PROOF

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND PUBLIC ADMINISTRATION

Reference: ANAO report on guarantees and indemnities

MELBOURNE

Monday, 21 April 1997

PROOF HANSARD REPORT

CONDITIONS OF DISTRIBUTION

CANBERRA

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND
PUBLIC ADMINISTRATION

Members:

Mr Hawker (Chair)

Mr Albanese	Mr Mutch
Mr Anthony	Dr Nelson
Mr Causley	Mr Pyne
Mrs Gallus	Dr Southcott
Mr Hockey	Mr Willis
Mr Latham	Mr Wilton
Mr McMullan	

Matter referred to the Committee:

Review of the Auditor-General's audit report No. 6 of 1996-97 - Performance Audit - Commonwealth guarantees, indemnities and letters of comfort.

CONDITIONS OF DISTRIBUTION

CANBERRA

WITNESSES

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND PUBLIC ADMINISTRATION

ANAO report on guarantees and indemnities

MELBOURNE

Monday, 21 April 1997

Present

Mr Hawker (Chair)

Mr Anthony
Mr Causley
Mrs Gallus
Dr Nelson
Dr Southcott

The committee met at 9.39 a.m.

Mr Hawker took the chair.

CHAIR—I declare open this hearing of the House of Representatives Standing Committee on Financial Institutions and Public Administration inquiry into the Australian National Audit Office performance audit No. 6 entitled *Commonwealth Guarantees Indemnities and Letters of Comfort*. This is the third hearing this committee has held since it commenced the inquiry in late 1996. The committee has already heard from the audit office and the Department of Finance. The committee intends to take further evidence from a range of government departments and government business enterprises. The audit report has identified significant shortcomings in the management of guarantees, indemnities and letters of comfort by a number of government agencies. Poor management of these instruments has resulted in a number of costly claims against the Commonwealth in the past.

The committee has already examined the central role of the Department of Finance in ensuring the departmental management of these instruments is of a high standard. At today's hearing the committee will be hearing from two government business enterprises—Wool International and the Australian Wheat Board. The committee considers it important to examine the activities of government business enterprises as they were not canvassed in the audit report. There is a perception that, as many government business enterprises make greater use of guarantees and indemnities than departments, the risk to the Commonwealth is greater with respect to the GBEs. We look forward to having our concerns allayed at today's hearing.

BAWDEN, Mr Ross Alfred, Manager, Inventory/Property, Wool International, 369 Royal Parade, Parkville, Victoria

CHAIR—Welcome. Do you have anything to add?

Mr Bawden—I am currently the Manager of Inventory and Property for Wool International. But today I am deputising for Dr Bob Richardson as he is on leave. So I am here in the capacity of Acting Chief Executive for Wool International.

CHAIR—The evidence you give at the public hearing today is considered to be part of the proceedings of parliament. Accordingly, I advise you that any attempt to mislead the committee is a very serious matter and could amount to a contempt of parliament. Do you have any comment to make regarding the capacity in which you appear? The committee has received your submission, No. 3, and has authorised it for publication. Are there any corrections or amendments you would like to make to the submission?

Mr Bawden—No.

CHAIR—The committee understands that you are appearing in place of Gary Richardson who is unable to attend today. Do you wish to make a brief opening statement before I invite members to proceed with questions?

Mr Bawden—I assume that members now have a copy of Gary Richardson's written notes?

CHAIR—Yes.

Mr Bawden—In preparation for attending today Gary prepared some notes he was going to present and they have been tabled for the information of committee members.

CHAIR—We have that statement. Is it the wish of the committee that the document be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The document read as follows—

CHAIR—I would like to open by talking a little about how things are actually working with Wool International. Given that there has been an announcement that some funds will probably be returned to growers later this year—for the sake of Mr Anthony I will declare that I have an interest in wool—does this represent an exposure to the Commonwealth, given that you will be returning funds while Wool International still has significant borrowings?

Mr Bawden—Under the existing legislation governing Wool International's activities, income derived from property assets were to be accounted for separately. This account was commonly referred to as section 51 reserves as it is covered under section 51 of the act. These funds have always been accounted for separately and the accumulated debt has always been reported separately—net of that amount. It is that amount that is proposed to be returned to growers prior to all of the debt being extinguished, so there is no further liability on the Commonwealth.

CHAIR—One of the issues that the audit office has brought up is that it is very concerned about the fact that some government departments have not been fully reporting guarantees and indemnities where they happen to be in a contract or correspondence. Does Wool International have any such contracts or guarantees that are not fully reported?

Mr Bawden—You will see in Mr Richardson's response in January to the ANAO's report that he believes Wool International's reporting standards are above peer standard. We report quarterly to the minister and we believe that that report is passed on to the departments of Treasury and Finance. That regular quarterly report fully details liability and exposure to the Commonwealth. In addition, the ANAO in their annual audit of Wool International's accounts specifically look at our treasury operations and our financial risk management operations.

CHAIR—Does anyone else have a question ?

Mr ANTHONY—I noticed that the letter that Wool International sent to Chris Paterson, dated 28 January, not in this report today, talks about your level of exposure as at 31 December 1996. Obviously, it is substantially less than the halcyon days of 1991, thankfully. In 1994-95 you commissioned Salomon Brothers and Price Waterhouse to undertake an independent assessment of the risk, and a financial risk management policy plan was formulated. I was wondering whether you could just elaborate to the committee what procedures are in place now. I say this because I just note—I am sure there is a good reason for it, but you might be able to enlighten us, Ross—that your current exposure was $873 million at year end and yet the hedging operation by Wool International was only $3.2 million, for an exposure of $873 million, which seems to be disproportionate to your actual exposure to market forces. I was just wondering why it is the case and perhaps you have got other measures in place to take into consideration.

Mr Bawden—The specific question on what constitutes or what makes up the amounts declared under the foreign exchange contracts, interest rate swaps and state options, I would have to take that on notice and get Gary to report back on. But the risk management report that was developed by Price Waterhouse and Salomon Brothers set out quite clearly the areas of responsibility and how that responsibility fell within the organisation by developing a Risk Management Committee, and it sets out how that committee reports back to the board and the audit committee of the board.

Within that, it talks about operational issues in relation to foreign exchange, interest rate hedging et cetera. So it is a detailed report. I have not got a copy with me, but it is a detailed report setting out the operations of our treasury and finance areas.

Mr ANTHONY—There was obviously a reason for that—to tighten up internal audit procedures. How long have you been with Wool International?

Mr Bawden—I have been 10 years with Wool International and its predecessors.

