



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## **SENATE**

ECONOMICS LEGISLATION COMMITTEE

**Estimates**

THURSDAY, 2 MARCH 2017

CANBERRA

BY AUTHORITY OF THE SENATE

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**SENATE**

**ECONOMICS LEGISLATION COMMITTEE**

**Thursday, 2 March 2017**

**Members in attendance:** Senators Kim Carr, Gallagher, Hume, Ketter, Lines, Ludlam, Ian Macdonald, McAllister, O'Neill, Smith, Whish-Wilson, Williams, Xenophon.



## **TREASURY PORTFOLIO**

### **In Attendance**

Senator McGrath, Assistant Minister to the Prime Minister

Senator Sinodinos, Minister for Industry, Innovation and Science

Senator Canavan, Minister for Resources and Northern Australia

### **Office of the Inspector-General of Taxation**

Mr Ali Noroozi, Inspector-General of Taxation

Mr Andrew McLoughlin, Deputy Inspector-General of Taxation

### **Department of the Treasury**

Mr John Fraser, Secretary

### **Output Group 1.1 — Corporate Group**

Mr Peter Robinson, Chief Operating Officer, Corporate Group

Mr Timothy Dale, Acting Division Head, Business Services Division

Mr Martin Bolton, Acting Principal Adviser, Business Services Division

Ms Shannon Kenna, Acting Division Head, Communication Division

Mr Robert Twomey, Division Head, Financial and Procurement Division

Ms Kathleen O'Kane, Acting Division Head, Parliamentary and Legal Services Division

Mr Geoff McKinnon, Acting Division Head, People and Organisational Strategy Division

### **Output Group 2.1 — Macroeconomic Group**

Mr Nigel Ray, Deputy Secretary

Ms Sue Vroombout, Division Head, International Policy and Engagement Division

Mr Chris Legg, Chief Adviser, International Policy and Engagement Division

Mr Warren Tease, Division Head, Macroeconomic Conditions Division

Dr Angelia Grant, Principal Adviser, Macroeconomic Conditions Division

Dr Michael Kouparitsas, Division Head, Macroeconomic Modelling and Policy Division

Dr John Swieringa, Principal Adviser, Macroeconomic Modelling and Policy Division

### **Output Group 3.1 — Revenue Group**

Ms Maryanne Mrakovcic, Deputy Secretary, Revenue Group

Mr Robert Raether, Division Head, Corporate and International Tax Division

Miss Lynn Kelly, Chief Adviser, Corporate and International Tax Division

Ms Kathryn Davy, Principal Adviser, Corporate and International Tax Division

Mr Tom Reid, Division Head, Law Design Practice

Mr Tony Regan, Principal Adviser, Law Design Practice

Mrs Marisa Purvis-Smith, Division Head, Individuals and Indirect Tax Division

Mr Bede Fraser, Principal Adviser, Individuals and Indirect Tax Division

Mr David Pullen, Senior Adviser, Individuals and Indirect Tax Division

Mr Matthew Brine, Division Head, Tax Analysis Division

Mr Robert Ewing, Principal Adviser, Tax Analysis Division

Mr Matthew Maloney, Principal Adviser, Tax Analysis Division

Mr Geoff Francis, Head of Petroleum Resource Rent Tax Review Secretariat, Petroleum Resource Rent Tax Review

Mr Graeme Davis, Acting Division Head, Tax Framework Division.

Mr David Pearl, Treasury Co-Lead, Black Economy Task Force Secretariat.

Mr Matthew Bambrick, Australian Taxation Office Co-Lead, Black Economy Task Force Secretariat.

Mr Robert Jeremenko, Chief Adviser, Revenue Group

**Output Group 4.1 — Fiscal Group**

Mr Michael Brennan, Deputy Secretary, Fiscal Group

Mr Matt Flavel, Division Head, Budget Policy Division

Mr Jonathan Rollings, Division Head, Commonwealth-State Relations Division

Mr Damien Dunn, Acting Division Head, Industries, Infrastructure and Environment Division

Mr Simon Milnes, Senior Adviser, Industries, Infrastructure and Environment Division

Ms Jenny Wilkinson, Division Head, Retirement Income Policy Division

Mr Ian Beckett, Principal Adviser, Retirement Income Policy Division

Ms Vicki Wilkinson, Division Head, Social Policy Division

Mr Marty Robinson, Principal Adviser, Social Policy Division

Ms Joanne Evans, Principal Adviser, Social Policy Division

Mr Hamish McDonald, Principal Adviser, Market and Competition Policy Division

**Output Group 5.1 — Markets Group**

Ms Meghan Quinn, Acting Deputy Secretary, Markets Group

Ms Diane Brown, Acting Division Head, Financial System and Services Division

Mr Robert Donnelly, Division Head, Foreign Investment Division

Mr Roger Brake, Principal Adviser, Foreign Investment Division

Mr Jim Hagan, Principal Adviser, Foreign Investment Division

Mr Adam McKissack, Principal Adviser, Foreign Investment Division

Mr Trevor Thomas, Principal Adviser, Foreign Investment Division

Mr Paul McCullough, Division Head, Market and Competition Policy Division

Ms Lisa Elliston, Principal Adviser, Market and Competition Policy Division

Mr Patrick Boneham, Division Head, Small Business Policy Division

Ms Emily Martin, Principal Adviser, Small Business Policy Division

Ms Kate Carnell, Ombudsman, Australian Small Business and Family Enterprise Ombudsman

