COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON INDUSTRY, SCIENCE AND RESOURCES

Reference: Increasing value-adding to Australian raw materials

TUESDAY, 22 AUGUST 2000

MELBOURNE

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON INDUSTRY, SCIENCE AND RESOURCES

Tuesday, 22 August 2000

Members: Mr Prosser *(Chair)*, Mr Hatton, Mr Lloyd, Mr Macfarlane, Mr Morris, Mr Nairn, Ms Roxon, Mr C. Thompson, Dr Washer and Mr Zahra

Members in attendance: Mr Lloyd, Mr Prosser, Ms Roxon and Dr Washer

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.

WITNESSES

Committee met at 8.59 a.m.

DORNOM, Ms Helen Patricia, Chief Executive Officer, Australian Dairy Industry Council

GALLAGHER, Mr Peter William, Trade Adviser, Australian Dairy Industry Council

CHAIR—I declare open this eighth public hearing of the inquiry into the increase in value adding to Australia's raw materials. I welcome the witnesses and others attending. We will be taking evidence from the Australian Dairy Industry Council, Golden Triangle Resources and AWB Ltd. This afternoon and tomorrow, the committee will travel to Geelong, Morwell and Werribee to inspect value adding in the aluminium and dairy industries, and we will also inspect the CSIRO's latest research on aluminium, magnesium and food science.

I welcome witnesses from the Dairy Industry Council to the proceedings here today. They are legal proceedings of the parliament and warrant the same respect as proceedings of the House. 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 wish at any stage to give evidence in private you may ask to do so and the committee will give consideration to your request. If you would like to make an opening statement, I ask you now to proceed.

Ms Dornom—I would like to thank you very much for giving us the opportunity to appear today and to talk to you a little about the dairy industry. You have a copy of our submission, so I will not reiterate what is in that, but I would like to take this opportunity to say a few brief words about the Australian dairy industry. I am sure you have all recently read about the turbulent times the industry is going through but, if you go back to where the industry has come from and where it is going, then hopefully you will agree with us that the dairy industry is a very good example of an industry that has gone down the track of value adding.

Back in the seventies, the industry was very dependent on the domestic market, with some surplus product being exported, predominantly to the UK, the EU. When the UK joined the European market, we lost that export opportunity. The dairy industry fell into a bit of a hole, and we had a mass exodus from the industry. The industry then went through a recovery phase where it was very much focused on the domestic market—again with some surplus product being exported—but there was no real incentive for our industry to go down the track of differentiating our product. The product was equalised; it did not matter whether you were good, bad or indifferent, everyone who exported produced product got the same price.

In about 1986, we went through a fairly major change in the industry with the introduction of what we now call the Kerin plan, which was a major push to have the industry go down the track of deregulation. Since 1986, we in our industry have been very internally focused. If you look at us now, we are a major exporter with over 50 per cent of our production being exported. We are now obviously subject to world prices. If we cannot compete on the world market, we cannot sell our product. On 1 July this year, on our domestic market, we removed the last vestiges of regulation that our industry has on the market milk sector, so now our industry is a totally deregulated industry, very much dependent on the world export price. But you have seen the industry grow. Although our actual farm numbers have reduced—we have had consolidation—milk production has increased on average about five per cent a year over the past 10 years. We are now, as I said, exporting 50 per cent of our production and earning export income over $2 billion. I will leave it at that and invite you to ask questions.

CHAIR—Thank you. I notice in your submission that you made some comment with regard to the taxation regime in our market as opposed to your competitors' markets. Do you think that the changes to capital gains and the scrapping, I guess, of indexation will be of any benefit to your industry?

Ms Dornom—We are very much dependent on world prices, and we have to be competitive with other dairy exporting countries. What we need to achieve is a regime that puts us on as level a footing as possible with them so that we can compete with them on the same basis. I would hope that the changes that we are seeing in the taxation regime will go some way to helping us achieve that equity with our overseas customers.

CHAIR—As you move into more value adding, what about depreciation schedules?

Ms Dornom—We have a project at the moment involving depreciation schedules. The Australian Taxation Office is currently reviewing the depreciation schedule, particularly on the manufacturing side. We have had a small working group working with the ATO because they are focusing on dairy equipment. We are concerned that there seems to be a move towards extending the life of equipment. In our industry the issue is not the mechanical life of the equipment, but the technology. Technology is changing so rapidly that our industry needs to be able to maintain a competitive edge. We need to be able to update our equipment fairly rapidly.

We are looking at a depreciation time frame of under 10 years for a lot of our equipment, whereas some schedules have equipment down for time frames of 15 and 20 years. There is certainly a move in some areas to suggest that equipment will last for 15, 20 and 30 years. We have equipment that has been around for quite some time and has not been written off totally: it is stored for an emergency in case all things fail. But we certainly need to ensure that depreciation reflects the technological changes, and we are hopeful that the ATO project will make that recommendation.

Ms ROXON—I have a couple of questions, one of which is about the comments you made about Australia's energy markets and your view that there needs to be more progress in those areas to make them more efficient, which will have some flow-on impact on the dairy industry. One committee member, Mr Zahra, who represents the Latrobe Valley, is always very interested in any comments that industry has to make about the way energy is used in Australia. We are visiting a dairy site tomorrow in the Latrobe Valley. Could you give us a little more information about how you think that is impeding activities in your industry in some way?

Ms Dornom—I will comment and then ask Peter whether he wants to add something. To step back from actual energy usage, it is a question of how energy is delivered to the industry. We have major concerns in that area, and there is a project going on at the moment to try to upgrade the delivery of energy to the industry, particularly in Victoria. We have had massive changes. The average herd size is now about 160 cows, but we have herds with 500 and 800 cows and rotary sheds that can milk 60 cows at a time. We are also finding that, while the companies are merging and consolidating, they are also differentiating so that a particular product is produced in one area. That requires massive updating of equipment, and we are finding that the power supply is not keeping up with requirements. In fact, we are hearing anecdotally that in some communities people know when the farmer switches on his dairy shed because they get a blip in their power supply. That single-phase delivery of power to country regions is a major restriction on a lot of development in those areas—particularly in the western district.

Mr Gallagher—The question of how infrastructure responds to demand is a question about the efficiency of the energy market. There has been a lot of reform in Australia over the past 20 years of the way in which energy markets work. Some 90 years after federation, we eventually found a national energy market—or that we could have a national energy market. That is great, but it obviously has some way to go as far as the operations of the market, the pricing of energy in the market and the capacity of individual businesses in the market are concerned. I am thinking now, as Helen has been, of farm businesses in the market. We are still not there yet when it comes to buying energy in the most efficient manner. For the reasons that Helen mentioned—both for actual supply and for supply of infrastructure—we want to see that continue, and even accelerate.

Dr WASHER—You mentioned the GATT reforms that we have had going for half a century—as you know, we are head of the Cairns Group. But you said it is disappointing that we have not penetrated EU and USA markets effectively because of barriers. Do you have any suggestions about what we should do? Is Austrade helping enough? Do you have any ideas about what might assist you in trying to break down these barriers?

Ms Dornom—First of all, the dairy industry is the major food processing industry in Australia. Unfortunately, it does not get the profile of a lot of other industries. We appreciate that, when it comes time to negotiate in the WTO, dairy is weighed off against a whole lot of other industries by the Australian government and then, of course, in the international forum as well. What we would like to see is the elimination of subsidies. We believe that if there is the opportunity for people to compete on the basis of the cost of production, we, as the Australian dairy industry, would be highly competitive and able to supply the market. We are not looking at the elimination of domestic subsidies, as such; it really is about enabling our product to compete in the international marketplace—for example, in Asia—and not having to compete against subsidised product coming in from other countries. Peter, would you like to add to that?

Mr Gallagher—Yes. Dr Washer, value adding in the Australian dairy industry, in terms of total volume of value add, is going to continue to grow at significant rates mainly because export opportunities continue to grow. The rate of growth that we have seen in this industry for well over a decade—four to five per cent in production and output—is consistent with the rate of value added growth only to the extent that our final prices are rising. Our final prices are determined on this market by export prices, by world market prices, and the biggest determinant of those prices these days is that almost half of the world market is owned by a country that really cannot export much without subsidies. The Cairns Group determination to seek the prohibition and elimination of those export subsidies is absolutely essential for us in value add terms.

Milk is one of the most expensive raw materials of any final consumer product. It is worth about half the value of the final product, and the value of those export prices which determine the final product output gets passed back directly to the farmers—all 15,000 of them at the moment. Their prices are really determined by those export prices. So it matters to them in income terms, but it also matters to the whole of the industry and to the whole of the Australian economy in value add terms. That is why our focus is so strongly on that.

CHAIR—Given that comment, do you think the Australian government gives enough support to the dairy industry?

Mr Gallagher—Governments of both the coalition and the Labor Party over many years have had a policy which I think has been fairly bipartisan in trade areas. In the past, they have not paid as much attention to the opportunities for processed food as they might have. We are getting good cooperation from the government at the moment in improving that, in turning that around and in focusing on some of the things that affect processed commodities and the processed products that we sell, particularly market access and the cuts in export subsidies that we are seeking.

We do want to get much more attention this time around for dairy products because, if you look around at world agricultural markets, there are some that stand out for the level of government intervention, and dairy is at the head of the pack. Almost half of the world market is owned by the EU—it is a small market, but it is an important one for us—on the back of those export subsidies. With grains, there has not been that level of subsidies now for a decade. With beef, there are still plenty of problems, but they are mainly market access problems. For dairy, it is direct intervention by governments. Now that the most competitive producers in the world, the Australian producers, are deregulated—they do not have government handouts or export subsidies like the rest of the world—they are clearly very keen to see a level playing field. They have lots and lots of opportunities; they have very significant opportunities for growth if we can do that.

We are pressing for the government to recognise that it is about time to focus on an industry like dairy, which is already Australia’s biggest processed food exporter by a long way, at $2 billion. We think we can see tremendous growth in that if we can get those markets and get the general market reform that the WTO reforms promise. We are going to put a lot of effort into providing the government with some ammunition on this. ABARE is working with us on some economic modelling. We think we have an important story to pursue in these negotiations, and ministers Vaile and Truss have been very responsive.

