so and applications are being sought now. You are aware from the submission that there is a subsidiary company to Supermarket to Asia Ltd operating that program, with the department managing those contracts, of course. The other program that was mentioned in the submission was the delicatessen program. Again, I am happy to table these if members would like to see them. They are public documents, of course. The deli program was a \$1 million program that assisted companies to seek out products in markets that we could produce that we are not producing at the moment. We developed the new industries development program. Again, it is a \$3.1 million program over three years. I have some information on that here that I can table.

CHAIR—Ms Roxon, would you like to move that those documents be tabled as exhibits?

Ms ROXON—Yes, I so move. I will have a look at those. You understand that we are at stage one. It may be that we will need to come back to you. I have a number of other

specific questions but, given the time, we can always put them on notice or come back to them, depending on the sorts of industries that we might look into in the future. But I would like a comment on whether you think a particular industry might provide a useful study or example for us.

Dr Hearn—I think there are a few. One of the newer but much more established industries that is the benchmark of great success in through-chain operations and delivery has been the wine industry. We all know that the wine industry has had such tremendous success, and that it is an example of how value adding, processing, delivery, marketing, quality assurance—all those factors—have been such a good benchmark in that industry.

But if we were to go beyond wine and look at some of the other industries that are growing and expanding and in proportionate terms moving very quickly, both domestically and internationally, the aquaculture industry, as a much newer industry, is one where again we see fresh, chilled and frozen exports, delivery on time and good packaging, et cetera, to meet the customers' requirements. I think that is another exciting industry, but we can think of many.

The exciting point about this inquiry is that we are at a time when there is a lot of dynamism in the food sector in Australia. New products are being developed at both the farm level and the processing level. In our submission you will see a number of what might be considered small industries that are moving and they are getting new markets in new niche areas. The important point through that integrated approach—whether we are talking about emu meat, ostriches or deer—is that all these industries have the potential to go further in creating diversity in regional Australia, which we know is an area where there are lots of challenges, and that diversity will come through to the farm level as well as through to the manufacturing level. I think there are a lot of very positive opportunities here.

Ms ROXON—I was interested—it may be because my inner city electorate has a lot of food manufacturing in it—in how the meat and poultry industries seem to be a few steps behind the dairy industry and what lessons we can learn from the dairy industry, which seems to have quite successfully marketed its products and developed them. Maybe further down the track it might be an interesting point in time to look at some of those industries that are now starting to do that but have not quite gone as far. But we will take your comments on board anyway; thank you.

Dr Hearn—Just on the dairy industry, Chairman, my personal observation is that the dairy industry has quite good integration from the farm level through into manufacturing. If you look at our submission, you will see that, of the cooperatives in Australia that handle the initial processing of dairy products, there is a big element of farmer involvement in those cooperatives. I think it is worth all of us having a bit of a look at. No two industries are directly comparable. They are different characteristics, and what may be possible in dairy may not be possible in beef, lamb or whatever. But certainly there is an interesting characteristic, which I think warrants attention.

Ms Quang—When we talk about examples we need to look not just at the new emerging industries. If we look at horticulture such as the apple industry, it is diversifying by introducing new varieties—for instance, the Fuji apple for the Japanese market. That is an

innovative way of responding to market demand in a very well-established, mature industry. Within each pocket of industry there is potential to be different and to add value to what we can produce, provided you know what the market wants and you are willing to respond to it in ways that are cost effective and meet the consumer demand.

Ms ROXON—Sorry, Mr Chair, that reminded me of one other question I had. You state in your submission:

. . . Australian food and fibre industries are at risk of losing markets and the opportunity to supply higher value products because other countries are reacting faster to the changes occurring in overseas distribution, retailing and consumer preferences.

How do we actually prevent that happening or encourage our businesses to react more quickly? That is a very sweeping statement.

Mr Wilson—There are a number of issues that cause us to lose markets and there are also the trade issues that we are well aware of.

Ms ROXON—But trade issues do not affect whether or not we are reacting properly to distribution or consumer needs.

Mr Wilson—I think where we are falling behind is in the through chain processes that we have referred to earlier, and that is the reason for the genesis of those programs. There are probably cultural and attitudinal issues in Australia as well that probably have to be addressed over time. That is certainly changing, and companies are becoming much more aware of the need to move in those areas. But I think it is probably, as Simon has said, the creation of a through chain approach within the department over time. It is very new, and the department is adjusting—certainly, my area is adjusting to the new change. One of the areas, for example, where we are not strong yet is in the area of statistics. We can see flaws in the statistical analysis that has been around for some time and that has been accepted for some time. It is a matter of becoming aware of the issues and developing the policies around those.

Mr ZAHRA—In response to something you said earlier following a question from Mr Nairn, I am not sure whether I heard incorrectly but did you say that the department has done no work and produced no report into the impact of dairy deregulation?

Dr Hearn—Certainly we have been advising government on dairy deregulation. But, in terms of a conclusive report based on conclusive research, I am not aware of any study that has been done that has been delivered.

Mr ZAHRA—It seems amazing to me, because this profoundly affects literally thousands of farmers and hundreds of communities right across regional and rural Australia. We are talking about a billion dollar plus transfer from the consumer sector to farmers. It seems amazing to me that that work has not been done. Has there been work done by the industry?

Dr Hearn—Sorry, I may have inadvertently misled you. I am saying there is no conclusive pamphlet that I can give to you across the table. Of course, in the policy advising

areas and indeed in program management areas within the department very close work has been done with the industry on a continuous basis over a sizeable amount of time, both at the Commonwealth and at the state level, to look at what are the ramifications, immediate, medium and long term.

Mr ZAHRA—So the department has been working with the industry to come up with a package which the minister then obviously has to sign off on?

Dr Hearn—The industry has had very close contact with the portfolio both at the political and at the official levels. Of course there has been a lot of thinking and a lot of processes have been gone through. I certainly would not want to mislead you on that. It is just that I am not aware of any published document from a particular agency that says, 'Here is a full analysis of this and here is a final conclusion on it.'

Mr ZAHRA—I just thought for a minute that you had left it completely to the industry. And that is not the case, obviously.

Dr Hearn—No, I apologise if I misled you there.

Mr ZAHRA—On a different area but again something which is very important to my constituency—the forest and forest products sector. You talk in your submission about the regional forest agreement process. You mention how this will provide secure access to wood resources and create an environment which encourages investment in value adding manufacturing. Surely there is still not a view which exists that that is a panacea for creating investment in that sector? To follow that up, you mentioned that a wood and paper industry strategy commenced in 1996 under the Labor government, which has now just about run out. Is the department going to continue that or, if not, what are you going to do to make sure that there is continuing investment in that sector?

Dr Hearn—I am sorry, we have not brought all our divisions here in the interests of numbers today. I understand the importance of that question. I am not in a position to give you a full answer but if I could take that on notice and go to our forestry people for some information.

CHAIR—That is fine. We would be more than happy to have that on notice.

Dr Hearn—This submission is a team effort, and we could have brought about 10 divisions here but I think you might have found numbers a bit—

Ms ROXON—That is probably why we found it so helpful.