Dr Craig Latham, Deputy, Australian Small Business and Family Enterprise Ombudsman

Ms Anne Scott, Principal Adviser, Australian Small Business and Family Enterprise Ombudsman

**Australian Taxation Office**

Mr Chris Jordan, Commissioner of Taxation

Mr Neil Olesen, Second Commissioner, Client Engagement Group

Ms Frances Cawthra, Acting Second Commissioner, Risk and Assurance Group

Ms Melinda Smith, Chief Service Delivery Officer, Service Delivery Group

Ms Jacqui Curtis, Chief Operating Officer, Corporate and Enabling Services Group

Mr Ramez Katf, Chief Information Officer, Enterprise Solutions and Technology Group

Mr Andrew Mills, Second Commissioner, Law Design and Practice Group

Mr James O'Halloran, Deputy Commissioner, Superannuation

Mr Jeremy Hirschhorn, Deputy Commissioner, Public Groups

Mr Timothy Dyce, Deputy Commissioner, Indirect Tax

**Australian Charities and Not-for-profits Commission**

Ms Susan Pascoe AM, Commissioner

Mr David Locke, Assistant Commissioner, Charity Services

Mr Murray Baird, Assistant Commissioner, General Counsel

**Australian Competition and Consumer Commission**

Mr Rod Sims, Chairman

Ms Rayne de Gruchy, Chief Operating Officer

Mr Scott Gregson, Executive General Manager, Consumer Enforcement

Mr Marcus Bezzi, Executive General Manager, Competition Enforcement

Mr Rami Greiss, Executive General Manager, Merger and Authorisation Review Division

Mr Nigel Ridgway, Executive General Manager, Consumer, Small Business and Product Safety Division

Mr Michael Cosgrave, Executive General Manager, Consumer, Infrastructure and Regulation Division

**Australian Energy Regulator**

Mr Peter Adams, General Manager Wholesale Markets

Mr Warwick Anderson, General Manager Network Finance and Reporting

**Australian Bureau of Statistics**

Mr David W Kalisch, Australian Statistician

Mr Trevor Sutton, Deputy Australian Statistician, Statistical Business Transformation Group

Mr Jonathan Palmer, Deputy Australian Statistician, Chief Operating Officer, Enabling Services Group

Mr Bruce Hockman, General Manager, Macroeconomic Statistics Division

Mr Tom Joseph, Acting General Manager, Industry Statistics Division

Dr Paul Jelfs, General Manager, Population and Social Statistics Division

Dr Siu-Ming Tam, Chief Methodologist and General Manager, Methodology Division

Mr Patrick Hadley, Chief Information Officer and General Manager, Technology Services Division

Ms Lily Viertmann, Chief Finance Officer and General Manager, Finance, Facilities and Project Administration Division

Mr Chris Libreri, General Manager, Census and Statistical Network Services Division

Ms Samantha Palmer, General Manager, Governance, People and Culture Division

Mr Duncan Young, Program Manager, Census 2016 Branch

Mr Lane Masterton, Program Manager, Technology Capability Branch

Mr Michael Meagher Acting General Manager, Statistical Business Transformation Program Division

Ms Bindi Kindermann, Program Manager, Census 2021 Branch

Ms Jenny Telford, Program Manager, Communications and Dissemination Branch

Ms Juanita Pettit, Director, Planning, Governance and Ministerial Liaison Section

#### **Productivity Commission**

Mr Peter Harris, Chair

Ms Nina Davidson, Head of Office

#### **Australian Securities and Investment Commission**

Mr Greg Medcraft, Chairman

Mr Peter Kell, Deputy Chairman

Mr John Price, Commissioner

Ms Cathie Armour, Commissioner

Mr Chris Savundra, Senior Executive Leader

Ms Joanna Bird, Senior Executive Leader

Mr Tim Mullaly, Senior Executive Leader

Mr Greg Kirk, Senior Executive Leader

Mr Warren Day, Senior Executive Leader

Mr Michael Saadat, Senior Executive Leader

#### **Australian Office of Financial Management**

Mr Michael Bath, Acting Chief Executive Officer

Mr Andrew Johnson, Head of Reporting and IT

Mr Brad Parry, Head of Funding and Liquidity



Mr Matthew Wheadon, Head of Portfolio Strategy and Research

Mr Pasquale Raccosta, Chief Financial Officer

**Australian Prudential Regulation Authority**

Mr Wayne Byres, Chairman

Mrs Helen Rowell, Deputy Chairman

Mr Geoff Summerhayes, APRA Member

Mr Stephen Glenfield, General Manager, South West Region, Specialised Institutions Division

Mr Brandon Khoo, Executive General Manager, Diversified Institutions Division

**Committee met at 09:02**

**CHAIR (Senator Hume):** Good morning. I declare open this meeting of the Senate Economics Legislation Committee. The Senate has referred to the committee particulars of proposed expenditure for 2016-17 and related documents for the Treasury portfolio. The committee is due to report to the Senate on 28 March 2017 and has set Friday, 17 March 2017 as the date by which senators are to submit written questions on notice. The committee has fixed Thursday, 13 April 2017 as the date for the return of answers to questions taken on notice.