Mr ANTHONY—Okay, you are a veteran. There are not many government GBEs that had that sort of exposure which you had with the floor price scheme at the end of that time. Was Wool International or the previous beast fully hedged? What were the mechanisms in place? The reason I ask that is: obviously there is no floor price scheme now, but who knows what might happen in the future, or for other industries where there is a single desk, where there is massive exposure. How did you handle that problem there and what lessons can be learnt in the future?

Mr Bawden—I am not privy to how issues were managed under the Australian Wool Corporation. I was part of the management team with the Realisation Commission and then Wool International. It was decided to structure a more formal approach to financial risk management after the establishment of Wool International, and it was the new board of directors who came in in 1993 that actually commissioned the financial risk management report.

Prior to that time, we did manage things in a structured way and it was regular reporting to the board, but it was on the introduction of Wool International where we decided to seek external advice. I might add that the external advice, although developing a formal risk management policy, did comment that the operations of Wool International were consistent with industry practices of a quality operation.

Mr ANTHONY—What industry practices?

Mr Bawden—In relation to the financial risk management. For example—

Mr CAUSLEY—Private industry or government?

Mr Bawden—Private industry. For example, they looked at the way we asset manage and the exposure to assets. Wool International, with its stockpile and property assets, has a large physical asset portfolio. They looked at that and they said that we were actually conservative in the way that we took out insurance on our physical assets.

CHAIR—Just to follow up on that, are you saying that prior to the Australian Wool Realisation Commission being in place, there was no real structured risk management?

Mr Bawden—There was not a formal risk management policy.

Mr ANTHONY—Does that mean that hedging was going on or not?

CHAIR—You could not really hedge.

Mr ANTHONY—You could still hedge.

Mr Bawden—I do not know. I would have to take that on notice.

Mr ANTHONY—But we must know, though. This is quite an important point. I do not want to labour it, but in 1991-92 this was on the front pages consistently because of the exposure by the Wool Corporation at the time, when its stock piles were approaching three billion. And if you were there, what were they doing? Was it 50 per cent hedged? Were you hedging currency? Were you hedging wool futures? This is what this inquiry is looking at—how these agencies handle that. If it did not happen, we can learn from it, but what happened there?

CHAIR—The wool futures would not have been available.

Mr ANTHONY—The wool futures were still around.

CHAIR—Yes, but not for that quantity.

Mr ANTHONY—No, but their currency was, though.

CHAIR—Currency. yes.

Mr ANTHONY—And interest rate swaps and all the others.

Mr Bawden—So the question is: what happened prior to Wool International developing a formal risk management policy that it currently has?

Mr ANTHONY—Yes, you have got a policy now because of problems in the past. How do you do it? Even now, you are hedging a very small quantity on the actual outstanding risk at the moment, which is $900 million.

Mr Bawden—The policy actually states that at least 50 per cent of the interest exposure is hedged, and the balance is determined by the Risk Management Committee.

Mr ANTHONY—Okay, that is good, And that is on currency, is it? What about interest rates?

Mr Bawden—I am not sure on the policy on currency. Again, I would have to take it on notice.

Mr CAUSLEY—This inquiry is all about what risk there is to the taxpayer from the government instrumentalities, and the Australian National Audit Office have been fairly critical in their report in saying that they believe that you have poor reporting procedures and that you had not reported adequately on contingent liability. It is good reporting, would you not say, good accounting practice, to in fact clearly state what contingent liability is?

Mr Bawden—I would agree with that.

Mr CAUSLEY—I think that is the critical point because it is not just Wool International; there are many other government instrumentalities that could put risk on the taxpayer.

CHAIR—So do you want to respond to that?

Mr Bawden—Again, I would need to take that on notice and report back to the committee what the procedures were prior to formal risk management policy being introduced.

Mr CAUSLEY—Whether in fact there was insurance or, as Larry says, there was hedging, or did Wool international rely on the backing of the government, the taxpayer, because I dare say that is the critical point?

CHAIR—In the statement that Gary Richardson has tendered to the committee he does raise the question of the Commonwealth accepting unconditional responsibility for all liabilities incurred by its agencies. Do you know what he really meant by that?

Mr Bawden—Gary's comments relate to the situation there is now—that there is either an explicit guarantee, an implied guarantee or a denial of a guarantee. The thrust of his argument is that, if the Commonwealth were establishing an authority to perform a certain task, then the financial markets view—whether it is explicit in the act or whether it is implied—in many cases that authority to have a guarantee of the government. So Gary's first argument is that there should be a consistent approach in the way that the Commonwealth supports through guarantees any liabilities that these organisations may incur.

Mrs GALLUS—Can I ask you to talk a bit louder. The acoustics in this room are absolutely terrible, and I am having a lot of trouble hearing.

Mr Bawden—I was just saying that Gary's argument is that, if the Commonwealth establishes an organisation to undertake a certain task, it does not matter whether it is either explicitly set in the act or implied. The financial institutions view the guarantee to be there irrespective.

Dr SOUTHCOTT—Isn't it possible, then, that the financial institutions do not give as much scrutiny to that organisation? For example, in terms of the board of Wool International, how are they accountable if there is this implicit or explicit guarantee to reducing the exposure by the Commonwealth?

Mr Bawden—I suppose they as directors have a duty to do that, but Wool International does have in its act an explicit guarantee for activities relating to management of the accumulated debt and the wool stockpile. But it does not have explicit guarantees for other activities that are covered under its functions.

Mr ANTHONY—You are covered for up to $800 million, aren't you, by the Commonwealth?

Mr Bawden—Again, I am not sure of the details.

Mr ANTHONY—I am interested in your point of view about the guarantee being explicit or implicit. I suppose at the moment the government is trying to isolate liability. That is why the Wheat Board is to be corporatised—to make the entity far more transparent regarding liability. The Commonwealth was always meant to be the backstop. Obviously, if things become quite explicit as opposed to implicit, then the cost of handling risk will go up because you will not have that backstop. What would happen in years to come if Wool International did not have that sort of backstop? Even if the stockpile is, let us say, wound down to zero, it might be built up again. How would you manage that if you did not have a guarantee from the Commonwealth?

Mr Bawden—Again, I am not qualified to comment on how we would go about managing borrowings if we did not have the guarantee of the Commonwealth. But, as Gary said in his response in January, it would be unlikely that the Wool Corporation, as it was then, would have been able to fund the $3 billion of stockpile purchases if that were not government guaranteed. I suppose that leads to the view that under certain circumstances a statutory authority could not continue to operate without that government guarantee.

CHAIR—So you would not hazard a guess as to how far it would have been able to go without that guarantee?

Mr Bawden—If Gary were here—he was managing the finance and treasury area at the time—he would have been able to advise you of that. Again, I can take that question on notice.

CHAIR—I would be curious to know.