Dr Hearn—I understand the importance of your questions and we will get back to you. Certainly, the regional forest agreements are not seen as a panacea. I am not sure we have a panacea in any of the industries. But the regional forest agreements, when they get up and there is common purpose behind them—and I am sure we have common purpose from all segments of the community—can only help to get the operational stability of the industry, the image of the industry in terms of sustainability and, indeed, some certainty for the

commercial operators which must help their efficiency. Where there is uncertainty from governments it obviously adds another degree of uncertainty.

Mr ZAHRA—A couple of things working in tandem can help. One of those things was obviously the RFA process having bipartisan support, the Wood and Paper Industry Strategy and the work of the Forest Products Laboratory at CSIRO. If the Wood and Paper Industry Strategy falls over—that is, the funding stops and nothing replaces it—that undermines the good work which is going on. The gutting of the Forest Products Laboratory at Clayton undermines that process. I want to know, if those things are going on, what is going on to replace that work, or are we just letting industry development in the forestry sector fall in a screaming heap? If you could take that on notice I will look forward to your response.

Ms Quang—Yes, I took the question down.

Mr ZAHRA—Thank you.

Mr HATTON—Ownership control and profits. Most Australians liked Arnotts, it got bowled over by Campbells. We are pouring a lot of money into developing processed foods into Asia, previously and now with the Supermarket to Asia strategies, but if we have good companies with great potential in that area they can get gobbled up, as Arnotts were by Campbells. How much capacity is there for Australia to earn out of Campbells using Australia as the platform into Asia and using our resources and our people when the profits are going back to an American company? How great a problem is this, not just with that example but more generally in terms of the end value to Australia as a whole where the area with probably the greatest potential for us has been partially overtaken by others?

Dr Hearn—In the area of foreign investment, there will always be that concern that we would like to see in Australia more savings and investments and involvement by Australians in our own Stock Exchange. That, I know, is an ambition of government, and successive governments. Today the facts are that foreign investment must continue to play a very big role in all our manufacturing and, indeed, other sectors; and that while there is a price to be paid in the sense that dividends have to be returned, and there are concerns about competition aspects of this which we touched on a little earlier, there are also the advantages of foreign investment. I do not think it is just Australia that sees these advantages. If we look at our Asian neighbours, the inducements they give to foreign investment are very large in some parts of Asia and, indeed, in other parts of the world. So, overall, there is no doubt that without some of that foreign investment some of our developments in the manufacturing sectors would, in my view, suffer.

Mr HATTON—That is fine. We have heard that argument for years on end, and there is a validity to it. But if we have Australian companies that were benefiting from the market penetration they had into Asia, what should our government's response and our departmental response be to support those Australian companies, making them strong enough so that they are not just bought out on the share market and they can still penetrate the Asian food processing market further, and so we get a full return to Australia instead of a partial one? We have always had foreign investment, we always need it. But this is another critical problem, as far as I see it. How can we build major infrastructure and major companies here to directly benefit from that enormous market to our north?

Dr Hearn—Let me say two things on that. One is that I do not believe—and I am not sure that you are even suggesting it—that a subsidisation to stop companies coming in from overseas would be the answer. I do not believe you are suggesting that.

Mr HATTON—No.

Dr Hearn—So the best that government and the departments can do is to ensure, in the role of government in facilitation, that we provide the best possible facilitation. That is very broad-ranging. That includes the whole economic agenda of getting the best possible economic conditions for our companies. Of course, it has come up under other guises, the jargon of micro-economic reform—it is a whole agenda there. In addition to that, and specific to this portfolio, I believe we have to have the most efficient delivery of services from government to the food sector in those areas where government still has core business—that is, areas like food safety, inspection, quarantine, and matters including getting the best possible information flows.

Companies have their own information, which is often commercially not more advanced than that of government, but governments can provide international information that we can facilitate government to government. In those areas where governments still have a bigger involvement than they do in our society in the commercial process, governments can facilitate the contacts. The greater degree of certainty that companies can have from government in those areas of operation reduces the sovereign risks wherever possible. The commercial feedback we get is that those are some of the best contributions that government can make. I do not believe that our commercial parties want the governments to get directly involved in the commercial operations. In the main, the companies would like us not to because that is not a role of a government. It is seen very much as the role for corporations. They are best at it.

Mr HATTON—We can create an even better environment for all of our Australian companies to work in. Then, as they are more successful, they can get picked off one after the other, as has happened in the past, and the profit go back from there. If possible, we need to think of some new ways in which we could foster those companies and try to keep the full dividend coming back to Australia.

I have a further question on a different matter. You have made the point a number of times here, as other people have, about low wage cost countries and both wage and labour on-costs in other countries affecting our competitive position. What are we going to do about this problem? One proposition is that we ‘Thailandise’ Australia so that we drive our labour costs down through the floor and take it on the basis that we are a completely underdeveloped country or a developing country rather than a fairly fully developed middle power. That proposition seems to be inferentially put by almost every group that makes a submission to a parliamentary committee. It says that our wage structures are far too high and our on-costs are great, making that the real problem.

Lots of other countries have solved the wage problem and the labour on-cost problem by going to Indonesia, Malaysia, Thailand and China. Look at the examples of Japan and Taiwan. As they become less competitive, they move their companies to those low labour cost areas. They extract the value out of those workers and then put the dividends back to

the originating country. Should Australia be looking at taking that kind of approach as well? A lot of the concentration seems to be to belt down our workers and say, 'You are far too expensive', rather than look at what other major developed countries are doing and what benefit can come back to workers in the country because the dividends are coming back from using that.

Dr Hearn—I will keep my comments to the food industry. I realise that what you are saying may even go much wider than the food industry. Firstly, the level of wages is not always the critical issue in terms of competitiveness in food industry and productivity vis-a-vis those wages. I may be generalising too much, but very often countries with those low wages are very labour intensive in the industries where they have a comparative and competitive advantage.

International capital is probably more mobile than ever. The capital markets have been deregulated and the food industry and agricultural industries are seeing the advantages and the competitiveness of that. I say competitiveness because, the more deregulated they are, the more you have to be competitive to keep up. That is a point you have made.

The food industry is increasingly a technology industry, so I personally would suggest that the wage levels are only one part of the competitiveness of that industry. Increasingly, the capacity of that industry to be competitive in the technologies that it produces is going to be the telling factor in many cases. I can look at countries with a much higher wage structure than our own which have very healthy balance of payments situations because they have been able to produce productivity in the labour market which has more than matched their relative wage levels. I noticed only the other day a figure that suggests that our labour productivity in Australia is going up by three per cent per annum. If that is an accurate statistic, that must suggest to us that we are getting more competitive through the various changes that are happening in the private and the government sectors.

I certainly do not believe that low wages are the only part. In many industries they are the least part. Your next submissions will look to the future and I do not want to prejudge that. Areas such as biotechnology in food, which are very topical right now, are going to be absolutely critical in terms of some of the things that countries can produce. Those countries that do not have that technology may specialise in areas where they have a best competitive advantage, which may be sometimes more mass-produced and labour-intensive issues.

Mr HATTON—Thank you. I am very pleased with that answer because there is too much of a mantra—and there has been for far too long—that Australia has a really big problem with wages and labour on-costs. It is only a minor part of the total picture. I want to compliment you on the concentration on marketing. If there is any area where we have fallen down in the past, it is the fact that we have put marketing at the end of the process, rather than at the start and seeing that as a central focus. Probably the best example is kiwifruit. If anyone is interested in the Chinese gooseberry, it was the New Zealanders who were very clever about creating a market for that product. The sorts of things we are starting to do in that area are very positive.