Under standing order 26, the committee must take all evidence in public session; this includes answers to questions on notice. Officers and senators are familiar with the rules of the Senate governing estimates hearings. If you need assistance, the secretary has a copy of the rules. In particular, I draw the attention of witnesses to an order of the Senate of 13 May 2009 specifying the process by which a claim of public interest immunity should be raised and which I now incorporate in *Hansard*.

*The extract read as follows—*

**Public interest immunity claims**

That the Senate—

(a) notes that ministers and officers have continued to refuse to provide information to Senate committees without properly raising claims of public interest immunity as required by past resolutions of the Senate;

(b) reaffirms the principles of past resolutions of the Senate by this order, to provide ministers and officers with guidance as to the proper process for raising public interest immunity claims and to consolidate those past resolutions of the Senate;

(c) orders that the following operate as an order of continuing effect:

(1) If:

(a) a Senate committee, or a senator in the course of proceedings of a committee, requests information or a document from a Commonwealth department or agency; and

(b) an officer of the department or agency to whom the request is directed believes that it may not be in the public interest to disclose the information or document to the committee, the officer shall state to the committee the ground on which the officer believes that it may not be in the public interest to disclose the information or document to the committee, and specify the harm to the public interest that could result from the disclosure of the information or document.

(2) If, after receiving the officer's statement under paragraph (1), the committee or the senator requests the officer to refer the question of the disclosure of the information or document to a responsible minister, the officer shall refer that question to the minister.

(3) If a minister, on a reference by an officer under paragraph (2), concludes that it would not be in the public interest to disclose the information or document to the committee, the minister shall provide to the committee a statement of the ground for that conclusion, specifying the harm to the public interest that could result from the disclosure of the information or document.

(4) A minister, in a statement under paragraph (3), shall indicate whether the harm to the public interest that could result from the disclosure of the information or document to the committee could result only from the publication of the information or document by the committee, or could result, equally or in part, from the disclosure of the information or document to the committee as in camera evidence.

(5) If, after considering a statement by a minister provided under paragraph (3), the committee concludes that the statement does not sufficiently justify the withholding of the information or document from the committee, the committee shall report the matter to the Senate.

(6) A decision by a committee not to report a matter to the Senate under paragraph (5) does not prevent a senator from raising the matter in the Senate in accordance with other procedures of the Senate.

(7) A statement that information or a document is not published, or is confidential, or consists of advice to, or internal deliberations of, government, in the absence of specification of the harm to the public interest that could result from the disclosure of the information or document, is not a statement that meets the requirements of paragraph (1) or (4).

(8) If a minister concludes that a statement under paragraph (3) should more appropriately be made by the head of an agency, by reason of the independence of that agency from ministerial direction or control, the minister shall inform the committee of that conclusion and the reason for that conclusion, and shall refer the matter to the head of the agency, who shall then be required to provide a statement in accordance with paragraph (3).

(d) requires the Procedure Committee to review the operation of this order and report to the Senate by 20 August 2009.

*(13 May 2009 J.1941)*

(Extract, Senate Standing Orders)

Witnesses are specifically reminded that a statement that information or a document is confidential or consists of advice to government is not a statement that meets the requirements of the 2009 order. Instead, witnesses are required to provide some specific indication of the harm to public interest that could result from the disclosure of the information or the document.

I remind senators and witnesses that microphones remain live unless I instruct otherwise—for example, a suspension or adjournment. I would ask photographers and cameramen to follow the established media guidelines and the instructions of the committee secretariat. Please ensure that senators and witnesses' laptops and personal papers are not filmed. I remind members of the public and everyone in the gallery that they are not permitted to speak or interfere with the proceedings or with witnesses at any point during the hearing. Security is present and they will be asked to remove anyone who does not follow these instructions.

The committee will continue to hear from the Treasury portfolio with questions for the Australian Securities and Investments Commission, ASIC, followed by the Australian

Prudential Regulation Authority, APRA, and the Australian Small Business and Family Enterprise Ombudsman.

**Australian Securities and Investments Commission**

[09:05]

**CHAIR:** I welcome Senator McGrath, Assistant Minister to the Prime Minister representing the Treasurer and officers of the Australian Securities and Investments Commission. Minister or officers, would you like to make a brief opening statement?

**Mr Medcraft:** Yes, thanks. I am appearing today before the committee with the deputy chair, Peter Kell, and commissioners Armour and Price, and also our senior executive leaders: Warren Day, Greg Kirk, Tim Mullaly, Joanna Bird and Michael Saadat. My brief opening statement touches on three things: (1) financial literacy, (2) small business and (3) whistleblower reform. Firstly, on financial literacy, two weeks ago ASIC, along with the Minister for Revenue and Financial Services, the Hon. Kelly O'Dwyer, launched the *Financial literacy strategy: annual highlights report 2015-16*. This is actually a significant document. Essentially, it is a report card which I am very happy to say shows that the work of ASIC and the broader team that works with us in financial literacy is actually having an effect. Some key take-out you will see from the front of that report include that in the 12 months to June 2016, very pleasingly, over 50 per cent of Australia's 10,000 schools are now engaged with ASIC MoneySmart teaching program, which we started five years ago; six million people are now annually visiting the ASIC MoneySmart website and, most importantly, in the surveys undertaken by us, over 90 per cent of them actually report taking action in relation to their finances when they visited the site—so it is very powerful; and 260,000 people have simply been assisted through various financial education programs in areas like vocational education in colleges and small business, for example.