Ms Dornom—The sort of help we would like to see from government is general support, infrastructure and micro-economic reform. We have gone part of that way with the changes on the wharves. The biggest product exported through the Port of Melbourne is dairy products, so any change or improvement that occurs there has a direct bearing on our costs back to producers. They are the sorts of help we would like to see from government—help with R&D, the incentive to invest in research and development for the future of our industry, tax reform, all of those issues, which will impact on the efficiency of our production.

Ms ROXON—I have a follow-up question from Mal’s. You talked about the sorts of support and you have made your point very clearly about the WTO negotiations, et cetera. What about the other role the government plays in promoting the industry as a whole through Austrade—do you get any support from them? Is it useful, is it not useful? Are you a big enough player on your own that the Dairy Corporation does that rather than Austrade? How does that work for you?

Ms Dornom—If you look at the dairy market, as Peter said, the major player in the export market is the EU. The second major player is New Zealand. New Zealand operates through a single seller with the New Zealand Dairy Board. We have not gone that route in Australia, where it is very much individual manufacturers competing. We have cooperation amongst the manufacturers on the non-competitive or pre-competitive areas, but we have very much had a culture in the Australian industry of individual manufacturers looking after their own product.

We do have a statutory marketing body, the Australian Dairy Corporation, which is charged with doing generic promotion, predominantly on the domestic market. Where we have gone as an Australian industry is still value adding insofar as we are looking at specialty ingredients, but we have not gone down the track of necessarily having consumer packs of products being exported. It is very expensive for manufacturers to support brand development, particularly in overseas markets. What we do find is that the Australian industry is a major supplier—and we believe it will increase its position in this area—of speciality ingredients to food manufacturers in overseas countries. So there is little point in promoting Australian product per se because people do not see that in the marketplace overseas.

Where we have had help with Austrade and the Australian Dairy Corporation is in having our customers understanding some of the technological issues. For example, Australian dairy products are yellow compared to the EU's, which are white, so it has to be explained that there is no real difference, it is just the way our cows are fed. It is very useful on those sorts of issues.

We have also had very good support from AQIS with market access issues as they arise. As an industry, we are looking more to try to change the policies of our customers, rather than looking for short-term fixes. So there are times when individual manufacturers might feel they have been hard done by, but, overall, in terms of the general thrust of where the industry is going, we have had very good support from AQIS. Certainly Austrade has been useful in some of the trade delegations, et cetera. Predominantly it has been individual manufacturers seeking that customer-supplier relationship, and that is what they are really encouraging, because it is long-term security of supply and customers that they are looking for, rather than spot sales.

CHAIR—I want to pick up in a moment on brand identification, but I note that, if you wrap in New Zealand and Australia, they have 44 per cent of the market, in comparison with the EU at 37—the two former free marketeers, I guess. Together we have had, going on that pie chart, fairly good market penetration. I guess the glaring point is that the New Zealanders hold 31 per cent of the market and we hold only 13, so if there is any slacking in the operations it is probably by us.

Firstly, what can we do to lift our share? Secondly, I would have thought that it would be a great opportunity to actually get brand identification. In my experience on other committees and travelling, the problem that Australian producers suffer, not only in your area but in other manufactured food areas, is that we do not have brand identification. So there are two questions: what opportunities are there to increase our share of the world market, and, secondly, to go further down that path, how would you convince people that we shouldn't go into brand identification?

Ms Dornom—On the first question, about our share, I think it is not quite true to make the direct comparison that New Zealand has got a much higher percentage and, therefore, the

Australian industry is slacking off a little. You have to look also at the marketplaces. The actual production of milk in Australia and New Zealand is about on a par. New Zealand produces a little more than we do, but it is roughly on a par. Then you look at the population. New Zealand has only three or four million people, compared with Australia’s 19 million. We export 50 per cent of our production; New Zealand exports closer to 90 per cent of its production. It has by volume a much greater amount of dairy product that it has got to push onto the world market, so it has got to look for more markets than for the Australian product. If you take our 14 per cent and New Zealand’s 31 per cent, and you say that they have got on average twice as much product on the market, there is really not much difference between the Australian share and the New Zealand share.

CHAIR—It would seem, just on your figures, that they are twice as successful as we are per head.

Mr Gallagher—Successful in what way, may I ask?

CHAIR—I guess we are looking at value adding, particularly in exports. That is why I went further to ask: should we have a greater push into Australian production identification, straight on the supermarket shelf?

Mr Gallagher—You are right, they have a much bigger share of world markets than we do. I do not know that I would draw many conclusions from that. We produce, as Helen said, just about the same amount of milk, but half of it goes to the most remunerative market we have, the domestic market, where distribution costs are much lower and where the opportunity for some brand franchise does exist.

As Helen explained, there are very few opportunities for brand franchise externally, and it is very expensive. The opportunity for growth in the Australian market is much larger than it is in New Zealand. Theirs is a pasture based industry with limited opportunities for growth. We both have roughly the same technology, except that we have access to lower cost grain feeding. We also have much cheaper land and the cost of conversion to dairy land is lower. So the growth outlook for Australia is probably much better than that for New Zealand, and in future we may see our shares of world markets change. But companies follow profit opportunities—it is not government regulation, as you would know, Chairman—and their profit opportunities at the moment pretty much dictate what goes where, and the rate of growth is determined to a large extent by world market opportunities.

New Zealand and Australia face slightly different world market opportunities from time to time because we have slightly different product mixes, and they have invested an awful lot of farmers’ money over the past three or four decades in external branded products, an opportunity—or, rather, a choice—which is often put to us as being some that the Australian industry has failed to do. ‘Shouldn’t you have got together,’ people say, ‘and created Australian brands abroad?’ Our view, and the view of the manufacturing cooperatives in Australia, has always been that that is not the most profitable opportunity they have. We do not know whether it has been profitable for New Zealand to grab such large market shares. Our guess is that it has not, because their monopoly exporter, the New Zealand Dairy Board, has not returned the same value to producers, to farmers, as Australian cooperatives have returned to theirs.

We think New Zealand export operations are not as profitable as those of the Australian dairy manufacturers, and so do they. We will not know, because we cannot see the commercial opportunities facing the New Zealand Dairy Board and there is very little evidence of what their profits are. But the New Zealand business roundtable has agreed with us for many years that what has been going on there has not been in the best interests of New Zealand farmers. They think the board does not perform all that well and that their investments in brands has not been that remunerative.

Ms ROXON—Doesn't it go back to the point that your colleague has already made: the domestic market in New Zealand does not necessarily support the same profits that an Australian market might?

Mr Gallagher—That is certainly true.

Ms ROXON—So you are not really comparing the same things. I think we are all trying to ask: why, when you have the advantage of a domestic market that provides good returns, can't you grow your export market on top of that?

Mr Gallagher—We have. Exports have grown dramatically in Australia, and over the period from the mid-1990s to the middle of this decade they are probably going to double.

Ms ROXON—A large amount of it gets stored and distributed out of my electorate, so I am aware that exports are growing—and I am very happy that they are. But we are just looking to the future: what other barriers are there?

Mr Gallagher—The domestic market is not really growing at all—not in volume terms. It grows a little in terms of product returns because more sophisticated products can command higher prices in the market. But, by and large, the Australian domestic market, like most domestic markets in developed countries, is not growing: it is growing at one or two per cent. At the moment, export markets are growing a bit faster than that—in some cases, at almost twice that rate. So all Australian growth has been on the export market and that is where all the milk has been going.

Our market shares in export markets have increased significantly. But you are right: we have a domestic market opportunity. New Zealand has a smaller domestic market. They are, if you like, forced to put their stuff on export markets. You have to ask yourself at what price they are doing that and whether it is profitable for them to do so. There is a lot of evidence that it might not be profitable for them to do that. It comes to the issue of whether we should be in branded products—which the Chairman mentioned—or in the products that Helen mentioned, that is, high specification dairy commodities. That is a choice that the industry does not make; individual firms make that choice.

Unlike New Zealand, where individual firms cannot make that choice because the monopolist exporter tells them what to make and what to export, individual firms make that choice in Australia. Their choice has been: 'We make more profits from having this relationship with global firms such as Nestle, Meiji and Snow Brand where we sell them high-specification ingredients.' They also sell under their name, but they sell mostly under high-specification ingredients because that is much more profitable. The value adding has certainly been there, but, as you know, higher value adding does not automatically translate into higher profitability.

Ms ROXON—Another area where the New Zealand industry has a great advantage over the Australian industry is its access to the very profitable EU market. We lost that access in the 1970s while New Zealand was able to retain it. So roughly 70,000 tonnes of New Zealand product is able to go into a very high yielding market, whereas we have about 3,000 tonnes in that same market. That is a fairly big advantage over us to begin with, when you are trying to compare apples with apples.

CHAIR—Most exporters would tell you that they can only do well in export markets off a strong domestic market. Peter, you have said that the New Zealanders have a very small domestic market but they are very strong in exports. You have suggested that Australia has a very large market, but it would seem that we are not using that springboard. I note the cut in prices that Woolworths, for example, has been able to deliver. During the run-up to deregulation, the dairy farmers fear that their prices will drop substantially. How will that affect the industry? How will that affect exports? Will it drive them to make more exports?

Mr Gallagher—When you say that a lot of export industries spring off a domestic market, that is historically true. I think there are two things that help export industries in that respect. First, they can afford to take lower margins on an export market if they have a highly remunerative domestic market. So having a big domestic market allows you to get out there. The other thing is technology. If you have a large domestic market in which you can afford to do R&D, build up your technology base, concentrate on those areas that you are best at, refine your skills and reduce your costs, that gives you an opportunity to spring into export markets.

The Australian industry has been able to take advantage of both of those to some extent, but the domestic market is highly competitive. In general, returns on the domestic market are better than on export markets—significantly better—and that is partially because distribution costs are somewhat lower. There is a whole range of other things affecting returns on the domestic market. It is also a slightly higher priced market, it must be admitted, than world markets, and there is a different product mix which gives the industry better returns on the domestic market.

But the Australian domestic market has been the basis for the growth of the Australian dairy industry and, by now, most of the major exporters, particularly Bonlac and Murray-Goulburn here in Victoria, would feel that it is less relevant to them, because it is not a big market for the major export cooperatives. Their focus is very much on highly specialised commodity products which do not sell in big volumes on the domestic market. How do they get there? Clearly, they got there, as you suggested, by learning that technology on the domestic market. They all grew out of being regional cooperatives that aggregated and so forth. That has been important to them. I am sorry, there was a second leg to your question about the springboard.