Mr CAUSLEY—I have quickly read through these notes from Mr Gary Richardson which I believe Gary was going to present. I have not caught up with some of it, but what has been Wool International's reaction to the Australian National Audit Office report? Forgive me if I have not caught up on what I missed when I was outside, but have procedures been put in place to address some of the criticisms that have been put forward by the audit office?

Mr Bawden—Again, as Gary said in his response in January, we accept the findings of the audit committee and do not have any specific response to those.

Mr CAUSLEY—So that means that you are going to implement their recommendations, then?

Mr Bawden—I have not had time to look at the detail of what is in there, but I assume from the work Gary has done that many of the recommendations are already covered by existing risk management policies and procedures.

Mr CAUSLEY—Have they changed, though? The audit office were quite critical of that.

Mr Bawden—Again, I cannot comment on that. I would have to take that on notice and ask Gary about that.

CHAIR—In your submission you state:

Wool International has for the past 20 years—

I suppose that includes the AWC—

undertaken the management of its finances in a generally more commercial manner than has been the norm for most agencies.

You talk about the management of interest rate and other financial risks for accrual accounting. Could you expand a bit on what you said earlier—that if it was not for the government guarantee, you would not have been able to continue to borrow at the rate you did in 1990?

Mr Bawden—Again, I cannot comment on the specifics, but in the paragraph above that you will see that Gary has commented:

Indeed, it is highly unlikely that those statutory obligations could have been fulfilled in a statutory marketing authority without the benefit of those guarantees.

In saying that, he is implying that the level of borrowings could not have got to the point that it did without the government guarantees.

CHAIR—It seems a contradiction, because it is not a more commercial manner.

Mr Bawden—I think what he is saying there is that it is more commercial in the way it runs its day-to-day operations. The Wool Corporation at the time had a unique legislative charter to operate the reserve price scheme, which required substantial funds to fund the operations.

CHAIR—Then it did require the ministers—I cannot remember, but it must have been on several occasions—to extend the guarantee?

Mr Bawden—Correct.

CHAIR—Just to clarify a point Mr Anthony was asking about: as I understand it, Wool International, while not formally having a sunset clause, is expected to sunset, isn't not?

Mr Bawden—It does formally have a sunset clause in that the stockpile is now to be eliminated by December 2000.

CHAIR—So the organisation will be wound up at the same point, or soon after?

Mr Bawden—It will. The changes that are going through to the legislation now confer a right to wool growers on any surplus, so that surplus will have to be distributed beyond that date. But once that occurs, then the organisation would be wound up. There is a guideline in the legislation to say that the target date for extinguishing the debt is December 1998.

Mr ANTHONY—What is the debt?

Mr Bawden—The current debt?

Mr ANTHONY—Yes. Is it $873 million?

Mr Bawden—Yes, I have got an update. It's $684 million, but that includes section 51 reserves, which are about to be returned to growers. So that will go up by another $80 million. At 28 March, the net of section 51 was $684 million. It would be roundabout $760 million if those reserves were not—

Mr ANTHONY—Mr Chairman, I have a question that is not directly related to this, but it is to do with the management of the stockpile.

CHAIR—Go ahead.

Mr ANTHONY—I appreciate your difficulties because Gary Richardson was not able to make it. How are you managing the stockpile at the moment? Every quarter do you have to do a regular sell down? Is it just based on price?

Mr Bawden—The legislation governing the rate of sales was changed from 1 January. We have in the March and the June quarters a requirement to sell a minimum of 135,000 bales a quarter and a maximum of 350,000 bales a quarter. But from 1 July onwards, we have a flexible range between 90,000 and 350,000 bales a quarter. But the overriding requirement under the act is that we maximise the value of the stockpile to the wool industry, which includes both the sale of fresh wool and the sale of the stockpile. So we have to balance the rate of sales against the state of the market to, as far as possible, maximise returns to the whole wool industry.

Mr ANTHONY—So if you believe the price is moving up, you would hold back on the quantity of the sale, would you?

Mr Bawden—In addition to the disposal of the stockpile, we are trying to develop forward markets. The stockpile, in general, is sold privately, through private treaty, but is sold on forward contracts. As prices rise, we tend to get more interest in more distant months and our rate of sales increase further out. We monitor that in relation to expectations about the market price.

Mr ANTHONY—How far out do you sell?

Mr Bawden—We have been sold forward up to five months in years gone by, but at the moment it is only about two months due to the current position with the market.

Mr CAUSLEY—Mr Chairman, I would like to note something which is important and which I would like to have related back to Mr Richardson. I quickly ran through the notes that he had here, and to me it seems that he is justifying the position that is at the present time under legislation. We accept that. Obviously Wool International has acted under the legislation, and correctly so. What this committee is inquiring into is the liabilities to the taxpayer. Probably what we need to know is what is necessary to reduce those liabilities. Where does the legislation need amending? What sort of body should be in place if those liabilities are going to be limited?

Mrs GALLUS—Can you clarify whether that $873 million which we have here on 31 December 1996 is now reduced to $684 million?

Mr Bawden—No, that is net of section 51 reserve. You have to add another approximately $80 million to the $684 million.

Mrs GALLUS—That would make it $764 million. So it has come down by over $100 million? Is that right?

Mr Bawden—That would be right.

Mrs GALLUS—That seems to me to be a significant reduction in a relatively short time.

Mr Bawden—It is due to the sale of assets. There is an offsetting asset base that is being eroded through the sales program.

Dr SOUTHCOTT—And the plan is by next year to have wiped out the debt and then Wool International will be wound up?

Mr Bawden—The guideline in the act says that we should have a target date of eliminating all debt by December 1998, but the last bale is to be sold before December 2000. Any surplus funds will be returned to wool growers after that date.

Mrs GALLUS—Are you on target?

Mr Bawden—We are on target. As I said earlier, we have a legislative requirement to sell between 90,000 and 350,000 bales every quarter to meet the debt repayment by December next year. Based on our projections of the market, we will have to sell 145,000 bales a quarter. To meet the last bale, we will have to sell 125,000 bales a quarter. There are other targets that we will internally monitor to achieve those.

Mrs GALLUS—Looking at the markets, does that seem a reasonable program?

Mr Bawden—There is a medium-term expectation that wool prices will improve.

CHAIR—I would like to return to the question of insurance and hedging risks. Do you use commercial insurance, or do you just self-insure against some of these risks? I want to clarify this point.

Mr Bawden—No. In terms of insurance, we have two programs. We have the wool stocks program, which is a marine policy placed through Lloyds in London. We also have a general program which covers all our property assets and liabilities. That includes public liability, professional indemnity and those types of insurance. That is placed through the domestic market. So we are fully insured, as any commercial organisation would be.

CHAIR—You have not had any difficulties with that?