Mr Wilson—I could add to this and answer Ms Roxon's question to some extent as well. First of all, I should say that we are working very closely with industry in developing

our policy parameters. There are a number of things we have under way at the moment that may be of interest to the committee in light of some of the questions that have been asked. We are undertaking a food export study to examine what the characteristics of a good exporting company are in relation to companies that do not export. Just what is it that causes them not to export? What causes companies that do export to do so? That is in its early days yet. We are working closely with Supermarket to Asia and others on that, but it is being managed by the department.

We are developing a statistical database as best we can. We should become quite proficient in that area and undertake analysis in that area as well, including benchmarking and just what processes within Australia do and do not operate well on the international scene. We would like to develop a web site as well, so that companies have a one-stop shop to come to for a range of regulations.

We are also looking at the safety and quality issues within Australia. We have a clean green image at the moment. We are looking to build upon that by systematising a number of very good things that are happening at industry level and at company level. As you know, the government at the moment is developing its response to Blair. ANZFA is undertaking a number of performance based changes in relation to the food standards code, food safety standards and the model food act. Basically, AFFA sees itself as having a role of possibly systematising that so it is transparent and promotable, and a competitive advantage for Australia in the long-term. There are a number of other things as well. Working with industry, we are developing a series of policy priority areas and those actions are helping with that process.

Mr HATTON—Plant variety rights and biotechnology are a fairly broad area. We have a massive advantage in terms of the diversity of our flora and an enormous ability to make a lot of money out of that for the country. But we have a big problem. A lot of that has been effectively pinched by other countries and commercialised by them.

How do you see the importance of plant variety rights and patenting and those nobbly issues associated with that and the impact of that on our future? Secondly, what benefits could accrue to us through the whole food area through biotechnology and the use of that as a means to produce entirely new products that are beneficial to the consumer?

Dr Hearn—I have three points. One is that plant variety rights in Australia are not necessarily out of kilter with international operations in that area. There is some difference in the broader area of intellectual property as to where people go for plant variety rights and patents as you go through the chain. It is not in our portfolio, but we work in very close partnership with Biotechnology Australia which is in the Industry, Science and Resources portfolio. The Biotechnology Australia team are setting up a program with us over the next two years to look very closely at intellectual property as it applies in the biotechnology area and how it might work.

I do not have a ready answer because there are assertions in Australia—I am not sure they are fully substantiated, and I know that you will have CSIRO before you at some stage and they might comment too—that we are not particularly good in the agricultural areas and intellectual property. I am not sure that has been fully substantiated, by the way, but it is

being looked at in the area of biotechnology: can we do better with intellectual property in the biotechnology area, and what is it that is necessary?

We are also looking at the area of commercialisation of research. I am not an expert in that area, but I do know that Biotechnology Australia is putting some funds into working with our research community and with our commercial community to see whether, in fact, these assertions do have any substance and, if they do have substance, what it is that can be done to improve commercialisation, including, if necessary, looking at our patenting and so on. We are also bound by certain international conventions on patenting and PBR. We will be working with the international community as well if our science is to remain in the international arena, where we have to be. Those are my main comments on that.

CHAIR—If members have any further questions, they may put them through the secretariat. I am sure we could arrange to have them forwarded. Also, I think there are a number of questions on your submissions that we have not been able to deal with today. I will get the secretariat to write to you and, hopefully, we could get some answers on those. I do want to thank you very much for that submission. It has obviously generated a great deal of interest, as you can see from the number of questions from members. Thank you very much.

[11.32 a.m.]

DALY, Mr Denis, Principal Policy Adviser, Agribusiness, Commonwealth Scientific and Industrial Research Organisation

HILL, Dr Roderick Jeffrey, Chief of Division, Minerals, Commonwealth Scientific and Industrial Research Organisation

OAKESHOTT, Dr John Graham, Program Leader, Biotechnology, Commonwealth Scientific and Industrial Research Organisation

UPSTILL, Mr Howard Garrett, Principal Adviser, Planning, Commonwealth Scientific and Industrial Research Organisation

CHAIR—Welcome. I have to remind you that the proceedings here today are legal proceedings of the parliament and warrant the same respect as proceedings in the House. The deliberate misleading of the committee may be regarded as a contempt of parliament. The committee prefers that all evidence be given in public, but should you at any stage wish to give evidence in private, you may ask to do so and the committee will give consideration to your request. Would you like to make an opening statement?

Dr Hill—I am happy to let the CSIRO statement stand on its merits.

CHAIR—That is fine. It also gives us more of an opportunity to ask questions. We are struggling with time, but I think we are doing quite well considering the number of people who have been through.

Mr ZAHRA—I am not quite sure who to direct this question to specifically—it relates to the forest and forest products sector, which we have just been talking about with our last witnesses. I note in your report—and your report is substantial in the way in which it deals seriously with Australia's forest industries—that you talk about the wood and paper industry strategy and the regional forestry agreement process. You talk about a whole heap of things in here whilst pointing to the substantial deficit of wood and paper products which exists for Australia as a nation. There does not really seem to be any detail of some of the action which is going to be taken to remedy that. I notice that you mentioned here the minister's proposed action agenda for 1999—I do not even know what that is. I wondered whether you could add a little bit more to that and let us know where we are at with regard to this very important sector, especially in the context of what CSIRO has done to the forest products laboratory in Clayton.

Dr Oakeshott—I think I drew the short straw here. I am closer to forestry than Rod is, but only marginally. I think I will have to take the detail of your question on notice; I cannot answer that.

Mr ZAHRA—Do you know if such a thing as the minister's proposed action agenda for 1999 actually exists?

Dr Oakeshott—I do not personally know.

CHAIR—You can take that on notice.

Mr ZAHRA—I would appreciate that because it is a critical area of policy. The role of CSIRO—I have always found in relation to the forest and forest products sector—has always been pretty much as the independent umpire. The debate generates so much heat and not enough light, and CSIRO has always played an important role in being impartial, fair and balanced in this debate. That is why it concerns me. I have something like 2,000 families in my electorate who depend on this sector. We cannot get any questions answered about what has happened in Clayton at the forest products laboratory. I would ask you to take it on notice and please report back to the committee, bearing in mind the very serious nature of the questions which are being asked.

Ms ROXON—I have one question which relates to your emphasis in the submission of the importance of Australia keeping a world class skill base. I think you emphasised that in a number of areas, and I know that you refer specifically to that including research and management skills. In fact, I think you say that it is much broader than that. I wondered if someone could comment for me on the impact of the current industrial relations changes that are being proposed by Minister Reith. One of the key parts of that is a prohibition that there be any skill classification structure in awards. Do you have a view about the impact that that might have? Certainly we are not talking about research and management skills, but we are talking about skilling of the work force in a way that that previously has been recognised in the workplace. Do you have a view on the likely impacts or do you have any concerns about that change?

Dr Hill—CSIRO is reluctant to comment on matters of government policy.

Ms ROXON—It is what our whole inquiry is about.

Dr Hill—CSIRO can comment on the role of skilling and government policy in relation to education and training and its impact on the industry, but in terms of other matters I would prefer not to comment.

Ms ROXON—It is fairly unhelpful. I would have thought that you can have a view about the importance of promoting skill within the workplace at all levels and the impact that that has on the type of work that can be done in any industry. I would have thought that anything that might prohibit or discourage people attaining skills at any level would be a great concern for CSIRO.