So these statistics and those in the report, which I recommend to the committee, underscore very importantly that the bipartisan policy of financial literacy or capability is getting results. Basically, the financial capability of all Australians needs a long-term commitment and it is really important we are laying the foundations for behavioural change over time. With financial capability, I believe it is really important to focus on four key things. One is cognitive ability. We know that with the declining age of our population that is important. The second is knowledge. Attitudes and culture are really important and behavioural biases. So overall, there is more work to do, but I believe we are heading in the right direction. As I said, I have distributed this highlights report to the members.

Secondly, there are 2.4 million Australian companies and there are two million business names registered with ASIC. The vast majority of those are small businesses and that makes small business ASIC's largest stakeholder. Currently, ASIC has dedicated programs aimed at helping those businesses. It was spearheaded by Commissioner Greg Tanzer, but since I became chairman and 2011 those businesses are now carried out across registry, small business compliance and deterrence, and our financial capability teams. Equally, we also deal with small business in our innovation hub, where we are helping those in fintec or in credit start-up their businesses in a broad range of areas. But we recognise that we can improve our engagement with the sector.

In addition to what we were already doing, we have decided to establish an office of small business, which will actually expand and drive our work in this area. This area is actually being led by senior executive Warren Day, who is here today, and he will report to ASIC Commissioner John Price, as the sponsor of this. The office of small business is developing an ASIC small business strategy. The strategy is based on the proposition that while we have to police the overall corporate sector, we also believe that with the finite resources we have we can promote the interests of these smaller firms—again, engage and promote.

We see the role of small business as key drivers of the Australian economy. Specifically, our small business strategy will require all ASIC teams to assess how their work might impact small business, to seek to identify a possible test case or cases where misconduct may be harming the interests of small business, to gain greater clarity around existing legal obligations and where it provides certainty and fairness to small business. The strategy will also propose greater engagement with small business groups as well as better communication with external stakeholders on our business work with small business.

On communications, most importantly, we launched this much a mobile app for small business called MoneySmart First Business. It has had over 1,000 downloads already. The interesting thing about that app is that it helps start-ups with a checklist with their obligations, registration, tax and super. What we heard most importantly is that they want case studies, so the app has case studies of people who have started small businesses and it also gives them tips on networking. We really tried to have an app that is practical for those starting small businesses.

Thirdly, I want to talk about whistleblower reform. ASIC recognise the courage of whistleblowers and the important role they play in calling out poor conduct and assisting ASIC to do its job. Right now, we are in the process. Reform is underway by the government around whistleblowers and ASIC are taking part in that process. We have made submissions to the Treasury and the parliamentary joint committees. In summary, we have recommended five things. One is broadening the definition of whistleblowers to include companies' former employees, officers and contractors but also company directors and others. The second is extending the protections of whistleblowers to anonymous disclosures and ensuring whistleblower identity be subject to absolute confidentiality. The third is replacing good faith requirement with an objective test that should be sufficient for information disclosed to simply show wrongdoing has occurred. The fourth is a suggestion that a reward system be deferred until higher monetary penalties have been introduced—possibly following the review of our penalties regime. The fifth is an overhaul of whistleblower compensation to ensure better access and to better define the nature of damages, including a loss of lifetime earnings on which a whistleblower may claim compensation.

We have also recommended setting up a whistleblower tribunal to hear whistleblower compensation claims. In addition, we have suggested at this point in terms of compensation that that compensation should be funded by the entity that perpetuated the problem and in event of default perhaps funded through the proceeds of penalties. Lastly, we think any new whistleblower regime should be supported by an independent oversight agency such as the Commonwealth Ombudsman. Chair, we are now happy to take your questions.

**CHAIR:** Thank you very much for giving the committee a copy of your opening statement, which we are happy to table, and also a copy of the annual highlights report for the National Financial Literacy Strategy.

**Senator KETTER:** I was interested in the update on the research that was released by UMR recently in relation to the activities of the major banks in seeking to induce small businesses to swap their default superannuation funds across to the major banks. I understand that that survey revealed that 60 per cent of the businesses that were approached had in fact changed their default superannuation fund and 33 per cent that were offered benefits were still considering their position. Is this something that ASIC is looking at?

**Mr Medcraft:** I will ask John Price to respond.

**Mr Price:** We are aware of the report to which you refer, the ISA report. As you may recall, the topic around this switching of super and when employers join funds has been the subject of previous discussion at these various committees, and in particular around section 68A of the legislation. I think as we have previously outlined, we see there are some difficulties in the drafting of that particular provision, and two aspects in particular. The existing drafting of the provision refers to a prohibition of the trustee from supplying goods or services to an employer or 'on condition'—the actual words in the section—their employees become a member of the fund. From a legal perspective, establishing that those actions have occurred 'on condition' is quite difficult.