Mr Bawden—We had difficulties with getting the capacity when the stockpile was larger, but now that it is at its current level capacity is easier to find in the London market. We could not insure it domestically.

CHAIR—With the indemnities for staff and so on, does the Commonwealth provide any indemnity cover for the board or for the staff of Wool International?

Mr Bawden—I am not an expert in this area either. We take out a directors and officers liability policy through our general insurance program.

CHAIR—Does the Commonwealth provide any additional indemnity?

Mr Bawden—It is not specific in our act. I do not know the answer to that.

CHAIR—Maybe you could take that question on notice. I appreciate the difficulties that you are under. I wonder whether you could take some questions in writing following this hearing. There are a couple of issues that the committee would like to follow up on. You could hand them to Mr Richardson.

Mr Bawden—Okay.

Mr ANTHONY—On the anticipated wind-up of Wool International and the reduction of your liabilities, I assume that the cost will be negative to the Commonwealth of the stockpile experience—from the top when you were at three billion to the actual interest payments? I am sure we will come out of it in the negative not the positive, but we could be pleasantly surprised. What will the anticipated cost be at the end of its life?

Mr Bawden—We could do calculations on that. It was the industry which actually funded the debt, although it was guaranteed by the Commonwealth. It was through wool tax proceeds that Wool International was able to operate. We are no longer recipients of wool tax because we are self-funding through the sale of the asset. It is my understanding that all interest payments and costs of the reserve price scheme were borne by the wool industry through the wool tax.

CHAIR—You can also add that you anticipate repaying positively on wool tax that was paid by wool growers between 1993 and 1996?

Mr Bawden—Correct.

CHAIR—Prior to that, there was a period of wool tax over about four years where it was all paid and gone. Then there was a more recent tax. If you sell the wool, as you anticipate, it will be returning around $1.60 for every dollar that was paid.

Mr Bawden—Our estimates are a little more optimistic than that, but the net present value is $1.60.

Mr ANTHONY—So you have $80 million going out this year. How much do you anticipate next year?

Mr Bawden—We have not finalised the payment of the tranches, but they will be over a number of tax years. The total amount is in the order of a $700 million surplus. That is a highly variable figure based on wool prices.

Mr CAUSLEY—It is true to say, isn't it, that the cut-off point announced by the minister a couple of months ago disadvantages those who were forced out of the industry and had wool in the stockpile before that cut-off date?

Mr Bawden—As the chairman pointed out, it is based on the wool tax paid between 1 July 1993 and 30 June 1996. Anyone outside that will not be paid part of the proceeds.

CHAIR—As there are no further questions, I thank you very much for coming along, particularly given that you were put on the spot at fairly short notice. We will take up your offer to send some further questions in writing. We appreciate that and you can respond in due course.

[10.31 a.m.]

DOYLE, Mr Michael John, General Manager Corporate, Australian Wheat Board, 528 Lonsdale Street, Melbourne, Victoria

McKEOWN, Mr Peter Julian Joseph, General Legal Counsel/Board Secretary, Australian Wheat Board, 528 Lonsdale Street, Melbourne, Victoria

LAWRENSON, Mr John Allen, Managing Director, Australian Wheat Board, 528 Lonsdale Street, Melbourne, Victoria

CHAIR—I welcome witnesses from the Australian Wheat Board. Before commencing, I have to remind you that the evidence that you give at the public hearing today is considered to be part of the proceedings of parliament. Accordingly, I advise you that any attempt to mislead the committee is a very serious matter and could amount to a contempt of parliament.

The committee has received the Wheat Board's submission and numbered it No. 4, and it has been authorised for publication. Are there any corrections or amendments you would like to make to that statement?

Mr Lawrenson—No, I do not think so.

CHAIR—Would you like to make a brief opening statement, at the conclusion of which I will invite members to ask questions.

Mr Lawrenson—Thank you, Mr Chairman. I do not really wish to go over the submission that we have made, but I may just make some broad comments on the issues that are before you. The government provides an implied guarantee for most of our borrowings. Those borrowings this year will peak at around $3 billion. So it gives you some idea of the scope of those borrowings. The purpose of those borrowings is to provide cash flow for farmers at harvest time—and I will come back to how those are managed in a moment.

Apart from those borrowings, there are some borrowings of the AWB that do not have a government implied guarantee. The recourse for those borrowings is against the Wheat Industry Fund, which is a fund being built up as share capital—and I will talk about the future structure of the AWB maybe when we are down at the AWB later on. That fund is now sitting at just over $400 million.

If I go back to the implied guarantee, we raise money in the major capital markets around the world in various currencies. As I say, that is provided as a harvest finance for farmers. We manage that to the extent that our borrowing limit is limited to 85 per cent of what we expect to sell the wheat for. So there is already in there a 15 per cent safety factor, if you like, so far as the government's guarantee is concerned. So we are only allowed to borrow at 85 per cent.

We manage the risks actively. We borrow, as I said, in various currencies. We swap into Australian dollars to pay farmers. Most of the world wheat trade is in US dollars. In fact, almost 100 per cent of the world wheat trade is in US dollars. So we have a fairly complex matrix of currencies to manage there. We actively manage them and we actively manage our commodity exposure, because that also impacts on the extent to which we can realise the wheat crop to the extent that we forecast at harvest time.

When the government sets the borrowing level it seeks input from us. We provide an estimate of what we expect to sell the crop for. We factor into that, of course, all other costs—holding costs, interest costs, selling costs, costs of transport and so on. The government also takes advice from ABARE, the Australian Bureau of Agricultural and Resource Economics, and then makes a decision on the borrowing level that we are allowed.

The rest are actively managed in various tiers through the AWB. At board level, we have a corporate risk committee, which oversees the policy for managing that risk. That committee generally meets every month. Below that, we have a management committee, a corporate risk committee, which meets every week and which actively manages those exposures and actively reviews the strategies developed for managing that exposure. Inside the AWB, we have a risk assessment unit which also, independently of the operations divisions, like the Treasury and the commodity management areas, oversees and independently monitors both the strategies that are being implemented and the outcome of those strategies. So it is a very actively managed situation.

The government has an implied guarantee on our borrowings up until the season of 1998-99. After that there will be no new government guarantee on our borrowings. So the chop does not come down exactly on 30 June 1999, but as the borrowings are retired from the 1998-99 season, there will be no renewal of government guarantee.

This arrangement has been in place since the Wheat Marketing Act 1989. There has been no call on government during that time under that legislation. There was a call on government in the mid-1980s under different legislation, and that legislation provided for a formula for paying growers at harvest time. The season that we went into where there was a call on government, we actually knew there would be a call on government before we made any payments. But the legislation provided for a certain formula for farmers to be paid and there was no way of moving away from that formula. Since 1989, there has been a different arrangement completely and we are not bound by any formula. That is just an overview, and I will leave it there.