Dr Hill—It is. CSIRO has a very high profile in terms of its support for education and training in Australia. We run the Double Helix Club. We contribute substantially to various public open days and science Sundays and so forth at various sites. We actively promote interaction with students at high schools through our scientists going and participating—

Ms ROXON—But you are not prepared to actively promote it amongst workers that are on awards?

Dr Hill—Again, we would prefer not to comment on matters of individual government policy, specifically.

Ms ROXON—No, I think it is totally unsatisfactory, but I understand that is what your position is. I do not think it is very helpful for us trying to identify what sorts of policies can have an impact in this area, but I am not going to press you on it if you are not prepared to answer. I think I can understand your position and the fact that you are not prepared to answer.

Mr ALLAN MORRIS—Historically, the CSIRO has had an incredibly strong role in the wool sector; major parts of their activity have been in wool. Looking at your submission, the shift in terms of wool coordination, the Wool Board and the other things that are happening seems to be pushing CSIRO out of the picture to some degree. Can you explain to me, firstly, how you relate to the industry now, considering that the industry is being more individually or privately managed by separate organisations rather than by statutory boards and so on. How are your skills used in that industry? Secondly, you mention in your submission the restructuring of other industries, such as wine. What are the parallels to that, because in that industry CSIRO has had a very small role? How would you envisage the best use of CSIRO's skills in the wool industry, having regard to the changes which you make the very strong point are absolutely essential for its future development?

Dr Oakeshott—There is no doubt that the issues around the AWRAP, IWS and successors have had a large impact on our research funding base. From my knowledge our budget from that source declined from several million dollars in about 1990 to a few hundred thousand dollars in our main wool serving division. In that time, that division has necessarily had to diversify its commodity focus so that it takes on more meat, poultry and what-have-you. A lot of the wool work now done is necessarily done directly in association with companies. So you have examples of Australian companies like the Bioclip company, with the automatic wool harvesting, et cetera. Obviously, that in turn means we do a different range of activities for wool than we did seven or eight years ago when AWRAP was our major funder.

Mr Daly—The wool industry has been our most significant and longest standing benefactor. There are no two ways about that. We have two main wool divisions—the Division of Animal Production and the Division of Textile and Fibre Technology which is based at Geelong. In the Division of Animal Production we have had to diversify into other animal species and into manufactured products like drenches and feed blocks. We have a close association with industry in doing that. This has been going on while AWRAP funding of CSIRO has declined quite significantly in the last decade.

Our Division of Textile and Fibre Technology, in the aftermath of still further AWRAP funding cuts, is beginning to focus on other fibres. It has just changed its name from the Division of Wool Technology to the Division of Textile and Fibre Technology as a reflection of that. It is looking, for example, at doing more work with cotton and, in particular, wool cotton blends, as well as with other fibres.

The industry, as you know, is undergoing a major restructure in the aftermath of the McLachlan Task Force report. The Minister for Agriculture, Fisheries and Forestry has indicated that the government has generally accepted the recommendations of that report. There was an announcement by Minister Truss last Friday that Dr John Keniry of the Ridley

Corporation is to head a group that will oversight the fine detail of moving forward with the new wool industry structures.

As you know, the McLachlan Task Force report proposed the formation of Australian Wool Services, which would include the current AWRAP and also the current wool testing authority—the AWTA. It has also suggested a split between one body that would commission research and another body that would undertake the commercialisation of that research. All of those matters—including the level of industry levy, which in part goes towards R&D—are to be debated in a series of industry fora which will occur over the next few months under the oversight of this group set up with Dr John Keniry as chair.

Mr ALLAN MORRIS—Where do you see CSIRO actually fitting into that picture in the future? I am not a specialist in wool, so I do not profess to be as knowledgeable as some others. How do you see CSIRO's skills and the enormous technical depth which it has had over many decades being best used by the country in that revised structure?

Mr Daly—The structure is yet to be put in place, but we just assume that it would be, in a sense, business as normal, although the agency with which we would be dealing would be different. They, of course, would also maintain their two world development centres, one at Ichinomiya in Japan and the other one at Biella in northern Italy, and CSIRO technology is a major part of the work that is being commercialised in both those centres.

Mr LAWLER—Would you put the decrease in money from AWRAP down to lack of money, lack of results or lack of utilisation of the results that you have achieved? The second part of the question is: do you agree with McLachlan's indication that if you cannot grow 19 or 20 micron wool value, there is no future?

Mr Daly—That very point is hotly disputed in the industry. I do not want necessarily to argue that point here now, but clearly, those people who are capable of growing superfine wool and who are actually doing so are doing very well out of the business. I think what McLachlan was really on about was increasing the efficiency of the wool pipeline as a whole, not just wool growing, and the inefficiencies in the pipeline are absolutely enormous. We have done sufficient work in CSIRO to show that electronic selling is perfectly feasible and we are moving forward in trying to link sampling in the shearing shed to direct selling electronically.

There is a particularly interesting group that works out of the University of Melbourne called the McKinnon group, headed by Professor Andrew Vizard. They have shown, in this consulting group that they run, that wool growers can increase their returns from wool growing enormously by doing four things that are really fairly simple—and this is getting to your point about lack of technology uptake and lack of technology transfer. Simple things like drenching sheep, lambing at an appropriate time in terms of the feed base, carrying larger numbers of sheep and crossing for finer wool are perfectly capable of significantly increasing returns to growers.

I think the industry has a history of not being highly innovative—unlike, of course, the distinction that we have made in our submission relating to the wine industry, for example. A whole cultural change in terms of innovation is needed in the industry.

Mr LAWLER—Do you see that there is a future for areas that can only grow 23 or 24 micron wool?

Mr Daly—Potentially, there are other animal industries that they might move into—for example, Dorper goats. They might also move into native flowers. There is potential for that.

Mr LAWLER—But there is not a future in that coarser wool?

Mr Daly—I cannot answer that question.

Mr HATTON—I am very pleased to see, in this section on magnesium, that we are about to get a decision on whether the pilot plant in Gladstone will go ahead, and that has been based on 13 years of work with Queensland Metals. I want to put that together with the work on Biota and the commercialising of that and ask the broader question of how significant you now see CSIRO's role, not just as an innovator, and not just pushing research, but in moving this through into the area of, probably in a handmaiden sort of way, helping companies with the commercialisation of their products. The fundamental problem we have always had in the past is that we can dig it up and flog it but, in terms of adding value to it, greater processing and the full commercialisation of product here, we have not had that step. But in the Biota example, and in relation to this, if this goes further ahead, there is a new way of going about things and an understanding of how important that is. Would you like to comment on that?

Dr Hill—Yes, certainly. You have hit upon a couple of the success stories of CSIRO in recent times, although I must admit there are a large number of other success stories of that sort. In more recent years we have been integrating much more strongly that chain, from idea right through to implementation and commercialisation. It is a source of increased focus. In fact, it is at the heart of our new sector alignment process where we bring in sector advisory committees, industry people, who can give us that advice very early on in the process. It is no longer a value adding chain, it is a value adding loop, and we include all the end users as early as we can. The magnesium story is a very good one, but there are others. HIs melt is another process where the—

Mr ALLAN MORRIS—Which one?