The second aspect is, even assuming that you can establish that, really the way that that particular section is set up is that it enables the employee—the victim of the conduct, if you like—to take action, rather than the regulator. There is no simple or straightforward way for ASIC to enforce if there has been a breach of that particular provision. But that is not to say that we are not doing any work in this area. In fact, I am pleased to say that we do have a major project that we will be undertaking very shortly that will be looking at the role of employers in the superannuation process. We will consider disclosures directly made to employers by people who are offering superannuation products. We will look at what advice is provided to employers and employees in relation to superannuation and we anticipate serving notices—we are going to use our powers to assist our information gathering in this area. We anticipate using our powers to serve a range of questions on up to 50 trustees in the superannuation area. That will be a broad cross-section of trustees who operate in the superannuation area, so retail funds and industry funds. If there is any misconduct that is actionable out of that, we will certainly consider surveillance or enforcement outcomes.

**Senator KETTER:** This will be misconduct on the part of whom?

**Mr Price:** Misconduct on the part of any party.

**Senator KETTER:** What potential types of misconduct could you be—

**Mr Price:** It is too early to say. As I say, we are going to kick off asking these questions very shortly, so it is a matter of weeks rather than months, and we will have a much better fact base on which to make decisions once we get the responses to that.

**Senator KETTER:** Perhaps by the middle of the year, do you think?

**Mr Price:** It could be a little bit longer, but certainly within the calendar year I would expect that we will have finished this work.

**Senator KETTER:** I will be watching that with interest. I think Senator Gallagher has some questions.

**Senator GALLAGHER:** Thanks very much, Mr Medcraft, for your opening statement and for appearing today. I will begin with the ASIC capability review and the implementation plan. I do not necessarily need the detail, because we have got a very short time this morning, but I note the majority of the recommendations were due to be implemented by 30 June 2016, with a few over into 2017. Could the committee get an update, perhaps on notice—I did look for an update in your annual report, but it is probably just the timing of the documents that is a bit at odds—on whether that is tracking as expected or if there have been any delays? An update would be appreciated.

**Mr Medcraft:** We will take it on notice, but what I can tell you is the implementation of the review is nearing completion. Most initiatives have been finalised. There are a few outstanding plans in place ready for completion. External governance and performance reporting has largely been completed. The final thing on that is the statement of expectations, statement of intent. It is being finalised at the moment with the government. On internal governance, we have implemented the new management reporting that was recommended. 'Effectiveness and role of committees we work with' has been implemented. For workforce planning, we actually are holding two strategy days, and we have one tomorrow with the commission, being forward-looking. Workforce capability planning—we have integrated that into our processes. We have actually just completed a cultural diagnostic looking at the issue of culture that was recommended, continuing something we have always done. We are looking at the results from that, and 68 per cent of staff participated in it.

Another area they recommended was strategic communication. We now have an ASIC-wide strategic communications plan, and we are rolling that out into individual groups within ASIC at the present time. Also, with organisational structure, they recommended a financial services disciplinary panel, which we ourselves had actually already recommended, and we are in the process of implementing that. We will take that out to consultation very soon. Stakeholder relationship model—we have actually consulted with stakeholders and finetuned that. With data management, we are well on the way to implementing our strategy in terms of one ASIC data strategy, FAST 2, which rolls out Microsoft Dynamic CRM across ASIC over the next few years.

That gives you a high-level view. It is very much on track. There are very few things that remain to be completed.

**Senator GALLAGHER:** That is good news.

**Mr Medcraft:** I will give the committee a better update.

**Senator GALLAGHER:** In relation to your mortgage broker remuneration review, I understand that that has been delayed. Has it been finalised and provided to government?

**Mr Kell:** It is very close to finalisation. We anticipate that it will be finalised within the next few weeks and provided to government then.

**Senator GALLAGHER:** And then it is up to the government to determine release? Or do you release independently?

**Mr Kell:** It is the government's decision about when it is released. We are operating on the assumption that it will be ultimately made public.

**Senator GALLAGHER:** Is there anything you can provide to the committee about that review at this point?

**Mr Kell:** Given that we are still finalising issues and checking data, I would prefer to wait until it is provided to government.

**Senator GALLAGHER:** We will await that with interest. Can I ask a few questions about the Cash Converters case? I acknowledge the work that ASIC has done and the return of significant funds to consumers. My questions are about the agreement that was reached with Cash Converters, and in particular some confusion about the impact of that agreement for some Cash Converters customers who were in-store customers about what their entitlement is. There has been some confusion around that. Could you explain the undertaking that you were provided and what that means for someone prior to November 2016, I believe, who took out a loan in store?

**Mr Kell:** Can I say up front that if there has been any confusion around this we accept responsibility for explaining how the arrangements work. It falls back on us.

**Senator GALLAGHER:** I am not sure if it is confusion from ASIC. I am not sure you have to say that.

**Mr Kell:** I will hand over to my colleagues in a minute. Essentially, for the Cash Converters outcome, our aim at that stage was to get a timely outcome and to change the Cash Converters approach to business, in effect their business model and the way they assess their loans. We obtained a significant enforceable undertaking involving \$10.8 million in consumer remediation for online customers and an additional \$1.35 million in penalties. As part of the agreement, the enforceable undertaking, ASIC would not take further action, with an important exception in relation to debt collection practices, where we have an investigation underway. That is in relation to the historical loans. One point to note here is that the average length of loan under Cash Converters is around 60 days. Most of those loans are now through the system.