CHAIR—I would like to come back to the question of managing risk and the use of derivatives, which you note in your annual report there is an increasing use of. Could you give us some idea of what level of exposure that leads to?

Mr Doyle—As John has said, the world wheat trade is principally denominated in US dollars. With the exception of about three million tonnes, which is consumed domestically, the rest of the crop is sold overseas. Our revenue is denominated in US dollars. So we actively manage that US dollar exposure as provided for in the act. I believe section 6—and I stand to be corrected—of the act lays down the types of instruments that can be used. It also says that, if you like, one of the objectives of the AWB is to maximise returns to growers.

So, in any one year, if I take this particular year, we would have revenues coming in, for the current season, in excess of approximately $2 billion—about $2½ billion. We utilise, in terms of currency, forward contracts, which are just straight out buying or selling US dollars, and we utilise options. There are a variety of options that we use—caps, calls, floors, barrier options, et cetera, all of which are provided for in the act. We use the Futures Exchange and over-the-counter derivatives to manage our interest rate exposure on our overseas borrowings. Equally, with the management of our commodity exposure, we utilise the Futures Exchange, principally in Chicago, and also over-the-counter options to manage that as well.

As John said previously, all strategies go to the board and they are reported on a monthly basis. They are reported internally and formally and weekly on a management basis. Then we believe we have adequate controls at any one point in time to be able to get very tight control on what our actual exposure is.

With the people that we transact with in the foreign exchange market and in the futures market, be it commodities or FX, et cetera, we have a very strict criteria in terms of counter-party risk. So it is not just a question of anybody who is actually trading in these products; the board itself and the organisation have very strict counter-party risks in terms of who is on the opposite side of a transaction to us.

CHAIR—I know in some countries you do extend credit.

Mr Doyle—Yes.

CHAIR—What sort of coverage do you have?

Mr Doyle—In terms of sales and credit, currently we have two countries—Pakistan and Iran—in which we sell on credit. Eighty per cent of the export price of that sale is covered under national interest through EFIC. With the remaining 20 per cent we endeavour to go to the marketplace and basically sell down that political risk to a series of financial institutions.

CHAIR—Could you just expand on the last part?

Mr Doyle—Yes. I can put it in simple terms. If we have a credit sale for, say, $US100, we will get cover from EFIC up to 80 per cent and we fund against that—that is allowed for. The remaining 20 per cent is uninsured. So what we do is essentially go to institutions, be they your local trading banks or overseas banks, and sell down that political risk so that, in the event of a country defaulting, we are able to, at this point in time, claim from EFIC and claim from the financial institution that has insured that risk for us.

CHAIR—What is the approximate cost of taking that sort of cover?

Mr Doyle—It is difficult. Each transaction tends to be different in itself. I think in terms of the costs, I would have to say we can brief you, if you like, outside this room, but I think publicly I would not like to give the costs of the transactions. It is commercially sensitive.

Mr Lawrenson—It is commercially sensitive and of course we are competing with other countries there. But our policy has been, as we have said, wherever possible to make sure we have 100 per cent insurance. I think if we look at the last three years, we would not have made any sale unless we had 100 per cent cover. Generally, the commercial cover with banks is done through a consortium of banks—a consortium put together for this specific purpose.

CHAIR—In terms of your hedging, there was some criticism I think that maybe you had not hedged as much as people would have liked at the high prices. What is your response to that?

Mr Lawrenson—When prices are high, we are always accused of not having hedged enough and, of course, when it is the other way round, we are accused of hedging too much. Hindsight is a wonderful thing. We take a view of the marketplace. We have limits placed on us by the Commodity Futures Trading Corporation in the US—that is the regulatory body that controls the futures markets. We hedge in Chicago, Kansas City and Minneapolis—the three markets in the US that have wheat futures contracts.

So we use all of those as necessary. We take a view on the market as to whether we believe it will rise or fall and over what period of time. The situation last year was that we were faced with very high futures prices in the middle of the year, and in the second half of 1996 they came off very sharply. I think, and Michael will correct me, I am right in saying that we were fully hedged to our limits at a time when prices were not necessarily at their peak, but close to their peak—in other words, halfway through the year. Frankly, even if we had higher limits from the CFTC, the market is just not that liquid. Whilst we might have an ability to hedge, we also have to take a view of the depth of the market, how liquid it is and so on because we do not want to be in the situation where we have got half the open position or 70 per cent of the open position for a liquid market.

CHAIR—And who actually develops your risk management strategy and how do you actually monitor it all?

Mr Lawrenson—Internally, we have a treasury group that manages our financial exposures. They can be financial exposures in currency terms and, of course, in interest rate terms. We are managing large borrowings. The management of interest rates is not as important in dollar terms. Far more important is managing foreign exchange risks.

That group is charged with active management. It is charged with developing strategies and proposing strategies. Our merchandising group does the same thing for our commodity exposure. At harvest time we always have a significant long position in wheat—this year it is something like 20 million tonnes. Of course, we cannot physically hedge all that, even if we wanted to, for the reasons I have just mentioned. But they are responsible for developing the strategies.

I will work from the other way round—from our board down. The board has agreed various policy settings. This time of the year, for instance, we start hedging. Some months ago we started hedging the exposure for next year's crop. That crop is not in the ground yet—it has not been sown yet—but we know we will get a crop. We certainly would not be out trying to hedge 20 million tonnes because, frankly, at the moment I do not know whether we will get eight, 15, 20 or 25 million tonnes. But we know we will get a crop and we know there will be an exposure.

We have various policy settings through the year that build up our cover. Having set those policy settings—they are agreed by the Corporate Risk Committee—it is then management's duty to manage it within those policy settings. Although we might say that at a particular time of the year we want to be 30 per cent covered, there is nothing to stop us increasing that cover or decreasing it if there is a very good reason for doing so.

There is a chain of authorisations, so if we are out developing and implementing a strategy over a certain level, that has to go to the board committee. Over a certain lower level, it has to go to our weekly Corporate Risk Committee. When you get down to a very low level, Treasury or merchandising groups have got autonomy and responsibility in their own groups for activating those. But the authority levels are very low when it comes down to that. It is a tiered authority level. All strategies are signed off. If they are within authority level—say, in the Treasury group—they will get ratified at the next weekly meeting, so there is full disclosure. On top of that, as I said, we have a risk assessment unit that monitors. It reviews not only the strategies but also the outcome of those in a pretty sophisticated way.

CHAIR—Is that an external audit or is it an internal audit?