Dr Hill—The HIs melt process—the bath smelting of iron ore.

Mr ALLAN MORRIS—We might canvass that later. It was not in your submission.

Dr Hill—The end user was very much involved in the R&D, the planning of the R&D, and the commercialisation strategy early on. We have got a new, very prospective opportunity arising for titanium. We believe that we can add substantial value to the mineral sands industry, or as they like to say, titanium minerals industry, through carrying the processing beyond pigment to titanium metal. The process is quite clearly defined now and we are involving the end users early on in the process of planning the research.

Mr HATTON—Do you see CSIRO, particularly with what happened with Biota, in part operating in a way similar to Stanford and MIT, where they have done the basic research

and then broken off to commercialise and allow people to go out and form their own companies, realising that on their own they would not be able to do that?

Mr Upstill—One of the important ways that CSIRO has changed in the past decade or so is this increasing concern to build stronger links with the end users, this change from traditional work in the agricultural area to working increasingly across the whole spectrum of Australian industry.

The real question—and this has been the subject of the recent triennial investment exercise we have been through in the organisation about where CSIRO should be investing its money—is where to get the highest return, which requires you to think about the way it is going to be used, and there are various ways in which you can transfer it.

The commercialisation aspect you picked up on is awfully important. That is working in collaboration with industry, and you just talked about magnesium. At the time of the early transfer of the technology, the intellectual property, was the appropriate time for an organisation like Biota. But yes, there are also opportunities to spin off companies. In the past decade there have been 50 or so companies that have been spun off by CSIRO. People have left, taking the technology and an agreement with the organisation and moved to set up their own companies. I understand the total annual revenue of those is in excess of \$200 million per year.

Mr HATTON—I will just ask a couple of questions. One concerns genetic engineering and its importance for the future. The other is on biotechnology generally. One of the great advantages the United States has is that people in the United States actually believe what their Food and Drug Administration says about products it has tested because there is a long history of that administration being dependable. We do not seem to have that here.

Do you think it is possible for us to build a similar organisation here in Australia? Could people here have confidence that, if genetically engineered products were being used, if that passed our equivalent to the Food and Drug Administration in the United States then it was okay? Could there be a way to allay the concerns about biotechnology and its uses and all of the scare factors that are around at the moment, not just here but overseas too? Could we channel that through a scientifically appropriate body which would build up a history of being pretty good in this area so that it may help in the end to add value to our products? We are going to have to go down that track in order to be competitive. Is there any organisation that could fit that purpose that we could build on?

Dr Oakeshott—I do not whether this quite answers your question—and I need to declare that I am also a member of the Genetic Manipulation Advisory Committee, so some of my views reflect GMAC positions and experience—but, both as a CSIRO person commercialising technology and as a GMAC person regulating technology, I think one of the strengths we have had is that GMAC has been a science based and predictable process. I think the companies I talk to are somewhat wary sometimes of an American process which is more than just science based and therefore can be more susceptible to changed political views. Clearly, the challenge before us as regulators is to have a predictable technically based procedure from here, but I think we have some right principles in place to build from.

Mr Daly—You are quite right: the Americans do have faith in their Food and Drug Administration and the Europeans do not, not after the dioxin in animal feed in Belgium and the BSE troubles with British beef. I think the infrastructure regulating gene technology in Australia is undergoing transformation at the present moment, with the interim Gene Technology Office being formed within Minister Wooldridge's department.

At the present moment there are two major discussion papers on biotechnology. One has been produced by Biotechnology Australia and has been widely circulated. I will table both, if I may, Mr Chair. The second is the discussion paper which has just been put out by the Department of Agriculture, Fisheries and Forestry—Australia. Finally, I would also like to table a biotechnology report developed by Ernst and Young which was launched by the Chief Scientist, Dr Robin Batterham, at a major biotechnology trade fair in Hanover last week or the week before.

CHAIR—Do you want those three documents tabled?

Mr Daly—For information, yes.

CHAIR—Thank you.

Mr Daly—The role of the various players, including the Gene Technology Office, the Australian and New Zealand Food Authority, GMAC, et cetera, is covered in detail in that discussion document which is out for public comment at the present moment. But I think what Dr Oakeshott is saying is that the importance of science based decisions is going to be critical—as well as accountability, of course, and transparency—in ensuring that consumers have faith in genetically modified products, whether they be food stuffs or pharmaceuticals, for example.

Mr HATTON—For some years now CSIRO has been conducting a trial program in the plantation growth of rainforest trees. I want to know how that is going. Secondly, given the length of time it normally takes to grow those really high-value rainforest trees—even though in the initial part of this program there was very quick growth on a plantation basis—what do you think the future is for using biotechnology to produce a product that would grow relatively more quickly so that that high-value wood could be brought to market here in Australia, particularly when there has been a decline in the rest of the world because so much of it has been chopped down? That is an area—considering all the previous answers I have had when I have asked this question—that would probably need to be established by a major government program because industry would not be doing so.

Dr Oakeshott—Most of that question I would have to take on notice, but they are non-trivial biotechnology challenges.

Mr HATTON—Yes, I know. But I am particularly interested in just how that project is going, because I think it is fundamental not just in terms of adding value but also as a high-value product. We have been flogging pine, which is of relatively low value; we are flogging hardwood, although there is an increasing pressure on that hardwood production; and we have a reduced rainforest coverage in Australia. Rainforest coverage is being reduced worldwide. We have recently seen vast areas to our north being burnt out.

I think that CSIRO pilot project of growing rainforest trees on a plantation basis has enormous potential for the country. If we got the jump on that and were able to do it on a commercial plantation basis, we could really create a market for ourselves in those high-value woods which are in such high demand.

Boral and other companies I have spoken to have indicated that it is too hard for them, that it is a long-term investment—the Japanese type approach. Just as our state forests exist only because state governments went in and built them, we would need to do the same thing on a national basis. So I would be interested in the results of the research so far within that particular project.

Dr Hill—Further to that question and the earlier one about biotechnology, the minerals and energy alliance of CSIRO has, as a result of advice from our advisory committee in the minerals industry, invested a significant additional amount of money to undertake long-term research into biomineral processing. As other speakers have said, the role of CSIRO is an extremely important one in this area in providing independent, disinterested scientific advice on the various advantages and disadvantages of biotechnology across the board.

The trouble is that the real issue is one of public perception rather than, in many cases, scientific fact. The debate in Europe—and spreading to the United States soon—is an example of that: almost independently of what scientific advice one puts on the table, ultimately it depends upon whether the public wants to have the genes of things altered.

The minerals and energy alliance is taking great pains to make sure that in its intentions to expand research into the mineral processing area using bacterial leaching agents, the advantages and the dangers are up front and based on scientific analysis. Even though we are using natural bugs, in effect, that are already acting in tailings dams and so forth and so on, the perception of the public is that it is bad. So we are very conscious of that process, and we are being very careful not to stumble early on in an extremely enabling technology for the next century.

Mr HATTON—Thank you.

Mr ALLAN MORRIS—You may want to think about this some more, but I have a question about the two projects we were talking about which both involve partnerships—magnesium and HIs melt. Firstly, with regard to magnesium, can you tell me who actually owns the intellectual property for the technology you are developing now? Is it you or is it the organisation that is actually doing the work?