Ms Dornom—The impact of deregulation.

Mr Gallagher—Thank you. On value adding, I do not think deregulation is going to have any effect at all. As I said, I think the volume of value adding in the dairy industry will continue, probably making it Australia's biggest processed food exporter and a very big value adder. But that is driven by final output prices which are driven by world market prices. We do not have any protection. So final output prices, both on the domestic market and the export market, are world market price driven. That will not have any effect on the 81 per cent of Australian milk that is manufactured milk, because all of that, both the output price and the input price, are effectively driven by world market prices. Farmers' prices for that 81 per cent of milk have not been regulated in recent decades. So it will not change the relationship between the input price and the output price in the manufactured area. That is really driven by export markets.

There is a small potential for change from deregulation, because some manufactured milk was being produced at lower farm gate prices in the former market milk states. But that is a minor issue compared with the effect of variations in export prices. It will have some effect, certainly, in the drinking milk area—19 per cent of Australian milk was drinking milk—because, clearly, drinking milk prices at the farm gate are going to drop. But that was never a big part of our value add, because drinking milk is hardly value added at all. I am sure you will hear a lot of opinions being tossed around—a lot of them are not terribly well informed—but I do not think the effect of deregulation on value adding is going to be very big.

The biggest effect on value adding in our industry and the things that the government can effect for us are those final output prices, particularly the way in which export subsidies drive world market prices, and some things about input prices. The measures that Helen was mentioning—electricity costs and taxation issues relating to depreciation schedules and capital gains changes—will have some effect. Tax changes will affect it; technology changes will also affect it, particularly access to technologies that we can capture that our competitors cannot capture. I will be happy to talk about those if you want to, but you have another question.

Ms ROXON—I was going to ask you about that technology exchange, because you make some comments in your submission about your concern over the lack of access, or restriction, to some of the new technologies. I am interested to know how you think the Australian government can play any role in assisting to provide access to that technology if it is actually being controlled by multinational companies that are based elsewhere. What sorts of reforms are you suggesting we could participate in to assist the industry in getting access to that technology?

Ms Dornom—I guess one of the biggest technologies looming that will have a major impact on a lot of industries, and particularly on our industry, is the whole gene technology area. At the moment, as an industry, we have a policy that we need to continue investing in R&D in that area to make sure that our industry is kept fully abreast of where those changes are going. Whether or not individual companies decide to take up that technology, that is a commercial decision they will make, depending on the market acceptance of that product. But there is also the impact on the producer side, with gene technology on such things as pasture production, et cetera, which will help producers to retain the competitive advantage that they have with lower costs of production.

Ms ROXON—Let me just understand that. So it is not a matter of intellectual property regulation in some way and prohibited access; it is more whether there might be some steps taken that would restrict what research is actually able to be undertaken in Australia?

Ms Dornom—It is a combination of both—for example, if the move is continuing towards the locking up of technology through intellectual property, whereby the commercial good, the general benefit for pasture, soils and animal breeding technology becomes commercialised to the extent that it is not available. At the moment, in animal genetics, for example, the scientific community do not patent that work. It is generally available to whoever wishes then to incorporate that. It is the same with plant breeding techniques. The results of that research have been generally available to be incorporated into a country's production systems.

Our concern is the move more and more towards the commercialisation of that, with the Monsantos, et cetera, tying up the gene technology they have with their pesticide resistant crops, et cetera, and the terminator genes they put in so that people cannot regenerate and re-sow pastures, et cetera. If that becomes much more predominant, what we will find is that we end up being locked out of that technology, and that could have a major bearing on our commercial competitiveness compared with that of our overseas competitors. That is an issue that we are concerned about in particular.

Dr WASHER—To follow up on that: I was about to ask about R&D, but one thing is that Monsanto discarded the terminator technology gene component of their program because of adverse publicity. So that has been discarded. And, as you would know, a lot of work anyway has been done in Australia on pastures and improved feed. Do you use any genetically modified product currently in any of your manufacturing processes?

Ms Dornom—No, there is no genetically modified product used. There is a product of a GMO in some respects, depending how you view the likes of chymosin, which is an enzyme, a processing aid used in cheese manufacture. There are several types of enzyme that can be used—some from calves, some from microbial rennets and some from GMOs. That is an issue we have been concerned about with this whole question of where the labelling requirements are going to end up. But there is no GMO product as such, to our knowledge, that is used now. Obviously, with some of the crops being grown, et cetera, and discussion now about cross-pollination and drift, et cetera, as more and more becomes known it is going to become more and more difficult to say categorically that that is not the case. But, to the best of our knowledge, there is no GMO product being used. Certainly the companies are mindful of where the marketplace is at at the moment. Japan are our biggest export customer at the moment and they have a fairly strict policy about what they want in their product. They are certainly asking companies to attest to the fact that their products do not contain GMOs.

Dr WASHER—On the whole R&D, this 81 per cent of your product being manufactured is very impressive. Obviously, there has been a lot of R&D gone into that historically. As you would know, the tax regime was altered in 1996 from 150 per cent to 125 per cent. Would you tell me your impression of whether that has impacted on your ability to do R&D in the future. Also, to follow on, would you explain to me how you get your levies that you generate for R&D. You get a dollar for dollar subsidy, I assume, from the federal government for that R&D component.

Ms Dornom—That is right.

Dr WASHER—Also, what sort of back-up do you get and what facilities do you think are good R&D facilities in Australia to help the dairy industry?

Ms Dornom—With regard to the whole area of R&D, we have industry funded R&D and commercially funded R&D. On the industry funded R&D, there is a levy on farmers which, at the moment, raises roughly $14 million a year. It is matched dollar for dollar, as you know. We are almost up to the ceiling of 0.5 per cent of GDP where the matching dollar for dollar drops out. That industry funded R&D is administered through a statutory body—the Dairy Research and Development Corporation—which acts as a broker to look at that. About $6 million or $8 million of that $28 million goes towards manufacturing research, and the rest goes towards farm research, economics, human resource development, et cetera.

As far as the companies go, the change in the taxation regime from 150 per cent to 125 per cent did have an impact. It is marginal at the moment as to whether companies receive a better return with the industry being funded with a dollar for dollar matching or doing their own research and seeking the 125 per cent tax deductibility. At 150 per cent, it certainly focuses on the best route for a manufacturer to go. On the farm side, our industry has felt that individual farmers are always going to find it difficult to fund the sorts of research which will have free rider industry good issues at stake. It will probably be in their interests to continue a regime of industry funded R&D on the farm side. On the company side, there is a big question mark about where that will go, particularly as there is now a move more and more on the company’s part to want to retain ownership of intellectual property. Going the route of industry funded R&D, the question arises of who owns the intellectual property, whether it stays with the Dairy Research and Development Corporation or with the research establishments which are providing the R&D.

We have had fairly major discussions in the past about the need to nurture a critical mass infrastructure for R&D, not so much so that it is available for industry funded R&D—I am talking manufacturing at the moment—but so that the infrastructure is there so individual companies can then come and do contract research directly with those research establishments for the sorts of products on which they want to have work done. So we have been very mindful of the need to have that critical infrastructure there. There has been some amalgamation of the R&D effort in dairy. What we have tried to do is to establish centres of excellence for R&D rather than trying to nurture everyone at a very low level, and we are trying to really concentrate on those areas that we can see will have benefit for the Australian industry. The tax regime is one that companies are certainly very mindful of. There was a study done and something like $140 million plus was being spent on R&D across dairy companies.

Mr LLOYD—My apologies for being late, but the weather this morning was not conducive to keeping planes from Sydney on time. I understand that you have discussed the trade barriers today, but I want to refer to the quarantine regulations that you mentioned. I am interested in that in relation to using quarantine as a trade barrier, and I would like to know whether you have concerns about that or whether you have spoken to other industries that may be involved in the quarantine regulations.

Ms Dornom—We do have a lot of concerns about quarantine being used as trade barriers. Our future relies heavily on exports, as we have said. We need market access, and for us to have market access we have to allow market access here in Australia. There is free access to the dairy industry for overseas imports. We have had concerns in the past with a lot of discussion on salmon and chicken meat, et cetera. We believe that, in the end, if the scientific evidence supports the ability to be able to import these products, we should allow them, provided we have done the homework.

Mr LLOYD—I raise this particularly touchy subject because of the Newcastle disease outbreak in the chicken industry on the Central Coast of New South Wales. It is a topic of active debate in my area.

Ms Dornom—It is not an easy answer. But, as I said, we do rely on having access to overseas markets so we really need to make sure that we are not talking with a forked tongue: on the one hand, looking to gain greater access but, on the other, locking up our own markets. So, provided the science supports the ability to import these products, we certainly support that.

CHAIR—As there are no further questions, I would like to thank you for your time this morning, for your submissions and for your very full response to questions from the committee. Thank you very much.

Ms Dornom—Thank you again for the opportunity.

[9.56 a.m.]

BECK, Mr Kevin, Principal Negotiator, Golden Triangle Resources NL

LAUGHTON, Mr Christopher, General Manager, Golden Triangle Resources NL

CHAIR—Welcome. I remind you that the proceedings here today are legal proceedings of the parliament and warrant the same respect as proceedings of the House. 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 that request. If you would like to make any opening comments before we proceed to questions, I invite you to do so.

Mr Laughton—Thank you, I would like to give you a bit of an introduction. Our submission is based on the perceived global expansion in light metals. We have been through the stone age, the copper age, the bronze age, the iron age—not personally, of course—and we are now in the light metals age. This expansion in light metals is principally driven by the need to reduce greenhouse gases. I will not go into all the details of that because I am sure you are aware of them.

We are specifically interested in magnesium amongst the light metals. We believe this is a real opportunity for Australia to get in on the ground floor, but it will not happen unless we are globally competitive. Australia is globally competitive in aluminium: it is the fifth largest producer in the world and the third largest exporter in the world, and its value to Australian industry is such that it is the third largest income earner or exporter in dollar values. Most significantly, from the point of view of this committee, aluminium is a value added industry in Australia. If you take the raw material it is worth about $22 a tonne; if you take the semi-fabricated material, aluminium, that is worth about $2,800 a tonne. Unfortunately, even in the aluminium industry, we are still exporting about 74 per cent of the high purity metal rather than alloying and fabricating with it.