Mr Lawrenson—No, it is an internal audit. But the risk assessment group has got no responsibility for implementing any of the strategies. It has got no ownership, if you like, of the strategies. It has got no interest in the outcomes, other than being sure that they are good outcomes, so it is not a policeman policing itself. It is an independent group within the AWB that is reporting quite independently.

On top of that, from time to time we get our internal audit group and our external auditors to review our procedures, our authority levels and so on. The last major review of that would have been 18 months ago by a Treasury group and, more recently, there was a review of our merchandising group.

Mr CAUSLEY—I will follow on from that. The minister announced at, I think, the Grains Council meeting that there are going to be changes to the structure of the Wheat Board. Did I hear you say that there would still be some government guarantee under the company situation?

Mr Lawrenson—The government guarantee remains in place up to and including the 1998-99 season. With any borrowings which relate to any seasons up to and including that season, the guarantee remains. But, from the 1999-2000 season onwards, the government will not back any of our borrowings for those seasons.

Mr CAUSLEY—In the press release the minister says that the wheat industry fund will, in fact, be your collateral in the company.

Mr Lawrenson—Yes.

Mr CAUSLEY—Do you see that affecting you in any way in your capacity to borrow or the cost of borrowing?

Mr Lawrenson—We have spent the last 12 months getting extensive financial and legal advice. We have done extensive modelling on that. We have also sought advice from the ratings agencies as well. Our target is to build a capital base of $550 million. On all the modelling we have done and the advice we have received, whilst there can be no assurances on that, the best advice we have got is that we will be able to retain the short-term rating that we do at the moment.

Our aim is to have a seamless change from government-backed borrowings to borrowings without any government backing. We have borrowing programs in the marketplace now that do not have any government backing, and they support our domestic trading activities. I think the market has accorded the same rating to those and understands that they are not government backed. So we have a planned transition over the next two years to that.

CHAIR—You said the short term. What about the long term?

Mr Doyle—Because, if you like, the crop is fairly liquid in that we try and sell it and we have revenues coming in fairly rapidly, we do not as an organisation have any long-term borrowings. The longest we would have at the present time would be approximately two years, and that is really to fund credit sales. We have no long-term asset per se in our current structure. So all our borrowings are short term.

Dr SOUTHCOTT—You said that there was no difference in pricing between the debt which is guaranteed by the Commonwealth and that which is not guaranteed by the Commonwealth, and you pay no premium on the ones without an explicit guarantee. Could that reflect that the financial markets consider that all debt, whether there is an explicit or an implicit guarantee, is in some way guaranteed by the Commonwealth?

Mr Lawrenson—I think that is probably a fair comment. It is made very clear in all the documentation, of course, that there is no guarantee of any sort—implicit or explicit—and they do understand that. I guess the markets take their own view as to whether, if it did fall over, the government would let it fall or would stand behind it. I think the other thing is there is the Wheat Industry Fund standing behind those. Our program there, I think I am right in saying, is $300 million.

Mr Doyle—It is $350 million.

Mr Lawrenson—It is a $350 million program. The Wheat Industry Fund is over $400 million now. A worst-case scenario would not see losing anything like $350 million, so I think they are very comfortable with what is there. The situation after 1999 is quite different, because you have a capital base of $550 million and you are leveraging off that quite substantially for borrowings well in excess of that.

Part of our activity over the last few years is to make sure that capital markets understand the transition we are going through. We do a road show for these capital markets every year. We visit the rating agencies in New York, and we are working very closely with them. So, as I said, we want a seamless changeover.

Mrs GALLUS—Dr Southcott has asked most of the questions I wanted to ask, but what do you see happening, following on from that, in 1999? Do you see that they will ask for greater charges from you on the interest rates or on the insurance?

Mr Lawrenson—Related to the borrowings, they should not do because all the advice we have got is that we will be able to borrow at the cost we are borrowing at now. We will get the same short-term rating, and the borrowing costs are directly related to that rating. If we got a lesser rating, they would maybe increase marginally, but we are very confident we can retain that rating.

Mrs GALLUS—Where do you see your greatest exposure to risk at the moment?

Mr Lawrenson—We can talk about the government risk. I mentioned before that there is a 15 per cent safety factor. I think that is important to note, because we cannot borrow 100 per cent of what we expect these wheat pools to realise. We can borrow only 85 per cent. That 85 per cent is on what the government's assessment is. The government takes advice from us and it takes advice—

Mrs GALLUS—Really, the question was: in what area did you see the risk? Was is it perhaps in the line of credit to Iran or would it be in fluctuations in currency?

Mr Lawrenson—We do not believe that our credit sales pose any risk in relation to the government guarantees and our borrowings. The government stand behind 80 per cent of that risk and the other 20 per cent is commercially insured. I think in both currency and commodity—very volatile times in currency can affect it but the commodity is much more volatile. It has a much greater degree of volatility than currency has. But we are eight years into the present guarantee arrangements. I would be right in saying we have never come anywhere close to there being a call on government.

Mrs GALLUS—If you had to assess it, where is your greatest risk? Forget the commodity. We know the commodity. That is the nature of the business. Beyond the commodity where do you—

Mr Lawrenson—In the currency exchange rates.

Mr Doyle—In a year like this year a 1c movement in the currency will either add or detract about $30 million from our bottom line.

Mrs GALLUS—But you are hedging against that?

Mr Lawrenson—Yes. We build up that hedge cover as we approach the season. As I have mentioned already, we are already hedging the currency for next season.

Mrs GALLUS—I notice also in your annual report you said you are selling 25 per cent forward but there was a reluctance on the market to buy any more than that. Would you want to sell forward if there were a greater take-up than that?

Mr Lawrenson—It would depend on our view of the marketplace. We have already sold some new crop wheat for next year, which will be harvested in November and December. We have sold 500,000 to 700,000 tonnes of that already. As I mentioned, none of it is in the ground yet. But our view is that prices will come off later this year. The northern hemisphere harvest will come in and prices will fall. So it is in our interest, we believe, now to make some forward sales.

Mrs GALLUS—My final question is on Iran. Is there any suggestion that the $1 billion line of credit that we have sitting there for Iran would ever be called on?

Mr Lawrenson—No, not at the moment. Certainly we have been selling on credit to Iran for many years. They have never missed a payment. I do not think they have ever been a day late in a payment. We really have no concerns with that. It is a very strong relationship with Iran. We are a very important supplier to them for stable foodstuff.

Mrs GALLUS—I do not know if you have noticed, but that billion dollar line of credit to Iran has been raised recently with questions of whether that should be there or should be taken away. So from your point of view, it is quite interesting that you say you have total confidence in the financial relationship we already have with them.

Mr Lawrenson—I just repeat what I said: it is a very good relationship and we have never had any concern.

Mrs GALLUS—Do you have any interest in having that extended line of credit there or would it be immaterial to you whether that was removed?