One of the reasons for that was that it allowed us to reach an agreement in a very timely way and to focus on changing the business model and to get an independent review into the Cash Converters business. Also, any customer who believes that they may have been provided with a loan that is in breach of the law has access to the free ombudsman service, and ASIC is very happy to assist people in identifying and going there. We are happy to talk to any customer who feels that they may have been affected in that way. I might pass over to Mr Mullaly just to say anything more.

**Mr Mullaly:** We provided a release to Cash Converters. There was no undertaking—there is a subtle legal difference. The release was provided to give finality to Cash Converters, importantly, and to ASIC. The release does not affect the rights of any other person. So it does not affect the rights of in-store borrowers. They still have the right to go to the ombudsman service.

**Senator GALLAGHER:** I understand that.

**Mr Mullaly:** They still have the right to seek class action. What we achieved through the enforceable undertaking was remediation for those that had sought and obtained loans on the online platform.

**Mr Mullaly:** The remediation program through that did not apply directly to the in-store borrowers.

**Senator GALLAGHER:** I understand that. In short, in the deal that you reached with Cash Converters, there is a group that will not get the benefit of what you have achieved for the online customers, and they are the in-store customers prior to November 2016. That is my understanding of the arrangement.

**Mr Mullaly:** Those customers have lost no rights. They are still able to achieve—

**Senator GALLAGHER:** They are not getting the outcome that ASIC has achieved for the online customers. They are going to have to pursue it individually through FOS.

**Mr Mullaly:** That is correct.

**Senator GALLAGHER:** Do you have any line of sight over how many people that would affect?

**Mr Mullaly:** I would have to take that on notice. I do not know.

**Senator GALLAGHER:** Is it a larger group in store than online?

**Mr Mullaly:** I would have to take that on notice.

**Senator GALLAGHER:** You have no idea?

**Mr Saadat:** My understanding is that it is a similar number to the online customers.

**Senator GALLAGHER:** How many is that?

**Mr Saadat:** The number of online customers was 55,000. My understanding is that it is a similar number, but we will need to take that question on notice.

**Senator GALLAGHER:** So for those 55,000, their avenue for resolution of this, noting that they would be vulnerable consumers, is to go through FOS individually and argue their case.

**Mr Saadat:** Importantly, that number does not mean that all of them were the subject of a breach of responsible lending laws. That is just the theoretical number.

**Senator GALLAGHER:** I understand that.

**Mr Mullaly:** There is an additional source of recourse for them as well. It is clearly through private litigation class action. So there are two options for them to pursue. I understand that there may already be litigation and class action underway.

**Senator GALLAGHER:** Can you explain to me how it works in terms of ASIC reaching a view that this is the best outcome that you are going to get, weighing up time consideration and customers involved, and what governance there is over that? Who is delegated to make that decision? Is there any oversight externally of ASIC's decision making when reaching deals like this?

**Mr Mullaly:** In terms of the investigation, we need to scope those to ensure that we get an outcome in a timely way and it is an outcome that serves the regulatory purpose—changes behaviour. There is no doubt that this outcome changes the behaviour of Cash Converters. They need to go through quite a substantial program. In determining what the eventual outcome is, we need to balance up a range of factors. The alternative to this would have been litigation. So we say, what would that litigation—



**Senator GALLAGHER:** Was that made clear to you by Cash Converters? I am trying to understand how the deals are reached. Is it 'We are going to go to court unless we can reach a suitable agreement with you'?

**Mr Mullaly:** It is not put to us by Cash Converters, or entities that we are looking at, in that way. It is part of the overall range of enforcement outcomes that ASIC can achieve, from negotiated outcomes to EUs through to administrative actions and so on. There is this range, and we balance up what we think might be the best outcome to achieve the regulatory purposes that we are after in cases like this, to give the greatest benefit we can get for the consumers in the circumstances. We determine whether—

**Senator GALLAGHER:** Who is 'we'?

**Mr Mullaly:** This is ASIC I am talking about. There is a determination around—the alternatives might be an agreement that is not enforceable, an enforceable undertaking or litigation. They were the options we had in this case. In these sorts of circumstances litigation would have been hard fought and long running and, importantly, would not necessarily have provided any compensation for anyone at all, in store or online.

**Mr Kell:** That is a very important point.

**Mr Mullaly:** That is something that we weigh up. We say, we have a group of people that we can certainly benefit. We recognise that there are a lot of other people in that business that might not be caught within that agreement. There are a lot of people in other payday lending situations that are not part of it, either. We cannot do everything. We try to do what we can to change behaviour, and that is what we did here. We made a decision that it is better to accept this in the circumstances that we did, with the release et cetera, finalise the investigation, get the compensation that we did for those clients and, importantly, get the changes by Cash Converters. That is a decision that is made by the executives within enforcement—

**Mr Kell:** And ultimately the commission. There is one other very important contextual point here around the decision making in a case like this. It is not looked at in isolation. Even leaving aside all of ASIC's other areas of responsibility, just within the payday lending area, within a relatively short space of time we have had around 15 significant enforcement outcomes and we have a significant range of other matters in the pipeline. So in assessing how much you put into one matter, just within the payday lending sphere, you are also having to make a judgement about whether you go forward with some of these other matters. We have taken action against Nimble; we have taken action against Cash Store; we have taken action against Fast Access Finance, and so on. The payday lending area has been a major area of focus for ASIC—

**Senator GALLAGHER:** It needs to be.

**Mr Kell:** and remains a major area of focus. It is obviously a focus of law reform at the moment. Our work has targeted three areas: responsible lending, misleading marketing and avoidance models. We have had court outcomes across those. Within each of those areas we have had to consider how much resources we put in. Do we focus more on people trying to avoid the law or on responsible lending? That is part of the decision making as well.