Magnesium, which is our particular interest, is at the stage of development that aluminium was about 70 years ago. In fact, there is zero production at the moment in Australia of magnesium. That is why we think this is a very good opportunity to get right in at the beginning on what is a global industry. But, as I say, it will not happen unless we are competitive. We have an abundance of natural resources of magnesium in this country and, with the exception of Golden Triangle's project, these are all going to require new mining situations.

Golden Triangle is actually going to dispose of a man-made mountain of potentially hazardous waste. So even if we go only as far as producing magnesium ingots—which today would be selling at about $US2,000 a tonne—we are in fact adding value to what is a waste which has no value, or which to the government in New South Wales, which is where this resource lies, has negative value because they have to do something about the fact that it is a hazard. What we have there is a very cheap, high quality raw material. The potential for adding value, over and above the metals, is to go to the alloying stage and, further down the track, to the die-casting and the component manufacture. This has been discussed in the 1999 report of the Department of Industry, Science and Resources.

In that report, they say that we have the advantage over other nations in our proximity to Asia and various other aspects. However, I believe we will not achieve this unless we have some advantages in certain other areas—one of which is the cost of energy. In New South Wales we have the facility of adding the hot aluminium. We have an aluminium industry, but we do not have any magnesium die-casting industries.

As I am referring to the cost of energy as being a critical component, I would like to hand over at this point to Kevin, who is our energy expert. He will give you a very brief summary of what we see as the problems in respect of the infrastructure aspects that we need to look at and overcome if we are to be globally competitive. One of those is the cost of energy.

Mr Beck—Thank you. We have had considerable problems—as you have probably seen from many of the media reports that we have forwarded to you in our submission—with attempting to negotiate an indicative energy price that enables us to do our bankable feasibility in the year 2005. The problem has been exacerbated by the inconsistent development of the ownership of assets in the Australian national pool. We can point to the Latrobe Valley, which was privatised quite quickly with a considerable debt burden. That now means that, before you can get a megawatt out of the Latrobe Valley from Loyang A Power Station, you are required to pay an impost in the high $20 to cover their debt burden. For example, I was told the other day that they have to sell at at least $29 a megawatt to cover their debt.

In Tasmania the government has dealt exclusively with Duke Energy, and the hydro has dealt exclusively with Duke Energy in relation to Bell Bay Power Station. Prior to coming to Golden Triangle, I was an advocate and negotiator for Latrobe Valley interests. We attempted to compete against Duke Energy with the acquisition of Bell Bay in Tasmania and we were blocked. I took the matter to the ACCC but state rights tend to overrule that avenue. In New South Wales we have state-owned generators, many of which have also been caught by the unstable market: Pacific Power lost $600 million in an attempt to play the market. In Queensland we have a mix of predominantly state-owned generators, with some private generators coming on line. Similarly, in South Australia they have rented out their assets.

Most of the pool prices are predicated upon building a new power station. In our discussions with the New South Wales government they tend to agree that an energy price in the mid-$20—say, around $26—is fair. However, the power station generators and distributors want $34 to $38. We have submitted some material to you from Hazelwood Power that was presented at an international conference of magnesium producers in which they said, ‘If you think you can get cheap electricity in Australia, bad luck. If you have to leave because you can’t get it, goodbye and good luck.’ We find it pretty extraordinary that they would publish that material in such a forum, but it gives you an indication of the problems we face.

We have literally plucked a figure out of the air and then embarked on a very costly strategy to decide whether we should build our own power station and what size it should be. I recently wrote to most of the major users of electricity in Australia asking if they wanted to join a third party consolidated energy purchaser, with Enron Australia as our trading partner, and literally enter the game against the licensed generators and retailers. That is a pretty costly strategy for us, given that we are in the business not of power generation but of mining and magnesium. In all of the value-added areas, energy costs make up between 30 per cent and 50 per cent of input costs. For Golden Triangle or anybody else in Australia to produce 80,000 tonnes of magnesium, we need to pay about $14 million to $16 million a year for the electricity and about $10 million for the natural gas—which makes about $25 million.

In the current market, AGL, for example, in northern New South Wales, want $3 a gigajoule to ship it to us. Add that to electricity and we are looking at paying $42 million to $50 million, so that is almost double the cost. Magnola, which is our only competitor in the world in serpentinite, has cheap hydro available to it, so much so that the US government has put an anti-dumping duty on it, based on the fact that it has cheaper electricity. Similarly, in Europe and in Asia we could be offered a set price for up to 10 years at around the mid-$20 to $30 mark. The Australian generators are gambling that the pool price will go up to $38 to $40 and sit there. Whilst we may or may not believe that, that is a distinctly different number to $26. That summarises our problem for 40 per cent of our costs.

Our secondary problem is that, looking at the Tasmanian experience, there is the Premier issuing a statement that he would take over the energy negotiations. Golden Triangle originally had a deposit down there, in the Savage River area, and they flatly refused to negotiate any energy position with Golden Triangle. In New South Wales the position is completely the opposite, as it is in Victoria: the governments do not interfere in the negotiations and they tell us it is a commercial decision. In South Australia the state government takes a very strong role in energy negotiations. So you have this disparity, this inconsistency, in application of competition policy and what I would call underlying effects of subsidy. It is clear that, should Tasmania and South Australia adopt that line, the US particularly will impose sanctions against us on the basis that they would view that as anti-WTO policy and engaging in some sort of hidden subsidy, given that electricity and natural gas is such a high input. So we are very worried.

The Chinese can sell raw metal cheaper than us, so we have nowhere to go but value adding, which is a key factor for Australia. We will not survive in a world market if we do not value add. As Chris said, aluminium is at $22 a tonne non-value added; at $2,300 value added. The Chinese and those sorts of markets, the mums-and-dads small 500-tonne factories, cannot compete against a value added market.

The other reason we need to have certainty in energy policy and competition policy is that our biggest markets are likely to be in the European and US markets in the military sectors, transport and motor vehicle. So obviously we have to have everything stabilised in Australia. We quickly need the federal government to impose some sanity on the national competition policy for electricity because we cannot afford to have these huge, escalating price fluctuations. Nor can we have the likes of Hazelwood Power simply crossing their arms and telling the economic development managers of the Latrobe Valley that the entry price is $38 a megawatt and if you do not like it, go away—which is what they told us. We got no response from the Victorian government when we wrote to the Premier; we have had little response from Tasmania when we wrote to that Premier. In New South Wales, the government are more responsive but, again, they say it is a commercial decision. Thank you, Mr Chairman.

CHAIR—Thank you for that. Are you saying the national competition policy with regard to the national electricity grid, or the competition that was supposed to come into that, has not delivered the outcomes?

Mr Beck—It has delivered cheaper electricity to certain sectors of the corporate market, but I believe that it is flawed in the way the national market operates and it has some serious questions about it as it relates to how governments operate and own assets. For example, whilst I was in the Electricity Commission and in the privatisation of Loy Yang B on behalf of the Australian Services Union, I criticised the New South Wales government for having no return requirement on their assets and, therefore, generators in New South Wales were not driven by the same imperatives as the Victorian generators.

The second area that worries me—and we have seen it here in Victoria—is manipulation of the market during times when the pool price offered is better in New South Wales than in Victoria and we accidentally have plant fall-off. The Premier got pretty excited when he discovered that could happen: we had restrictions in Victoria and they were exporting large slabs of power into New South Wales.

If you look at the material we sent you, you will see that there are no pipelines or transmission lines in northern New South Wales. There is a 120 kilovolt line coming into Barraba from Tamworth. It was never considered that anybody in the northern area of New South Wales would want 330 KV power. In the Savage River area of Tasmania no-one ever considered that Burnie and places nearby would want 330 kilovolt power and infrastructure and natural gas.

I think we rushed ahead in the national competition policy and, to some extent, we could probably blame Victoria for heading that rush. We now find generators that cannot get an economic return on their assets, and it will destabilise us for the next five years as they try to sell them or try to recover their investment. They are among the largest pool generators in Australia.

CHAIR—How close to operational is your Woodsreef project?’

Mr Laughton—The design and construction will commence in about mid-2003. That seems some way away, but these are long-term projects. There is the matter of flow sheet development and all the environmental work that must be done. Ultimately we hope to commission the refinery towards the end of the 2005. There is no real sense of rushing to get there; we have to be sure that the technology will be environmentally friendly and will produce the product at a price which is competitive on the world market. The growth of the market is one of the major requirements because it is very small at the moment—the total world consumption of magnesium is in the order of 300,000 to 400,000 tonnes, which is minuscule. It is coming, and the expected growth rate is driven principally by the transportation industries. In the alloying and die-casting area that is expected to have a growth rate of about 18 per cent. Although it is coming from a small base, it means that, by the year 2010, we will be getting towards half a million to a million tonnes of demand.

There are two equations in answer to your question. We expect to be in production towards the end of 2005, but we are not leaping in to get there before everybody else: we want to be sure that the technology is environmentally friendly. We will slot in with the market as it develops, which will occur in stages. The automotive industry, which is the principal concern, is going to have to re-tool to use magnesium components. They are already doing that—about 60 components are available on the market—but the actual growth into the vehicles will come in five-year cycles, which is how they look at new vehicles. That is our timing.

CHAIR—According to one of your press releases from last year, your preferred site was in the Latrobe Valley. How are you progressing that matter?

Mr Laughton—That was when we were looking at the Tasmanian resource we had which was a high quality magnesite deposit. We had the two situations: the Woodsreef waste dump in New South Wales and the Tasmanian magnesite. Because of a combination of circumstances, which included the difficulty of getting any satisfaction in Tasmania over the energy supply and the fact that the economics looked a bit better for New South Wales, we have, in fact, given the Tasmanian one away. We have relinquished our rights to the magnesite so the Latrobe Valley is not in the situation that it was then.

The project we have now is with this New South Wales Woodsreef mine area and, by the very nature of the waste dump that we are dealing with, we will have the refinery as close as possible. So we are not looking at the Latrobe Valley as the location for the refinery any more. That was based on the Tasmanian project. We are looking at New South Wales, the Woodsreef mine area, which is about 100 kilometres north of Tamworth, as the location for the refinery.