Dr Hill—It is owned by Queensland Metals Corporation and in a subsequent agreement by the Australian Magnesium Corporation. CSIRO do not own the intellectual property.

Mr ALLAN MORRIS—I was trying to clarify the role of the AIDC. If you recollect, the government put funding into that project by the AIDC as a special public interest provision.

Dr Hill—I am not aware of the details.

Mr ALLAN MORRIS—I was curious as to what has happened to that ownership. Perhaps you may be able to clarify that for me with a note later. The point I am trying to get to is that really substantial public funds have been put in to both that project and Hismelt in terms of R&D. Both those projects could be incredibly efficient, incredibly economical and totally viable but not go ahead because of third party decisions. That could also tie up the technology. With Hismelt, for example, there has been talk about Rio Tinto taking that technology and putting the operation in South Africa. So the technology developed in Australia with something like \$150 million worth of taxpayers' funds could in fact be used to develop a market for another country.

Dr Hill—There are a couple of questions there. In relation to the magnesium, I cannot comment on the AIDC arrangements but, insofar as the CSIRO is concerned, we do not own the intellectual property associated with the Australian magnesium process. It is owned by QMC/AMC. However, it should be borne in mind that in developing a long-term project of this sort, there is a huge accrual of know-how and infrastructure and skills developed in the process of producing that formal IP that vests in CSIRO and the other research partners, whoever they may be, that is not subject to the intellectual property arrangements in the formal legal sense. CSIRO has gained tremendously from working in those projects for 12 years now and, in fact, that started in my division, and the benefits of that will accrue across-the-board in other projects, not just magnesium but everywhere in terms of the skills base we have built up and the know-how. So there is intellectual property and there is intellectual property.

In respect of Hismelt, my understanding is that Hismelt is now looking for a partner. They may need to go offshore to find the partner that will deliver to them a demonstration plant to go the next step. Where the final plant goes is a decision that Rio Tinto will make.

Mr ALLAN MORRIS—Yes. We have invested substantially in an area as people because we see it as being a benefit to the country. Having got Hismelt viable, the company then takes that technology and puts it into our competition, if you like. Doesn't that seem to be an impediment to value-adding, and how does that relate to your own projections of value-adding? They are the kind of drivers of value-adding. We thought it was technology, so we actually go out and develop technology. Having done so, we appear to have left open the provision that that technology is not necessarily indigenous and need not necessarily be constrained.

Dr Hill—It is difficult for me to answer that question because there are commercial decisions involved, of course. But again, I make the point that I made in the case of magnesium, that CSIRO, in supporting the Hismelt development process, accrued a tremendous amount of—

Mr ALLAN MORRIS—But if you were going to the taxpayers out there and saying, 'We want you to invest more money and raise more taxes to invest in the CSIRO that helped develop this wonderful technology which then goes offshore,' I do not think we would get our taxpayers to actually agree with that. You can talk about all the fringe benefits you get as a company but, quite frankly, to say, 'We should be investing in helping Rio Tinto put a Hismelt plant into Korea or South Africa,' will have people say, 'Why in the hell should we pay for it?' So one of the problems parliamentarians have in arguing for increased

investment in value-adding is that we seem to come up with these problems. We either fall over or we do not get there or we have not got the technology. We have always got these excuses, and the credibility of all of us is a bit at stake here.

Dr Hill—It is an extremely important point, but I cannot emphasise enough the fact that the arrangements with Rio Tinto were of various sorts, as are the arrangements with CSIRO or with any other client. The arrangements can be totally funded at cost plus right up to totally appropriation funded at the other end where there is very little client input except advice and long-term interest.

In relation to the Rio Tinto development of Hismelt, CSIRO's involvement at various stages went to both extremes of that spectrum. For the investment that the taxpayer has made in CSIRO's expertise that was not recovered from Rio Tinto, there was still a substantial benefit which we must not lose sight of and that is the development in-house which then gets applied to other—

Mr ALLAN MORRIS—No, I understand that.

Dr Hill—The application of that technology, one would expect, would be in Rio Tinto's interest to develop in Australia, given the iron ore reserves that they own in this country.

Mr ALLAN MORRIS—We will not go into all the internal politics of Rio Tinto, but I understand what you are saying. But out there in the community I am not sure whether they think we are all pretty hopeless at it, both yourselves and ourselves, and hence your credibility in terms of government funding is undermined by that development.

I will ask you for some policy insight into how we can do better at value-adding and at capitalising on our intellectual capacity if we do not appear to be when we allow those kinds of things to happen one way or another. Either we should not go with that technology or we should be investing in it. If it is simply going to go offshore and if it is going to employ a few scientists for a year or two, that is no real significant benefit in terms of the value of the money we put into it. In your submission you do not touch on that kind of issue and it is one that really needs some comment, not necessarily across a table because this inquiry will run for some time.

The other point I wanted to raise with you is that we are looking at the prospect of doing some case studies as our next phase of our inquiry. I guess that members of the committee all know my view, but magnesium is one that I would dearly love to see a closer study of because it appears to be one that we may well be successful on, though not quite yet. It is still actually evolving. Could you supply us with a lot more information about the magnesium project as part of this ongoing process? You mentioned it in your submission very briefly.

Dr Hill—Yes, there is an appendix here, I believe. We provide a fairly detailed description of a magnesium project—

Mr ALLAN MORRIS—Yes, all right.

Dr Hill—but we can supply another copy.

Mr ALLAN MORRIS—It is in the submission, yes. That is excellent. We have that there, thank you.

Dr Oakeshott—In the biotechnology area, the benefit to Australia issue around licensing arrangements is also very important and it has become more important with all the vertical integration.

Mr ALLAN MORRIS—Dr Oakeshott, I can see what you are saying there, but I also watch a brain drain of some of our best scientists going offshore. There is a danger that what you are saying is a fallacy. There is a real danger that that actually obscures the real issue. As I said, I watch some of our best people in IT, in biotechnology, in chemistry, our own award winners, end up being permanently based overseas because there is not the capacity here. It may be great to develop our scientific skill, but it does not mean that we end up improving our value adding. We may end up doing the opposite. We may end up with those people being resident elsewhere for a variety of reasons. I have been sympathetic to that point of view for a very long time, but I am now starting to question it because of the events of the last four or five years. I would not take that as being automatic. I am not saying it is not true; I am just saying it may well be exaggerated.

Dr Oakeshott—I think I was going to say that the key strategy for CSIRO in our area is to have IP around key leverage points in the process. There are some success stories which commercial issues prevent me from elaborating on here where we have actually achieved real benefits to Australia through leverage of overseas IP and technology because we have something that is needed globally. In that respect I think that CSIRO has come a long way and now has some pretty sophisticated policies in place for commercialisation.

CHAIR—I think we will have to leave it there now. I have got a number of questions myself which I would like to put, but I will not at the moment. What I will ask the secretary to do is to write to you, if you do not mind, and get some answers on those questions because we are running quite late at the moment unfortunately. We will leave it at that. Thank you very much, gentlemen, for your time.

[12.13 p.m.]

CRIBB, Mr Bridson, Executive Director, Pulp and Paper Manufacturers Federation of Australia

CHAIR—Welcome, Mr Cribb and thank you very much for your patience—I know you have been waiting quite some time. I have to remind you that the proceedings here today are legal proceedings of the parliament and warrant the same respect as proceedings in the House. The deliberate misleading of the committee may be regarded as a contempt of parliament. The committee prefers that all evidence be given in public, but should you at any stage wish to give evidence in private you may ask the committee and the committee will give consideration to your request. Do you have an opening statement that you would like to make?