**Mr Medcraft:** In terms of the principles of enforcement investigation, the three fundamental principles we look at are firstly, the amount of harm or loss that has occurred; secondly, the cost versus the regulatory benefit. Going to Peter's point about regulatory

benefit, if we see a sector where we clearly want to send messages, it is a strategy that we have undertaken. Here you can see what we see as a regulatory benefit in a series of cases on payday lending. Thirdly—this is always a bit of an issue in many of the cases, as you know—is the availability of evidence, and whether or not we have received it. They are the three fundamental principles which really shape when we pursue investigations and enforcement. We now publish our approach to enforcement. That is available online.

**Mr Kell:** We would be very happy to provide a quick summary to the committee of the matters we have taken in the payday lending space, if that would help.

**Senator GALLAGHER:** That would be useful.

**Ms Armour:** Part of your question was about what the authority or accountability is across the organisation for these sorts of decisions. We have an enforcement committee which meets twice a month. I am the chair of that committee. It involves commissioners, our legal counsel and our enforcement senior executives. We review our approach on all significant matters. Issues about releases and strategy of cases are regularly reviewed through that process.

**Senator GALLAGHER:** Is that a subcommittee?

**Ms Armour:** It is effectively a subcommittee of the commission.

**Mr Medcraft:** Every six months we release to the public our enforcement report, which outlines the outcomes. Everything we do is focused on those fundamental three principles that I mentioned. That is integrated through the organisation. What we say publicly and what we do internally are completely consistent.

**Mr Price:** Our general enforcement approach, as the chairman said, is set out publicly. It is in ASIC information sheet No. 151.

**Mr Medcraft:** And this is something that has been published since I became chairman.

**Senator GALLAGHER:** In terms of the concerns that you had around Cash Converters' behaviour, did you feel there was any difference between online and in store lending?

**Mr Mullaly:** Yes, I understand that there was. I do not have that level of detail with me at the moment, but I understand that being able to get the information online was somewhat easier because of the automated nature of it. In store we would have needed to look at physical files in relation to that, and that was something that we needed to make a call about.

**Senator GALLAGHER:** In terms of resources?

**Mr Mullaly:** No, the evidence as well. And resources, essentially.

**Mr Medcraft:** With online we had all the evidence online—exchanges between the borrower and the lender—whereas if you had have gone in store, basically the communication would have been verbal and may or may not have been documented in the same way. Actually, the exchange that would have occurred and the documentation between stores and even within a store would have made it a lot more problematic to determine a pattern, so it was more difficult to pursue the in store than the online and, as I said, the third principle is evidence.

**Senator GALLAGHER:** The minister made some public statements around this on, I think, Tuesday night, specifically in relation to this case. She said:

... for the people who have obviously gone into a Cash Converters, if they feel that there has been a problem in the way they have been dealt with, that there has been a breach of the responsible lending provisions, of course they can make the complaint to ASIC and there is absolutely nothing stopping ASIC from being able to conduct an investigation.

Is that correct?

**Mr Kell:** In respect of current loans, that obviously is correct, but we—

**Senator GALLAGHER:** But this was in relation to the case.

**Mr Kell:** In respect of past loans, we had not provided the minister with full details about the nature of the constraints that we had entered into under our agreement. I think that is reflected in that statement.

**Senator GALLAGHER:** Other than what was publicly available, there was information available around the agreement reached in material that ASIC had put out?

**Mr Kell:** In the agreement itself. In terms of providing an explanation to the minister about how our agreement worked, we had not provided that full detail at that point in time. As I said at the outset, if there is confusion here, ASIC had not explained its position fully at that point in time.

**Senator GALLAGHER:** I am just a bit confused by that because others knew about the limitation on the agreement. It had been reported, it was the subject of the piece on *Lateline* and there was an understanding that there was a group of people who were excluded, essentially. I can understand you having to come here and cop it, Mr Kell—I get it—but—

**Mr Kell:** Are we talking about current loans or are we talking about past loans?

**Senator GALLAGHER:** All right. But that statement in relation to the—

**Mr Medcraft:** The loans, as I said, only have 60 days and any rollovers would be new loans. Any loans rolled over that are currently outstanding would be rolled into new loans and would be the subject of our enforceable undertaking. The borrowers who are still there are subject to the new arrangement. Is that correct, Peter?

**Mr Kell:** That is right.

**Mr Medcraft:** I think it is very important for people to understand that they will have the benefit of that enforceable undertaking.

**Senator GALLAGHER:** So, overall, do you believe that you got the best outcome you could on the Cash Converters investigation?

**Mr Kell:** As always, we try to get the best outcome with the resources we have.

**CHAIR:** I would like to ask a follow-up question. I assume the size of the compensation outcome in the Cash Converters case was quite significant in the context of the small loans sector.