CHAIR—Does any other committee member have any questions?

Dr WASHER—Yes. Chris, I see that in the intellectual property side of things CSIRO entered into an exclusive arrangement with your competitor, Australian Magnesium Corporation. Can you comment on some of the background about that and how you feel about that?

Mr Laughton—Yes. That started with Queensland Metals Corporation. I think a considerable amount of money went into the development of one of the key areas, the dehydration process. All these processes in Australia—and there are now nine hopefuls on the drawing boards—bar one of them, are hydrometallurgical electrolytic methods of extracting the magnesium. It is quite a complex technology and it is being improved all the time. This entails what is called a dehydration, that is, removing water before you actually put the material into the electrolytic cell. We all know what happens when you have got water in something that comes into contact with electricity. CSIRO have developed, through government funding, this dehydration technology which is exclusive to the Queensland project.

Of more concern to us is that they have also been working on a new cover gas. Magnesium is reactive with the atmosphere and has to be protected by an inert gas. There is only one which is really satisfactory, sulfur hexafluoride. Unfortunately it has about 23,000 times the effect of carbon dioxide as a greenhouse gas; it is a very potent greenhouse gas. It is not toxic but any that escapes can be quite significant in the greenhouse budget.

CSIRO have been working on this through CAST for some time and they have come up with an alternative, which they still need to work through to make sure it is going to be satisfactory but it looks as though it could reduce that greenhouse effect quite dramatically. We do not know the outcome of that, whether that is going to be exclusive to the Queensland operation or whether it will be available for purchase or licensing by other potential producers. But it is of great significance and we feel that there should not be any exclusivity to the rights to use that kind of saving with regard to greenhouse gas emissions, at least within Australia. If people want to acquire it outside Australia by all means they should pay for the rights. But because it is essentially government funding and it is one of the key aspects of the development of friendly magnesium technologies, we think there is a very strong case there that that should be made available to other users or potential developers of magnesium projects.

The dehydration is very specific, but it could be used by other users of magnesite as a feedstock in Australia. That is not such an area of concern. It is the general principle as to what is happening here. CSIRO has been funded by the taxpayers but is doing these things exclusively—as far as we know it is doing it exclusively, or will be—for the Queensland operation.

Ms ROXON—I want to ask a more general question about the comments that you made about Australia being a nation of relatively risk averse investors. Do you think any recent initiatives by the government have been helpful? Can we do more to help encourage investment in businesses such as yours and others? We are looking at the impediments and the role that the government can play. Do you have any general comments to make about the view you expressed?

Mr Beck—That comment has two edges to it. The first edge is that the plant would be around $680 million and the power station would be likely to cost $200 million if we build, say, a 200 megawatt one. So it is about a $1 billion project. We have had discussions with companies the size of major constructors in Australia—the Thiess’s, the Siemens and the Transfield’s et cetera—and they all want to build it, but they do not want to build it with their money. They are predominantly service companies that carry out projects on behalf of other people using their money. We expect that we would have to raise a large amount of that money offshore, which is the function of our chairman.

The second edge is die-casting, which Chris alluded to. We have now written to every company and asked them about the level of their proposed R&D investment and whether they intend to move into magnesium alloy die-casting. No-one in Australia currently has any inkling about how to move into that area. Chris talked to their association representatives yesterday. The equipment needed for that die-casting is the most expensive in the world. So we believe, if we want to move into value adding alloying in the next two years, we will probably have to do it offshore or try to entice a US or European investor to set up a die-casting plant in Australia. The other thing that worries me about the investment is—

CHAIR—Do you think that is likely?

Mr Beck—With the technology we have in Israel at Ben-Gurion University and in the Russian laboratories, I believe that, yes, we will be able to do that. Some of our alloys will be world breaking. We have some of the best Russian and Israeli scientists currently working on a contract to develop those alloys. I will have a team of diplomats and researchers on the ground who will come back to them with future alloy specifications and they will literally run a little scientific lab and say, 'Yes, we can produce it' or 'No, we can't.'

As these six magnesium producers in the nation build these refineries, there will be an impact on our balance of payments because that large equipment construction is not done in Australia. For example, power station turbines are not manufactured in Australia. So imports of die-casting equipment, refinery equipment—the electronics in a refinery are worth $100 million by themselves—will have an impact on our balance of payments. Siemens can manufacture some of that here in Australia, but most of it will come out of Germany and Europe. So we are not looking just at risk aversion when we sit with banks.

We had a discussion recently with someone from the ANZ bank and they said, 'What security, what property do you have?' We said, 'Well, we are engaging in a $38 million research program and we would like to fund that. We will not build the smelter until 2004.' They said, 'Oh, you don't have any property or assets. No, we couldn't do that.' There is no way you can get that sort of money through the Australian banking system and you cannot get it through joint venture construction companies. So you literally have to get it offshore.

CHAIR—Chris, you were drifted into the area of Australia's greenhouse obligations—bearing in mind that the Kyoto agreement has not been signed off yet. Can you expand on the question of the ramifications—or 'challenges' would probably be a nicer word—for Australia and Australian manufacturers and plant operators such as you are proposing of the greenhouse emissions target, particularly the trigger?

Mr Laughton—In relation to magnesium production and what it is going to be used for, you have to look at the whole life cycle of greenhouse gas emissions. In other words, as with aluminium, it is an energy intensive business to extract these light metals and produce them. There is inevitably a situation developing where we are going to be producing some greenhouse gases, whether it is at the power station that provides that energy or whether it is during the process. Fortunately, having given away our magnesite project and having focused on our waste dump, which is the waste from the old asbestos mine, we will not have any emissions—of carbon dioxide in particular—from that waste, whereas all the magnesite producers will. The composition of magnesite is such that almost half of it is actually carbon dioxide and there is no way that that cannot be emitted into the atmosphere, at present.

The other side of the equation is that, with respect to where the growth is—that 18 per cent growth in the die-casting and the producing of components for the transportation industry—it is designed specifically to save on the greenhouse emissions from the automotive industry. The CAFE regulations that are in place in the USA and in other parts of the world require that fuel consumption be reduced quite dramatically but they have not been abided by to the present.

CHAIR—But we will not get those credits. We will get penalised in our market but we will not be able to pick up the credits in their markets.

Mr Laughton—That is true.

CHAIR—My question is: what effect will it have on Australia's obligations?

Mr Laughton—With respect to Australia's obligations, there will be more emissions but what we will have to aim for is to not use coal as the driving force for the energy but rather gas. That is another reason why we are looking at our own power generating situation. Certainly, from Australia's point of view, yes, there will be some additions to the emissions but we do have to look at it overall as well. I respect what you are saying about Australia from the emissions point of view. Of course, it will affect our own automotive and other transportation industries within Australia. If we are going to go into this business seriously, we are going to have to export to get the real added value—as we do at present. We are exporting automotive vehicles to all parts of the world and in those vehicles there will be magnesium which will have reduced the emissions, although the emissions will be, as you rightly point out, overseas. The two are not really separable.

Mr Beck—One of the reasons Golden Triangle decided to pull out of Tasmania was that environmentally it could not support two smelters at Bell Bay. We were aware of that. The government flatly refused to even acknowledge that proposition or debate it. The second area of concern for us in terms of our international obligations and the way Australia looks to the world is that SAMAG has announced that it has undertaken its environmental impact statement. It has pre-purchased off the shelf technology which is the Dow chemical process. We cannot find anywhere in the world where their magnesite has been fed through that process and they have decided not to build a pilot plant but to go to a full refinery. We wonder what sort of data they will have in their EIS to indicate what the emissions from that plant might be.

These sorts of images are being watched from overseas and we are researching them and we have been told that our competitors and other nations are aware of them. When we turn up at the next meetings of the world environmental councils, such as Kyoto, to put in our lobbying and our arguments—which we intend to do—we are worried that, to a degree, the state and federal governments have not yet addressed the issues of the environmental impact of these refineries—the EIS statements and what they actually mean. The communities want jobs—we understand that. South Australia and Tasmania need development and, to a degree, you can see that the governments rush ahead to get those projects in because they have nothing else to offer of that scale or size. They grab a straw and run with it. There are dangers for us.

CHAIR—Linking into that, you were critical of governments' ability to act, I notice, in some of the report, both in transport and in a whole range of other areas. Can you expand on what government should do to accommodate these sorts of projects.

Mr Beck—In our discussions we are finding that the New South Wales government are very good to deal with in that they have admitted that perhaps their department should have looked at infrastructure development some time ago in areas where there were known to be resources such as coal methane gas in northern New South Wales, the serpentinite, and other areas of resource development, but they have tended to concentrate on the cities or the Hunter Valley. I think I am being critical of the forward look planning and then, on the other side, cynicism comes out when you see $300 million or $400 million worth of public moneys being spent on so-called education campaigns to put a GST tax in when $300 million would have put natural gas into Tasmania. Those sorts of competing interests, when we look from the outside without having the knowledge of the workings of government, look to us like economic evaluation and future planning have not been done. I look at the map of northern New South Wales, I look at Tasmania, I look at South Australia—and similarly in Western Australia—and the infrastructure is not there. If we wanted to build a refinery in Parramatta we could have everything we wanted, but you cannot do that. Whether we like it or not, Australia is a resource nation—the bulk of our earnings come from our natural resources—so I think we could look to the future and say, ‘Yes, in Barraba it’s only $3,200 to $7,000 a head to put in infrastructure rail and electricity,’ which might entice in the future. That was my logic when I wrote that statement.

CHAIR—All right. Do you have any closing remarks you would like to make? I thank you very much for attending. Thank you for your time.

Mr Beck—Thank you for the opportunity.

[10.37 a.m.]

McCONVILLE, Mr Andrew, Manager, Government Relations, AWB Ltd

CHAIR—I now call the representative from the Australian Wheat Board. I 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 the parliament. The committee would prefer that you give evidence in public, but should you wish at any stage to give evidence in private you may ask the committee to do so. I invite you to make an opening statement.