Mr Cribb—Yes, I would appreciate the opportunity to make a brief opening statement. I appreciate that time is short but I think it will probably help the deliberations of the committee if I can just say a few words to open up.

CHAIR—Fine.

Mr Cribb—My federation represents the interests of the five largest pulp and paper manufacturing companies in Australia. It is important to recognise that the pulp and paper industry is the most capital intensive industry in Australia. The industry is strongly committed to investing in high value added activities. Over the last three years, fixed capital investment in the industry has increased by 32 per cent to a level of nearly \$4 billion. Next month, Visy Industries will commence work on a new \$400 million project at Tumut.

The Australian pulp and paper industry is an integral part of a highly competitive globalised industry. Its tariffs have been substantially reduced over recent years and are at an average level of three per cent. It is a major import replacement industry. As was mentioned earlier, the trade deficit in pulp and paper is currently about \$1.5 billion. However, it is important to recognise that if there was no industry in Australia the trade deficit in pulp and paper would be closer to \$5 billion. The industry does not export woodchips, nor does it log old-growth native forests. In fact, the majority of the industry's fibre is sourced from recycled paper, and the Australian industry has one of the best recycling records in the world.

The industry adds value to Australia's raw materials in a number of ways. The most obvious way, as spelt out in our submission, is that a tonne of eucalyptus woodchips that is exported earns about \$80; if the same tonne was kept in Australia and converted into high value office paper, it would be worth \$500—more than six times the export value. The same value adding applies to waste paper, which is a low value commodity which, when recycled, is transformed into a high value added product. In addition, the industry provides long-term high paying jobs which underpin the economies in many regional areas, such as the Latrobe Valley, Albury-Wodonga, Mount Gambier and Tasmania. Finally, the industry is a strong source of technical innovation. It has built on its traditional engineering strengths and is now a major user and developer of information technologies. People are often surprised to learn that there are more computer systems in a paper machine than there are in a jumbo jet.

There are, however, a number of areas where we think changes to Commonwealth government policies and regulation would improve the operating environment for the industry, and this would enable it to expand its value adding role. Foremost amongst these is the reform of the business tax system. The PPMFA welcomes the proposed reforms recently announced by the government in its response to the Ralph review. If implemented, we consider these reforms would be an important first step towards achieving an internationally competitive tax system in Australia.

Another major area of concern is greenhouse policy. The industry has an excellent record in relation to greenhouse. Between 1990 and 1997 the industry reduced its CO₂ output by 12 per cent on a net tonne of production basis. If every other sector of the economy had a similar performance, Australia would have no difficulties in meeting its Kyoto protocol target. While we recognise and appreciate the better than expected national outcome that the government achieved at Kyoto, we nevertheless consider that the Kyoto protocol is fundamentally flawed in requiring only developed countries to take action to reduce emissions. This is because many of our main competitors in pulp and paper are developing countries, such as Indonesia, Korea, Brazil, Thailand, Chile, China and South Africa. None of those countries are required to do anything to reduce their emissions at this stage.

We welcome the many assurances that the government has made that it will protect the competitive position of Australian industry. However, these assurances need to be turned into reality. The Australian pulp and paper industry is already at a cost disadvantage compared to developing country competitors. In the area of existing environmental regulation, independent analysts estimate that the Australian industry is already bearing additional production costs of about \$15 per tonne compared to a developing country competitor such as Indonesia. If the government's greenhouse response measures require the industry to bear further additional costs, this will inevitably and negatively affect its international competitive position. Further investment and the jobs associated with it will simply shift to developing countries, with no net improvement in global emissions. Independent analysis that has been undertaken indicates that the potential cost of emissions trading to the industry could be very high. The best estimate at the moment is that emissions trading would increase the industry's production costs by an average of \$45 per tonne of product. At this rate, the Australian industry would simply be uncompetitive in comparison to developing country competitors.

The final area I want to touch on is government policy in relation to tariff levels. The government has recently requested the Productivity Commission to review Australia's general tariffs. The Australian pulp and paper market is already one of the most open in the world. Our level of protection has already been reduced to levels well below those of most competitors. We consider that Australia's competitors should match the openness of the Australian pulp and paper market, both in terms of tariff and non-tariff measures, before the Australian government considers any further reduction in the industry's tariff protection. To remove the industry's residual tariff protection, which is only at an average level of three per cent, would result in the pulp and paper industry suffering from negative assistance.

In our view, the most immediate important action the government could take to reduce business costs is the removal of the three per cent duty on business inputs under the tariff concession system. This was imposed in the government's first budget because of the budget black hole. Now that fiscal consolidation has been achieved, the reason for the introduction

of this measure no longer exists and we think it should be removed. I will be pleased to answer any questions.

Mr ZAHRA—I am not too sure about budget black holes and all the rest of it, but I do have some questions to ask about the industry. It is pretty important in my electorate, as you know.

The first thing is about paper dumping. Where are we at now? I know this has been an issue in which the various members for McMillan over a number of years—probably 10 years—and across political parties have taken an active interest in trying to advocate on behalf of the industry. Have we pretty much broken the back of it? What further work needs to be done?

Mr Cribb—I think at the legislative level there were reforms to the antidumping system that came in, from memory, about two years ago. We think this now gives us the potential to have one of the best antidumping systems in the world. It is consistent with our WTO obligations but enables us to protect the industry from predatory pricing. I gather there are some particular problems in terms of the implementation from time to time of that legislation, and I think there are some changes that probably could be made to improve the way the system functions. But, at a basic legislative level, we are fairly happy with the way the system is set up.

Mr ZAHRA—You have pretty much broken the back of it. I know that we went through a period—a peak of activity and legislative action being proposed to deal with it—and then all that was heard for a little while was a bit around the edges. You heard various bits and pieces from people as to whether or not it had been resolved satisfactorily. So I am glad that you have cleared that up for us.

With regard to the Wood and Paper Industry Council that is being proposed—something which the Labor Party believes in passionately—is this something which your association has supported? What is your position on it?

Mr Cribb—There was a Wood and Paper Industry Forum which has since been disbanded—

Mr ZAHRA—Which met twice, or something?

Mr Cribb—That is right.

Mr ZAHRA—Over what period did it meet twice? Was it 12 months or two years?

Mr Cribb—Probably 12 months, 18 months, something like that. My industry is happy to be involved in any such body that is established. We have absolutely no problem with that. The point I would make, though, is that the industry is quite small in terms of numbers. There are only five major companies. My federation represents all of those companies. The heads of my companies, my chairman or I would be very happy to meet and discuss issues affecting industry with anybody at any time, so if there is a need to have a broader forum we are happy to be involved in that.

Mr ZAHRA—So it would be fair to say that your association would be supportive of the establishment of a Wood and Paper Industry Council?

Mr Cribb—We do not have any difficulty with that.

Mr ZAHRA—Good. Obviously, there are negotiations taking place in the context of the regional forestry agreement process and that is one very important part of it. I am not sure whether Minister Tuckey understands that it is the view of the association. Certainly, NAFI have stated a view that they are supportive now of the Wood and Paper Industry Council, whereas they have not been previously. So that is actually useful to be able to pass that information on to Minister Tuckey.