Mr Lawrenson—Maybe I will get Mike to talk about that. I think there are two different credit arrangements there.

Mr Doyle—My understanding is that the billion dollar line of credit with Iran is a commercial line of credit, which was agreed some years ago with the government and EFIC to assist in, if you like, Australian manufacturing going into Iran. I do not believe that that particular line has been drawn down on very much at all.

Mrs GALLUS—It has not. It has not been drawn down at all.

Mr Doyle—It is totally different from the Wheat Board's line of credit with Iran.

Mrs GALLUS—That is what I am trying to work out, whether that backs up anything or whether there is any interest in it or whether there would be any effect at all if that whole line of credit was cancelled.

Mr Doyle—That particular line of credit does not affect the Wheat Board's operation in Iran.

Mrs GALLUS—Thank you.

Dr NELSON—Have you had any problems with your commercial insurance arrangements with the banks and will the government's response to the recent Wallis inquiry recommendations have any impact on you that you can imagine?

Mr Lawrenson—I presume we are talking about the insurance arrangements covering credit sales. We only started that some three years ago. Prior to that, it was practically impossible to sell down country risk into the marketplace. It is a very, very specialised type of insurance. But we persisted with the banks that we dealt with on the Treasury side, et cetera, and our track record convinced them, particularly the payment record of a country like Iran, to take on board that type of risk.

We have not experienced any problem, but from a bank's perspective or a financial institution's perspective it is very much how much availability they have at a particular time. You may find one institution taking X millions today and two weeks later that line or that exposure level may well be filled. So it is not an open door from our perspective. It is a function of the bank's appetite for risk at any one point in time and that will dictate the price also. In terms of the Wallis inquiry, I would have to say there is nothing in that of immediate relevance to the Wheat Board, nothing that immediately leaps to mind.

Dr NELSON—With the emerging and increasingly important trade protection debate, do you see that as having significant consequences to the industry and in your activities? Would you mind commenting on that?

Mr Lawrenson—This is the pressure from overseas?

Dr NELSON—Yes, and also there are arguments in Australia at the moment about trade protection on not wheat but other industries which presumably have an effect on inputs.

Mr Lawrenson—This is one thing I was probably going to touch on when you come down to us later on. I think the greatest impact on us might be the pressure from overseas, particularly the US, but to a lesser extent the EU, on the Wheat Board's single desk arrangements—that is, the angle they are coming from there is to target all state training enterprises both importing and exporting; in other words, any sort of monopoly arrangements where they consider that those have a trade distorting effect. We dispute that of course but they consider they have a trade distorting effect and I think it will be a major issue in the next WTO round.

CHAIR—We might like to explore that further. We are on a narrower focus here. I would like to come back to this risk management strategy and whether or not you would feel more comfortable having external reviews. I bring it up in the context that the banks are subject to a fairly regular assessment by the Reserve Bank. I am just wondering why you would not feel that you would be more comfortable with what you are doing to have that reviewed reasonably regularly.

Mr Lawrenson—We certainly would not be adverse to that at all. I would hate you to think we would be anti that sort of thing—far from it. We have a strange audit arrangement for the moment which I think will be changed very shortly with a new bill before parliament. We have external auditors and we also have the audit office as well, so there are two audit reports of us. If ever there was a part of our organisation which is under scrutiny in the audit every year it is our risk management area because quite rightly it is identified as an area where the risks need to be managed well. As part of the annual audit, there is certainly a large focus on that.

Every few years—and we have not got a regular timetable for doing this—we have commissioned our auditors to do specific studies on that. I think I mentioned that two years ago they took the Treasury operations and really reviewed the whole of the Treasury operations to see that our approach to risk management was appropriate, that our controls were appropriate, that our reporting was appropriate and that the general policy we adopted was appropriate. That was the subject of a long report which generally gave us a good tick but recommended some areas for improvement and those have been implemented. Similarly, in the last 12 months we have asked them to look at our commodity hedging and risk management area from the same perspective. Our board takes that very seriously and I think we really are covered pretty well like that.

I guess if you were coming from the perspective of the government's risk there we do have government representation on our board. We do have full reporting to our board. Our risk management is a major feature of our board report every month, so I think that is probably well covered there. I think we are taking the action that a prudent company would. In terms of public disclosure, last year—not the most recent report that you have in front of you but the year before—we received an award in the annual reports award because they considered that our disclosure of risk management and our use of the derivatives were probably among the best in any corporation.

CHAIR—That is good to hear.

Mr Lawrenson—We are waiting to be judged on this year's report.

Mr Doyle—As you know, the Wheat Board takes out fidelity insurance et cetera, which is placed with insurance groups in London. In two instances we have had WBK, which, I believe, is the risk assessment organisation, come in and review our risk assessment policies and reporting for our insurers because we do have fairly large insurance premiums. That has been done twice recently, I believe.

CHAIR—Mr Causley has not come back yet but he did leave me with a question. He was keen to follow up on the comment you made that America controls the level of hedging. Could this be considered to be a non-tariff barrier or a trade barrier or something?

Mr Lawrenson—Let me put a bit more meat on that. The CFTC regulates the futures markets in the US. It is a regulatory body which has an overview of those markets. They do place limits on people they perceive to be, or potentially be, at large, hedgers. They are there for prudential purposes to ensure that no one party can collar the market or be such a major player as to distort the market. We have, I think, acted very well in those markets. We started hedging in the mid-1980s and they were keen to work with us at that stage.

We have one of the largest wheat possessions that anybody has. The Canadian Wheat Board would be the only organisation that would have a larger wheat possession than we have and they have only started hedging in very recent years. They are keen to work with us and we have cooperated very well with them. They have increased those limits in the last six months. They see the way in which we operate in the markets.

No, I do not read into that anything being targeted at Australia. I do not think we have seen it as anything other than a proper and prudent regulatory activity of theirs. I come back to the point I made that, even if we were allowed to hedge significantly larger tonnages than we can, it is questionable whether we would.

CHAIR—Can you actually state, roughly, what you are hedging?

Mr Lawrenson—That is a confidential arrangement.

CHAIR—When you say that the Australian Wheat Board would possibly be second only to the Canadians, given that the size of the world wheat crop is much greater than Australia's wheat crop, does that mean, for example, there is very little hedging by grain traders?

Mr Lawrenson—No, there is quite significant hedging by traders, by farmers and by end-users. But, of course, they are such a wide group of people. What I am saying is there are only two organisations of any size that have a large possession. At harvest time we can belong, in the commodity, at up to 20 million tonnes. No-one else, apart from the Canadian Wheat Board, which would have a similar situation, would have anything like that. Traders just do not take possessions like that. They might take a million or a two million tonne possession, if that. So nobody, as an individual organisation, has an exposure like ourselves.