Mr McConville—AWB Ltd was previously the Australian Wheat Board before privatisation on 1 July 1999. May I firstly say that AWB certainly appreciates the opportunity to present to the committee. The committee will obviously note that at this point AWB did not make a formal submission. The reason for that was that, at the time of writing, AWB was heavily involved in the preparation of its own submission to the current review of the Wheat Marketing Act under national competition policy. The purpose of that review is to examine whether the current single desk export marketing arrangements for Australian wheat deliver a net benefit to the community, and a very important part of that is the value that that single desk export marketing arrangement, and hence AWB Ltd, can add to the product that we export, that is, wheat from Australia. What I have subsequently done is brought for the committee a copy of AWB's submission to the review. That submission is not public as yet but will be made a public document once the committee has produced its draft report. We expect that to be due in October. So there is a copy here for the committee and they can pursue that at their leisure—or displeasure, as the case might be.

AWB Ltd, formerly the Australian Wheat Board, is Australia's sole exporter of Australian wheat to the world. We have annual average sales in excess of $A3 billion and we sell to over 70 countries and 100 customers around the world. In undertaking that marketing task AWB (International), which is a subsidiary of the parent company AWB Ltd, is charged with simply maximising returns to growers. That charter is in our constitution and it flows through the entire organisation of the company. So in setting about marketing Australia's wheat we both must be very mindful of our ability to actually value add Australia's wheat crop in order to secure sales in front of our competitors.

In undertaking that marketing task AWB (International), which is a subsidiary of the parent company AWB Ltd, is charged with simply maximising returns to growers. That charter is in our constitution and it flows through the entire organisation of the company. In setting about marketing Australia's wheat, we both must be very mindful of our ability to value add Australia's wheat crop in order to secure sales in front of our competitors.

The international wheat market is the most competitive food commodity market in the world. It has an average annual trade of around 100 million tonnes out of a total production of close to 600 million tonnes. That means that Australia is uniquely placed in that we produce about three per cent of the world's total wheat production but we export about 18 to 20 per cent of the world wheat production. We are, therefore, very dependent on wheat exports and our ability to secure sales in front of our competitors.

The five major players in the international wheat market are the United States, which this year will export year around 35 million tonnes, Canada, which will export around 26 million tonnes, the European Union, which will export around 14 million tonnes, Argentina, which will export around 10 million tonnes, and Australia. This year our export task will be in the vicinity of 18 million tonnes. That international marketplace is characterised by extremely high levels of government intervention. The OECD estimates that government support to US farmers this year will be in excess of $US26 billion. In the case of European farmers government support will be in excess of $US40 billion. The environment into which Australia looks to sell its product is considerably distorted.

The payments made have two impacts: one is direct production subsidies to move products onto the export market and the other is payments to producers which then induce an environment where producers are not responding to market signals and tend to oversupply the market. With that background, AWB sets about its task by taking what many perceive as a simple bulk commodity of wheat. It differentiates that commodity into a value added product in order to move that product overseas to secure sales in front of our competitors but also, importantly, secure a premium for Australian wheat.

As the committee will see in the submission we will provide, over many years the Australian Wheat Board, now AWB Ltd, has been very successful in securing both a very good price for Australian wheat and access to a wide range of markets. When examining the value that we are able to add to a product, it is important not to focus simply on the actual premium that might be obtained for the product in the marketplace but also on our ability to access markets. That gives us a distinct advantage over the likes of the United States where they are shut out of a number of markets by way of sanctions and other trade and economic policy sanctions.

In terms of AWB setting about its task differentiating the product, through the general receivals process and through the price signals that AWB Ltd is able to send to Australian wheat growers, we have taken wheat and branded it into six distinct product lines. Growers are paid on the basis of the quality of the product they deliver. The value added by AWB is essentially taking that commodity, segregating it, matching it with market demand and then shipping that product to meet that market demand. What we are trying to do is focus on the needs of the customer and ensure that we have a demand driven rather than a supply driven industry. That can be contrasted to the situation that we might see in the United States, Argentina or the European Union.

On the point of value adding, questions may be raised as to what more may be done. Our very clear view is that it is important that Australia be able to maintain its strength in the marketplace. We believe that the single desk for export marketing is integral to that and also that the informational advantages, the scales of scope and size, and the economies of scale that are attributable to a mechanism like the single desk, are very important in ensuring that Australian growers continue to have a competitive advantage in the market. I am happy to take some questions.

CHAIR—Andrew, thank you for that. I notice that the Productivity Commission in their submission to the single desk review said it is likely that the lack of choice for growers is impairing the innovation and that without competition there was no guarantee that the AWB is giving basically the best service to its growers. A short while ago, in the submission from the Dairy Industry Council, they said the problem with the New Zealand dairy farmers is that there is basically a monopoly situation and that their dairy farmers are not getting best returns. Can you comment on that?

Mr McConville—In terms of the Productivity Commission's analysis of AWB single desk, the first point to be made is that at no point was any consultation actually undertaken with AWB in the preparation of that submission, so it was largely a theoretical exercise as opposed to actually rolling the sleeves up and having a look at how the industry actually works in practice. When one compares the situation faced by Australian farmers with that of their competitors, say, in the United States or, indeed, Argentina—from which I have just returned—it is very clear that Australian wheat growers have, in fact, more options to market their product rather than fewer.

In the United States and Argentina a grower simply sells for cash. The use of risk management tools is very limited and their exposure to price risk is reasonably high. In the case of the Australian grower, a number of options are provided for the grower and there is a completely deregulated domestic market of about five million tonnes into which growers may choose to sell. Some other growers may not have access to that domestic market so it is very important that they have access to the international marketplace which they are assured through the single desk mechanism.

In terms of innovation, Australia is the only country in the world that actually segregates its wheat and sells it as a branded food product as opposed to a bulk generic commodity. We compare it with the United States, a market of some 66 million tonnes, of which about 35 million tonnes is exported. There are three to four basic grades of wheat which are supplied into the marketplace. They sell on a fair-average quality basis, that is, that the wheat is basically aggregated at port; blending revenues, if they are present, are captured and returned to the exporter and not to the grower, and they struggle to ensure a consistency of product in the marketplace. The same could be said of Argentina.

In contrast, Australia is actually able to guarantee the product that it supplies into the marketplace. It is able to guarantee quality and consistent supply of that product. Consistency is very important to a miller to ensure long production runs and a high quality product, and we have actually been able to source out markets where people are prepared to pay a premium for that.

Where you raise the point about innovation, I would actually challenge the Productivity Commission to look closely at what, in fact, AWB has done in the marketplace, as compared to, say, the United States or Argentina, in the way it pays its growers on the basis of protein. We have just seen this year an announcement that AWB will shift to paying growers on a graduated scale, such that they are paid on a point percentage increment in terms of the protein that they deliver, in terms of the screenings—that is, foreign matter—in the wheat that they deliver from a range of, say, zero to 10 per cent for screenings and about six to 16 per cent on the basis of protein. So growers are, in fact, receiving a very strong market signal which they in turn can then use to dictate their production and their planting decisions.

Quite contrary to, I suppose, the unsubstantiated claims made by the Productivity Commission as to how they perceive the wheat industry to actually work without looking at the industry, we would suggest that we have been at the forefront. Australia has also been at the forefront of producing products for specific markets. We have developed a brand of noodle wheat which is supplied to a very specific niche within the Japanese market. We identified a group of growers within Western Australia that could grow a particular product that was suited to the production of udon noodles in Japan. We have been able to work through from the genetics to the marketing of that product to develop and commercialise the seed, develop the production processes, find the market and the customer, and actually secure end-user demand for that product, and those growers in Western Australia are being rewarded for that.

We were actually able to regionalise the pooling system that we operate to ensure that if growers can actually produce a product that adds value to the customers' bottom line, then the growers in turn can be rewarded for that. They are rewarded very directly for it because the company is only controlled by growers. Under AWB's constitution, AWB (International) is responsible for operating the national pools which export the wheat overseas, and all returns from selling wheat overseas have to be delivered back to growers. They cannot be repatriated to provide profits to AWB Ltd as the parent company or other shareholders so it is very focused on that component.

Regarding other areas of innovation, AWB is working very directly with the likes of the Grains Research and Development Corporation and there is the wheat quality CRC where we make direct investments each year. We also have an investment in a joint venture with the CSIRO and GRDC called Graingene, which is looking at the prospects for the development of genetically modified material and whether that is appropriate for our industry and, if so, how it should be best used. Right through the production chain we are involved to make sure that we are generating value.

We would argue, contrary to the likes of the Productivity Commission, that it is the ability to participate right through the value chain that is actually very important in delivering value back to growers. The argument then comes that you do not need a monopoly to do that. I would suggest—if you look at something like the McDonald's chain—that when you go into a McDonald's restaurant, wherever you are in the world, you can be guaranteed of the quality of the hamburger that you are going to get. You know what it is going to taste like, you know what it is going to look like and you basically know the sort of price that you are going to pay for it. Why is that? Because, in that circumstance, all those participants in that process sign a franchise agreement—that is, a legally binding agreement that says that you will produce a particular product to meet a particular end user demand. We would suggest that the circumstance that we have in the case of Australian wheat is quite similar in that the legislation provides the discipline to ensure that wheat for export is delivered through a single channel and is required to meet certain quality specifications in order to satisfy end user demands. It is a very demand focused point.

It is true that we cannot satisfy the needs and demands of every participant in the process, but no system could. What we would argue very strongly is that the current system that we have delivers the greatest good for the greatest number. That is very contrary to the position that the Productivity Commission put. We would also suggest that if the Productivity Commission had taken the time to actually consult with AWB, to look at our business and to try and understand our business, they could have come to a different conclusion as well.

Dr WASHER—Andrew, on the research and development side of the wheat industry—you alluded to GRDC and the grain industry looking at genetic modification—there are a few things that I would like to ask. Firstly, what would you like to see from a governmental point of view to improve R&D investment in the wheat industry? Secondly, how are you are placed to collect the end point levies for new breeds and products coming through? Also, mentioning separation and the storage units and facilities that seem to have similar investors to those that you have—if we get into GM, for example—could you run through all that?