I do not know how long you have actually been here listening to some of the other witnesses, but if you have been here for a little while, I think you would share with me the frustration at questioning witnesses from the department and then from CSIRO about matters to do with the forest and forest products sector and getting almost no answer at all in relation to any specific question. Maybe you can shed some light on this subject. Do you know what Minister Tuckey's proposed action agenda for the wood and paper industry is?

Mr Cribb—Yes. From memory, this is an initiative that he launched about 12 months ago, and there have been a number of meetings involving representatives from across the sector.

Mr ZAHRA—Has your federation been represented?

Mr Cribb—Yes. We have been taking part in this exercise primarily as an observer, but we have been involved in the exercise and we are very interested in the results that are going to come out of it. My understanding at the moment is that a series of focus groups and a steering committee have been established to develop the detail of the proposed action agenda, and a draft is scheduled to be available before the end of the year for stakeholder comment.

We have made submissions to Minister Tuckey and his department on what we think the action agenda should include, and we are keen to see the outcomes that it will generate. If they can generate outcomes that will be helpful to the pulp and paper industry we would support those very strongly.

Mr ZAHRA—No doubt you would be aware of what has taken place in Clayton in recent months with, basically, the gutting of the forest products laboratory over there. Does your association have a view about that action, given that a lot of the work which was being done in the forest products laboratory at Clayton aimed to ensure a long-term, sustainable future at the high end of value adding in Australia in the forest and forest products sector?

Mr Cribb—We have been quite concerned about the changes there. We have had a CRC, which has just wound up now, and we had a proposal for a new CRC. The first CRC was considered to have done some excellent ground-breaking research work and was very successful. We had an application for a revised CRC which had the support of all industry

companies which we were very confident about. Unfortunately, its application for funding was unsuccessful.

Mr ZAHRA—So that has been knocked back now?

Mr Cribb—Yes.

Mr ZAHRA—When was that knocked back?

Mr Cribb—It must have been in April this year. So there is now no continuing CRC specifically for pulp and paper. On top of that, as you mention, the funding within CSIRO for its Division of Forestry and Forest Products has been cut back substantially. We have expressed our concern to relevant ministers and directly to CSIRO about those cutbacks. We do not think that is helpful for the future of the industry at all.

Mr ZAHRA—What sort of reasons have the department and CSIRO provided to you in response to that? It seems to me that that really strikes at the heart of what this sector is all about, which is staying at the forefront of technology and making sure that we do have those high technology, high value added, high wage jobs in the sector rather than the basic, cut it down or pulp it and send it overseas.

Mr Cribb—We have not had particularly satisfactory answers to our questions. One of the reasons given was that CRCs were not intended to be a continuing funding exercise, so if you had a CRC already, the implication was that it was meant to have become self-funding or something like that. But we have not been satisfied with the answers we have received—

Mr ZAHRA—On what basis has the funding been provided? Has it been provided on a dollar for dollar basis or has a different ratio existed for pulp and paper and forest products CRCs or equivalents?

Mr Cribb—I could probably check the details of what the funding ratio was going to be because I do not have that information with me at the moment. Certainly, it involved cash contributions from industry plus in-kind contributions from industry, matched by contributions from government. I do not recall the exact ratio, but if you are interested I could get that information for you.

Mr ZAHRA—In terms of the size of pulp and paper plants in Australia, we have just had the creation of the M5 fine paper plant in Maryvale in my electorate. That was an enormous development in a local context—I think it was \$328 million—which was delivered on time and on budget by our great, skilled, flexible work force in the Latrobe Valley. But that is a small plant relative to what the world market is.

Mr Cribb—That is true.

Mr ZAHRA—My question to you is: what do we need to do to get the billion dollar plants which are being built in other parts of the world? Why is it that Amcor, which is obviously a member of your federation, built M5, which is a smaller plant, rather than taking

the step of building a billion dollar plant or a billion dollar plus plant which would have been more economically wise in the context of those larger plants?

Mr Cribb—I cannot comment on the individual decision that Amcor has taken in that regard. As I mentioned in my brief presentation at the beginning, much of this comes back to the investment climate. It is the most capital intensive industry in the world. You are talking about very long-lived investments and, therefore, the investment climate is really the critical thing there—plus, of course, you need an adequate wood resource or fibre resource from wherever that is coming from.

If you want to go back in history a little bit, a major problem that the industry suffered was the decision not to approve the Wesley Vale pulp mill in the late 1980s, whenever it was—

Mr ZAHRA—It was 1989.

Mr Cribb—which would have, I think, revolutionised the industry in Australia. It would have cracked open that world- scale international market focus for the industry. Unfortunately, that project was killed off on environmental grounds that were spurious at the time and they have subsequently proved to be completely spurious. So, from a historical point of view, it is unfortunate that that project did not go ahead.

The point is that there are only so many world-scale mills that are built—because they are so huge and they suck in so much capital—around the world at any given time. You get so many windows of opportunity for those and we missed a major opportunity with the Wesley Vale project in 1989. Hopefully, with things like the tax changes and those kinds of things, the climate for that kind of investment will be right at some stage in the future.

Mr ZAHRA—Thank you, Mr Chairman. I think I have taken up enough of Mr Cribb's time.

Mr HATTON—You mentioned there was a comparative study of Indonesia and Australia which you expected to be finished in August; is that finished yet?

Mr Cribb—We have a draft of it now. Some of those figures I was quoting were from that study. It is scheduled to be considered by my board this week and it will then be in a position to be finalised. If the committee would like to receive a copy of it, we would be happy to provide you with a copy. It should be finalised quite shortly.

Mr HATTON—I would be very interested.

CHAIR—A couple of questions on R&D: did the reduction of the tax concession from 150 to 125 per cent affect your members in any way and, if so, can you give us some specific examples?

Mr Cribb—It is hard to quantify a change like that in terms of the research spending that an industry does. You could certainly say it has not been helpful and we would certainly have preferred it to remain at 150 per cent. One of the impacts of the business taxation

changes is that the value of that 125 per cent concession will now be reduced because of reductions in the corporate tax rate. So, ideally, we would like to see the R&D concession increase but it is hard to provide you with tangible direct evidence that R&D spending has gone down.

CHAIR—What about the balance between generally available tax concessions and targeted grants such as R&D Start programs and things like that? Do you see them as being more effective?

Mr Cribb—As I was discussing before, the vehicle that we found the most effective was the CRC vehicle. My chairman, for example, who is originally from Canada, commented that the CRC that we had operating was the most successful example that he has seen anywhere in the world of collaboration between industry, the academic community and the research community. From our point of view, the CRC vehicle was a highly effective method of doing the industry's research and that was something that we were keen to see continued.

CHAIR—Is your organisation going to be represented at the National Innovation Summit in February next year? Are you aware of that?

Mr Cribb—I am aware of the summit. I am not sure whether we are going to be directly represented at that.

CHAIR—If you could let us know whether you are going to be—

Mr Cribb—That is being organised by the Business Council of Australia and—

CHAIR—And the government, jointly.

Mr Cribb—The industry department, I guess?

CHAIR—Yes.

Mr Cribb—Okay. I can let you know about that.

CHAIR—That has basically covered everything that we needed. Thank you very much for your time and for your patience.

Resolved (on motion by **Mr Lawler**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 12.33 p.m.