Mrs GALLUS—After 1999, would you continue to be opposed to individual growers making individual deals overseas?

Mr Lawrenson—I guess that goes into areas outside this and I am not sure whether it is appropriate that we should be on the record making comments in relation to that.

CHAIR—We are also running an inquiry into competition policy, so the committee would be interested.

Mr Lawrenson—I am certainly happy to make some comments. I had planned to make some comments on that, probably over lunch. It is government policy that the single desk is there. That is up for review in 1999-2000; it has to be reviewed by 30 June 2000.

Our view as AWB is quite simple. We subscribe to the view that so long as there is a net benefit it should stay. We subscribe to the view that there should be a rigorous review at that time. We have had successive reviews by the Industry Commission and the Industry Assistance Commission and bodies before that over many years. We are quite used to that. The single desk is there to provide a net benefit. Our view is that that net benefit is significant at the moment.

The challenge that we have got—we have already embarked on it over the last few years—is to provide, within that single desk, a whole range of options for growers to be able to manage their risk in a way that best suits them. I can illustrate that by us now already having contracts which growers can lock into for next season's crop. Again I stress that the crop has not been planted yet, but there are growers that are now taking out contracts which lock in the prices for next season. That and other means of risk management which will give growers an opportunity to control, to some extent, the outcome that they want from pricing will be important. My view very strongly is that the country would be ill-advised to drop something that gives us a commercial benefit—a substantial commercial benefit.

Mrs GALLUS—Is there not a possibility that, if you are providing such a net benefit to the industry, most growers would stay with the single desk? If there are people who want to venture beyond that, that is their individual choice, and as part of an open, competitive society they should have that right.

Mr Lawrenson—Once that option is there, of course the single desk goes. What the single desk is about is being able to capture some premiums that are there in the marketplace by having only one seller. Those premiums, of course, only go to growers; they do not go to anybody else. There are no monopoly profits derived out of that.

Mrs GALLUS—I guess my point is that, if it is so good, then you would not be in danger of losing customers. Would that markedly effect your operations if there were one, two, three or four people out there doing that?

Mr Lawrenson—I think it would markedly affect the return the growers get. There is no doubt about that. Certainly there are some growers who would say that they would like to do away with the single desk; by far the majority would have a different opinion. But let's look at the ones that would like to do away with it. They are growers who would like to establish some links with end users overseas. But I think more importantly they are growers that would want to be able to make the decision as to when they sell. I mentioned before that wheat is a fairly volatile commodity in pricing. They want to be able to lock in to the high prices and avoid the low prices. That is assuming you can always pick when the prices are going to be high. That is a challenge for us. That is what we have been trying to do over the last few years—to give those options so that growers can make those decisions along the way.

I do stress that once the single desk goes and there is competition, we will compete premiums away. There is no doubt about that. It would be fanciful to think that you might just have a handful of growers here or there. The single desk would go. There would be a net loss to the industry. I would argue that there would be a substantial net loss to the industry.

We are able to pick up premiums at the moment for quality. We have got quality control which I think is far superior to that of any other exporter in the world. We are able to deliver a targeted product for a targeted end use. We pick up premiums there. Some of those will be competed away. Importantly, we pick up freight premiums. If we have got, say, a lower freight into the market than there is for grain out of the US, we are not just selling on a free-on-board price. We are looking at a landed price to the end user and picking up the freight advantages. Those are the sorts of premiums that would just get competed away in an open market situation. What we are saying is: yes, we are all in favour of the review. Let's have a thorough review and be able to demonstrate the benefits.

Mrs GALLUS—Perhaps over lunch we could take that up further.

Mr Lawrenson—Yes, indeed. It is actually one of the things I have listed here to talk about.

CHAIR—Mr Lawrenson, could I just come back to Commonwealth indemnities, which is what we are really talking about mostly. What is the extent of Commonwealth indemnities for non-public servants involved in this area? It is not always clear as to those sorts of indemnities for things like government business enterprises. Are there indemnities for staff in the AWB? If so, to what extent?

Mr McKeown—The position the board has adopted is that obviously there will be a responsibility taken by the board for action taken by staff, particularly where the staff have taken action within their authority. However, if staff act beyond their authority and outside their authority, whether they have been negligent or whether they have wilfully abused their position, then the board would look closely at that instance.

Potentially—and this issue has not, as far as I am aware, ever arisen—I suspect the board would examine that particular instance, review its position and then decide on a case-by-case basis what action it would take in relation to that individual. But in a general sense, the board would provide the coverage for the action of staff who have operated within their authority.

CHAIR—But does the Commonwealth provide the indemnity?

Mr McKeown—As Mr Lawrenson has indicated, Commonwealth responsibility is identified in the Wheat Marketing Act. Their responsibility is quite narrow. It is only provided in relation to pool borrowings as has been identified under section 78. So the responsibility from Commonwealth is restricted in the act to providing support for the underwriting of borrowings that are undertaken in relation to pool activities.

To extend it beyond that there is another provision in the act, as we have referred to in our submission. There is an opportunity for the Treasurer on particular occasions to provide indemnity or a guarantee in relation to our borrowings under section 71A. At the current time there are no such guarantees or indemnities in place, so the Commonwealth government's particular support is purely in relation to the pool borrowings.

CHAIR—Does that include any risk management to cover that?

Mr McKeown—In relation to risk management, again the act—as Mr Doyle pointed out—specifically refers to the parameters under which we can operate our risk management activities. Section 74 is the particular section there.

The section also provides for the minister to provide written guidelines. The minister has adopted policies of the previous government and decided that there would not be any written guidelines in place so there are not any written guidelines. So the act merely identifies the objectives of risk management and the areas under which we can operate in terms of risk management.

CHAIR—So under section 25 there is not a personal liability, is there?

Mr McKeown—I was referring to section 74 in relation to hedging; you are referring to section 25. Section 25 merely refers to the members of the board. Section 25 provides that a member of the board is not personally liable for an act of the board or of the member acting as a member of the board. That purely refers to board members.

CHAIR—That is a significant indemnity, isn't it?

Mr Doyle—Can I just clarify one thing Peter said—and correct me if I am wrong, Peter. Peter said that the government has not given any guarantees under section 71, which is wrong. They have in fact given us a guarantee in relation to the stress payments.

Mr McKeown—I am sorry. I thought my answer was that there are currently no indemnities in place. That is correct; there is one in relation to stress payments that was provided in 1992. You are quite correct.

CHAIR—I thank you very much for appearing before the committee today. If we have any written questions, would you be happy to accept them?

Mr Lawrenson—Yes.

Resolved (on motion by Dr Nelson, seconded by Dr Southcott):

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 11.20 a.m.