Mr McConville—In terms of what we would like to see or the sorts of things that we are looking at in terms of the whole GM issue from a government perspective, I think it is very important, whichever stance the government takes, that it is consistent Australia-wide and that it is coordinated and developed with full industry consultation. We have had, for example, full consultation on the Gene Technology Bill and we generally support the broad thrust of where a lot of those initiatives are going. I think it is very important that Australia, as a small country reliant on exports, whether it is the wheat industry or any other industry, is not shut out of the intellectual property loop. There is obviously a great deal of debate at the moment about the level of consumer acceptance of GM material. I think we could accept that that debate is occurring and I think it is important that that debate is well informed. The government has a very important role to play there: to make sure that the debate is both balanced and well informed, and to ensure that there are appropriate incentives to continue to undertake this sort of investment, to make sure that we are not shut out of the intellectual property loop.

The current arrangement, where we have dollar for dollar matching of funding— say, through the GRDC—is a very positive initiative and we would certainly like to see that continue. The GRDC does a lot of very good work in terms of developing that part of the industry, as does the CSIRO. I think those initiatives need to continue to be supported. We at AWB are very much taking that approach and we are continuing to look at the development of intellectual property in the industry so that, for example, a large multinational does not essentially capture the killer gene and we are locked out of the process and are, therefore, locked out of the whole production and manufacturing chain from that point forward. We also need to be mindful of the needs of the consumer. At the moment, the consumers are very strongly saying that they do not want a genetically modified product. We, on occasion, have been asked to certify that Australian wheat is GM free. At the moment, we are able to do that with great confidence because there is no gene in the wheat.

CHAIR—Are the consumers saying that or is the media hype saying that?

Mr McConville—We are having customers coming to us requesting that we certify that the product is GM free.

CHAIR—Overseas customers?

Mr McConville—Yes, overseas customers. We have not seen terribly much coming through in the domestic market. At the moment that is quite easy to do because there is no GM wheat. Wheat is much more complex to go down that path in terms of its genetic structure than, say, corn. The signals are out there and we must meet the needs of our customers because, as I mentioned in my opening comments, we are very demand focused.

CHAIR—On that demand of whether to certify GMO free, what segment is the overseas market?

Mr McConville—It is largely the South-East Asian market and countries like Malaysia, Thailand and Singapore. It is not necessarily on a regular basis either. It is a bit sporadic in terms of the way they tend to approach it. There are the very quality discerning countries. I am not familiar with whether Japan has asked for certification or not. It is those very high quality markets like Thailand and the Philippines that are requesting a very specific product tailored for a very specific end use demand. They are prepared to pay a premium for Australian wheat because we can guarantee the product and its integrity. They expect that we are able to provide those sorts of guarantees.

CHAIR—Middle Eastern markets?

Mr McConville—Not so much the Middle Eastern markets—

CHAIR—It would be hard to work out what the consumers really want over there, wouldn't it? That is freedom and democracy.

Mr McConville—The governments in many countries are still the central purchase agencies. There is the GASC in Egypt, although there is an emerging private market there. There are the GTC in Iran and the Iraqi Grain Board buying on behalf of the people to guarantee food security. They are much more focused on getting the product in there and volume rather than the specific quality. They are our lower quality markets. It is the more discerning South-East Asian countries at the present point. We have been able to provide certification.

To come back to your original question about what the government can do, I think consistency of approach is the most important thing. We have to continue to explore, for example, the decisions on regulations as to what impact that may have on our industry. Potentially, it could be significant in terms of the cost that growers or we as the market have to undertake to ensure the labelling of the product. We will have to examine that and we have not as yet. Obviously, the decision is very new. I think as long the approach is well communicated, and is consistent, we will work within that framework. There have been some mixed signals coming out of Canberra as to what Canberra may want as opposed to what the states want. We saw that on the whole regulation debate. I think we have to work hard to make sure that we are all marching to the beat of the same drum.

In terms of the industry and segregation, the Australian industry is probably better positioned than most of the other major wheat marketing or exporting countries to segregate the product, if that was what was needed. Principally, we have a great big desert down the middle of the country that separates Western Australia from the east coast. Western Australia is very export focused. There potentially could be an opportunity for it to go down that sort of path.

We are also able to coordinate. We can prepare up-country specific boatloads for specific purposes and then shift those to port and be very exact in terms of matching a cargo in order to shift to an end point customer. Potentially, there is a capacity to do that. The question then becomes: does the cost warrant it and is the customer prepared to pay for it? What we have seen in the case of, say, corn and soybeans coming out of the US or Argentina is that the customer is saying, ‘No, it is our choice to have a GM-free product and we are not prepared to pay more for it.’ If that is the case, then the question has to be asked: do the additional costs of segregating a GM- free product warrant the additional return or the lack of return that you may receive? We will just have to see how the market unfolds with that. What was your third question?

CHAIR—It was more about the levies charged for R&D and also the levies charged for specific wheat breeds.

Mr McConville—There is obviously a lot of debate going on at the moment about the legislation—I am not sure about its status—that is currently before the House. As the national marketer, we believe AWB can play a very important role in the collection of end point royalties. The acceptance of that as a notion to recover on the investment that wheat breeding companies undertake to develop new seed technology varies between states as to whether growers perceive that they have to pay for that investment and that technology or whether they see it as their right to be able to go on and produce farmer-safe seed.

We are being fairly active in the education role to highlight the fact that, if we want to continue to develop the industry and the sort of technology that we need to maintain our competitive advantage, we must ensure that the wheat breeders get a return on their investment. End point levies or end point royalties are a very good way to do that. As a national marketer, we seem to be in the best position to act on behalf of those breeders and companies in collecting those royalties. It is a bit of a movable feast at the moment, but we have been fairly consistent and clear about our position. If it would help, I can provide more information about our position to the committee. My knowledge in that area is a little thin.

CHAIR—Yes, thank you.

Mr LLOYD—You said that you felt the government had a responsibility to ensure that there was an even-handed debate on GM foods. Do you think the industry also has an important role to play? I say that because people in the community often do not believe what a government says.

CHAIR—No!

Mr LLOYD—I do not know why, Mr Chairman. Given the nature of the Australian community, I feel that maybe industry has an important role as well. What are your comments on that?

Mr McConville—I think that is an excellent point. It is very important for industry to get involved, whether it is supportive of the government’s position—which I think it probably is on a lot of these issues—or whether it wants perhaps to push for further change. We are the principal point of interface with the growers on these issues so I think the industry collectively has a very important role to play in terms of education. I think there is a lot of misinformation out there. By our nature, we tend to be better informed than perhaps our suppliers because we are out in the market all the time and know what the market wants. We can play a very valuable role. It is important that industry and the government work together to educate the community—and, in this case, the growers. I see it very much as a joint partnership.

Mr LLOYD—As to research and development, do you have any comments on the changes to research and development initiatives? I am also interested in your views on the level of support you get for the industry through, say, external agencies such as the CSIRO, and particularly CRCs.

Mr McConville—Research and development is absolutely essential to our industry's successful continuation. We have continued to work very closely with the government-funded research institutes like the CSIRO—we have an excellent relationship with them; in fact, the chairman of AWB Ltd is chair of the seeds group within CSIRO—and we must continue to do that. We are seeing the emergence of private research institutes and attempts to capture intellectual property on a private basis. I think that is a general trend across agricultural industries and across industries world wide, and we need to recognise that. That does not necessarily mean that it leads to a worse outcome in terms of industry development. I think we have to make sure that we are positioned in order to capture that. We at AWB have tried through our Graingene, for example—which is a joint venture between GRDC, CSIRO and AWB—to attract private investment to develop particular initiatives. I think that is very important. We must be aware that that is happening and participate in it.

In terms of the level of government support, the government provides funding dollar for dollar. There is an industry levy and the government matches that dollar for dollar. I believe that is absolutely essential to the continued success of our industry. Regarding the wheat CRCs, we have just been involved in discussions to extend the operation of the wheat quality CRC for its second term of life, and we have been very supportive of that. It is playing a very important role, particularly in the areas of gene technology and seed development, and we would be very keen to see that continue. We participate very closely with the CRC. I think it is an excellent initiative and one that deserves to be supported. Could the government do more? I do not think you would find a participant in any industry that would not say the government could do more. It is a matter of what is realistic: the government also has scarce resources. We would always like to see more but we recognise that there are constraints. We will work within those to secure the best possible outcomes that we can. If the government in its wisdom and its generosity decides to do more then we would be very happy to welcome that as well.

Mr LLOYD—Thank you.

CHAIR—Andrew, can you give the committee more details on the distortion of world markets? Further, can you make comment on a positive or negative role that Austrade would play?

Mr McConville—In terms of the distortion of world markets, in the wheat industry we see it principally coming out of the United States and Europe, and it comes in different forms. Some will say that the United States has not used the export enhancement program since the early 1990s so therefore there are no export subsidies in the United States. To go down that path is naïve in the extreme. What we are seeing, and the OECD figures that have come out recently this year support this very strongly, is that in fact the levels of support paid to farmers in the US are reaching the levels that they were in the 1980s—what we describe as the bad old days at the height of EEP which damaged innumerable Australian markets. Those support mechanisms were being paid in a range of ways—for example, loan rates which effectively provide a floor in the market for growers; export credit to enable access to a wide range of markets backed to almost 100 per cent by the US government; crop insurance that basically enables farmers to farm more marginal land with less risk of loss; aid donations—we have seen the US donate over six million tonnes of aid in the last two years into commercial channels, into key markets for Australia around the world; Market Transition Act payments which are a basic direct cash injection to the US farmer to help him move from the previous farm bill through the passage of the 1996 farm bill. They have actually been increased over the last few years. Also there is a range of emergency relief measures which the US government has announced over the last two years which total in excess of $14 billion. They are coming directly off the US budget surplus.

What does all that mean? It means that the farmers' production and risk decision making environment is distorted. He or she is continuing to receive payments from the government when, if based solely with the market price, the market price might dictate that they in fact go into some other business or do not produce as much. In the absence of that we are seeing farmers essentially respond to the government—oversupply—and that supply has to find a place somewhere. It finds its place in the world market or, alternatively, it goes into stocks. We now see stocks in the US at record levels, in excess of 20 million tonnes. That has a substantial overhang on the market.

In the EU it is a different scenario. There we see straight-up export subsidies. They call them restitutions. That restitution program basically sets an internal domestic price and then farmers produce that internal domestic price which at this point in time is anywhere up to approximately 70 euros above where the world market is at the present point in time. Farmers produce to that price. That has to go somewhere, so they provide an export subsidy in order to move it onto the export market. Those restitutions vary over time. They have been as high as 40 to 50 euros a tonne; at times they have got down to zero or one to two euros a tonne. I am not sure at the present point in time where they are at. My last recollection was that they were around 26 euros per tonne. They change on a fortnightly basis. So we have those two situations.

What we are also seeing in the EU is record stock levels, approaching 20 million tonnes. The world market reacts very directly to those stocks because the US is the principle driver of the market through the futures markets in Chicago, Minneapolis and Kansas. Those exchanges see those stocks sitting there, it is a buyer's market, the buyer knows he can get supplies, so he basically does not have to pay the price. What does that mean for the Australian farmer? Lower prices. We are seeing at the moment that nearby futures contracts for the last 18 months have been tracking near 20-year lows—very low values as far as the US futures market is concerned. That impacts because, whether we like it or not, the US is the principle driver in the market. We have to hedge on Chicago very heavily in order to manage the risk for the Australian farmer, so the hedge cover is obviously at lower values. That is reflected, for example, back through cash prices that we are able to pay our growers, or forward prices we are able to pay our growers because if we buy forward we then have to offset that risk on the exchange or one of those exchanges. Growers are seeing very low values in response to that; they have been impacted upon very directly.

In terms of what the Australian government can do, it is a bit like water on a stone: if you keep dripping water on the stone, eventually the stone will crack. It is very important that we maintain the pressure through the likes of the Cairns Group, which is a very effective mechanism to highlight the regional inequities in support that is paid to farmers around the world and the impact that that has on Australia, Canada and Argentina, to take the wheat industry as an example. Obviously we must continue to push for progress through the WTO and to try and get the next WTO round off the ground. The failure in Seattle was unfortunate. I think if it had been solely the agricultural agreement, then we would have actually got a round under way. I believe it was not the agricultural agreement that made the negotiations stall. So we must work very hard to maintain momentum in order to continue to look for reform.

You probably recall that the Uruguay Round was the first of the WTO rounds in which agriculture was considered, so we came from a very low base. We need to build on that. It is difficult for Australia because we do not have many negotiating chips—basically, all our cards on the table. Some would say, for example, that the single desk is something that is problematic. I would say that, under all WTO rules, a single desk is legitimate. There are many state trading enterprises around the world. The issue for state trading enterprises, as for any other enterprise, is: does the enterprise concerned, by its conduct, distort world trade? That is the threshold hurdle that has to be jumped. We have been able to establish on numerous occasions, both from Australia’s perspective and we have been examined by the Government Accounting Office of the United States, that AWB and the single desk for wheat exports does not distort trade. So we have jumped that hurdle.

Australia does not really have many aces up its sleeve, apart from persistence, not letting go of the ball, maintaining the focus on the big picture and trying to open up as many markets as we can. I think China’s accession to the WTO will be very positive as far as Australia is concerned, whether we talk of wheat or any other industry. And we must be active in highlighting the inequitable nature of the sorts of support payments that are being made to US and European farmers. It is difficult for Australia given, for example, the very strong defence ties that we have with the US, to be critical of the US in other areas. But it is absolutely necessary that we continue to highlight the very inequitable nature of these policies and the fact that Australian farmers are being forced to do all the adjusting to the policies of the Europeans and the Americans. We find that very unjust. We are very active in pounding the halls in Canberra, in Brussels and in Washington to make sure that our case is heard and that we continue to highlight these sorts of issues. We also continue to have dialogues with the Canadians and the Argentinians, in the case of the wheat industry, to look at ways in which we can work together to highlight them. As I mentioned at the outset, the Cairns Group is an excellent vehicle to do that.

CHAIR—Are you aware that Macquarie Bank has linked up with a Brazilian bank in the South American market to offer options and basically a form of crop insurance to overcome some shortfalls they had? I am interested to know if you are aware of that and what effect you think that would have. My second question is: given this inquiry is into value adding and that you have being talking the whole time about shiploads of grain going overseas, has the AWB any plans at all to look at developing further value adding export markets?

Mr McConville—That is a good question. To address your statement, I was not aware of the situation in Brazil. It is an emerging trend around the world in relation to crop insurance. They are looking at ways of insuring the risk.

CHAIR—And it requires an Australian merchant banker to go there and do it.

Mr McConville—Very interesting—I wish them luck. It is very difficult to determine an appropriate risk profile in order to establish premiums. There is a whole range of reasons for that. I know Minister Vaile has been pushing at times when he was agriculture minister for a similar sort of set-up in Australia. If you look at the US, the US government is subsidising up to 75 per cent of the premium. So it is going to be a very difficult exercise, but I certainly wish them luck and it is a positive initiative. It will not directly impact on Australia's competitive position in the wheat market. For example, Brazil imports around about seven million tonnes of wheat a year, mostly from Argentina. We will see how that goes. In terms of value adding—

CHAIR—Maybe not with the collapse of the currency at present.

Mr McConville—That is true.

CHAIR—The Argentinians have dollarised it. And they have got to stay there otherwise their debt becomes a huge problem.

Mr McConville—Argentina is doing it tough. I was there a couple of weeks ago to have a look at their industry and there are a lot of problems there. In terms of value adding, we have pursued a strategy through differentiation. We do very directly consider that a form of value adding in order to meet end point customer demand. It is important that the bulk handling systems and transport systems are geared to cope with that. That is the first step.

In terms of perhaps downstream manufacturing—things like flour milling—the AWB is involved in a number of ventures overseas. We are not involved in any domestically. We have a 30 per cent share in a five-star flour mill in Egypt, which is extremely successful, and a similar venture in China, South Seas Shenzen Grains Industries, and we are also involved in the building of a mill in Vietnam. They are obviously offshore investments and are purely designed to give us a better understanding of the market so we can ensure that the signals going back to growers here are clearer to make sure that we are meeting end point customer demand.

Domestically, in terms of milling, I am not aware of any plans within the organisation to look at that. We are very much focussed at the other end of the chain in terms of the development of seed technology. We have actually established a seeds business, AWB Seeds. Its direct charter is to develop new commercial varieties that will add value to the grower's bottom line through developing a better quality product. We have also looked at other ways in which we can participate in the value chain in order to add value. We built a grain receival terminal at Dimboola last year in order to reduce the costs of grain handling in Victoria. We were very successful in doing that. We are certainly very keen to explore other avenues.

CHAIR—That is not adding value, that is increasing profit, which I am all for. I am trying to establish if there are any genuine attempts to add value to a grain crop?

Mr McConville—I would argue the contrary, that in fact that is very directly adding value to Australia's grain crop through ensuring that we can deliver appropriate quality through the best quality receival terminals.

CHAIR—Is that not efficiency and productivity?

Mr McConville—Yes, it is efficiency and productivity, but it is also making sure that we can maintain product integrity, and that is what adds value for the grower when that product is moved to the export market.

CHAIR—It adds value in profit, which is commendable, but I am interested in adding value to the next stage.

Mr McConville—I am sorry, I did not understand you. You mean adding value to the actual product. What we continue to be focused on is adding value into the grower's pocket, as you state. We are always very interested to explore what opportunities there might be to actually add value to the product that is delivered. The principal focus remains on maintaining product integrity such that we can receive a higher end use price for that product. We look at measures across the value chain. It comes down to your definition of value adding, whether you are on to the product concerned or in terms of the dollar return you are delivering back to the supplier.

CHAIR—We are not greedy, we want both.

Mr McConville—I could not agree with you more.

CHAIR—We are very profit motivated! It should go back to the growers. But what our committee terms of reference are looking to do is see if we can add value in Australia so that more profits stay in Australia through different stages and, more importantly, more jobs. Of course, it improves also our bottom line in regard to balance of payments.

Mr McConville—Sure. I fully support that. I think there are plenty of avenues to explore, right through the value chain. We have got a $1.2 billion value chain moving product from farm gate to the export position, and there are a range of ways in which we can work within that value chain, as I say, to improve product integrity, efficiency and quality to better meet end user demand or to reduce costs. It is both sides of the equation: reducing cost, increasing price as a better dollar return. I would say that the government's support—in fact, the support of both sides of the House—of the industry and initiatives to perhaps pursue that has been excellent, and we continue to look at ways in which we might be able to work together to do some more.

CHAIR—The Prime Minister, some short time ago, had the plan Supermarket to Asia. Sure, the financial crisis that hit Asia upset that for a while, but among of the things that were discussed was an Australian brand name, effectively. You spoke of the Asian markets that are important to us, particularly in the GMO area. Has there been any discussion of, or focus on an Australian brand of any sort? I guess that is hard to say when you do not sell an end product, but can you make comment on that?

Mr McConville—We do brand Australian wheat, surprising as that sounds.

CHAIR—But the consumer would not know.

Mr McConville—It depends who you define as the end point consumer. We see our end point consumer as the miller, and the millers in those countries are very, very clear on the production capacity that those various brands of wheat deliver and what they are actually capable of doing in terms of their end uses, whether it is flour for breads, for biscuits and sweet cakes or for noodles. The market is very aware of the different product characteristics of those particular brands of wheat, and they are distinctly Australian brands. They are all registered brands—there are registered logos, et cetera—and focus very much on the Australianness of the product and then, under that, specific product attributes that we can put under each of those brands. As I mentioned at the outset, Australia was really at the forefront of the world wheat industry in doing that. If you consider millers as our end use customers, they are very aware of what the particular brands can deliver to them.

CHAIR—As no other member has any further questions, Andrew, I thank you very much for your submission.

Mr McConville—I will leave this with you, Chairman. It comes in three parts. There is one part which is commercial-in-confidence; as to the others, we will be releasing the submission publicly once the committee has delivered its draft report in October. If the committee could be mindful of that, we would certainly appreciate it. Happy reading.

CHAIR—We have got long plane flights to Western Australia, so you have got a fair chance we will read it.

Mr McConville—You will need a long plane flight, Chairman, I can tell you.

CHAIR—The committee will accept the document as an exhibit.

Dr WASHER—Andrew, if you could get the levy details, too, that would be nice.

Mr McConville—Yes, I will.

CHAIR—Thanks very much.

Committee adjourned at 11.25 a.m.