**Mr Kell:** It was the largest compensation outcome and there was a significant penalty. As I said, we have had at least 15 other matters just in the last few years in relation to payday lending, many of which have involved compensation, but this was the largest.

**CHAIR:** Obviously one of your overriding objectives is to change behavioural outcomes. Have you succeeded in that?

**Mr Medcraft:** Correct. But, as Peter pointed out, it was part of a whole system of a number of payday lenders and sending a very significant message—yes.

**Senator WILLIAMS:** In 2009 I launched an inquiry into liquidators. There was a unanimous recommendation. Sadly, the Labor government for six years did nothing. Last year we got the legislation through. Mr Price, could you brief the committee on the changes to liquidation and the insolvency practitioners industry which commenced yesterday?

**Mr Price:** As you mentioned, parliament passed the Insolvency Law Reform Act on 22 February 2016. It received royal assent in February 2016. The changes in that act are extremely significant. They are going to be introduced in tranches. The first tranche of those reforms actually commenced yesterday. The first tranche of those reforms is in relation to the registration and discipline processes that apply to registered liquidators and also some of the insurance requirements as well. ASIC has successfully implemented those various changes. As of yesterday, we released a significant suite of policy documents that updated the requirements that people need to go through in order to become a registered liquidator. Importantly, there will be disciplinary committees and registration committees set up. So, rather than people just dealing with these applications on the papers, there will be the ability to go before a panel of three people, which includes people with industry expertise and also representatives from ASIC, and it will include the ability to ask questions of the people who appear before these committees directly rather than dealing with things on the papers.

The other key thing to point out is that there is a second tranche of these reforms that is still to commence. It will commence on 1 September this year. In some ways, the second tranche of reforms is even more significant than the first. It will do things like significantly strengthen ASIC powers to require registered liquidators to provide information to creditors. It will enable creditors to have greater access to information in respect of liquidations. It will basically change some of the rules around remuneration, which have been an issue in a number of liquidations and administrations recently. It will also make a number of other changes, including around improving ASIC's powers to deal with registered liquidators who are doing the wrong thing. All in all, these are very significant reforms, and I think they will strengthen the governance that exists in the sector of registered liquidators and administrators more broadly.

**Senator WILLIAMS:** Just one thing: there will be a situation where a majority vote of creditors can remove the liquidator instead of having to go to court.

**Mr Price:** Yes.

**Senator WILLIAMS:** When does that start—yesterday or September?

**Mr Price:** I will take that on notice and check it. But, if my memory is good, that starts on 1 September.

**Senator WILLIAMS:** Good. That will be a very powerful tool for the creditors.

**Mr Price:** Absolutely.

**Senator WHISH-WILSON:** Is there any evidence of cases being rapidly wound up before these laws come into play? I understand the Gunns liquidation has recently wound up.

**Mr Price:** Remember, the changes that I am referring to that commenced on 1 March are actually in respect of the registration of people who want to become registered liquidators, or

disciplinary processes in respect of those people. In that sense, I do not believe there would be a commercial dynamic to wind up administrations, because it is more narrowly focused.

**Senator WHISH-WILSON:** But by September?

**Mr Price:** By September—that is an interesting question. I would like to go away and reflect on that.

**Senator WHISH-WILSON:** Please do.

**Senator WILLIAMS:** Mr Kell, on 7 December, Adele Ferguson writes in *The Sydney Morning Herald*, 'NAB's former star Graeme Cowper's demise now complete.' I do not think it is complete as yet. I think you have got a job to complete his demise. It starts:

"Who do you think you f---ing are? ... If you try to get me, I'm going to throw you under the f---ing bus," National Australia Bank's star financial planner Graeme Cowper told a compliance manager who was conducting a random compliance check of some of his customer files.

Nice sort of a thug, isn't he? Cowper sued Fairfax and ABC for defamation, et cetera. The report says:

In fact, all the trial served to do was produce evidence that some of his behaviour and misdeeds were far worse than had previously been known.

... ..

NAB had filed a breach report to ASIC. This was the bank's way of flagging significant compliance breaches to the corporate regulator in case it wanted to take action. It didn't.

... ..

During the course of the trial ... it became clear that Cowper was far worse than had been previously reported.

... ..

As for ASIC, it appears to have been missing in action for six years. It received a breach report from NAB, had been told about some of his issues, yet sat on its hands, even after a raft of stories came out almost two years ago. It remains to be seen whether it takes any action now.

Are you going to take any action now? Where are you up to?

**Mr Kell:** We have a significant investigation underway, so I am afraid it would be inappropriate to comment further publicly on that at this point in time. That obviously is a key focus for us in the financial advice space more broadly.

**Senator WILLIAMS:** That is fair enough.

**Mr Kell:** We will be providing a public update within a short period of time around how we have worked with all of the major financial advice firms—the big four banks plus AMP—on how they have dealt with and identified past advisers who have engaged in misconduct or who have raised serious compliance concerns. So you will be able to see how that is going and how customers are being remediated. Mr Cowper is one of those, so we will look forward to doing it.

**Senator WILLIAMS:** This is the problem I have, Mr Kell. NAB do a breach report in 2010 and he then gets shifted on. I think he went to Suncorp and then he went to AMP, and then AMP sacked him. The obvious question is: why didn't you take action in 2010? Apparently this bloke was on about \$85,000 a year and was earning \$850,000 a year with all

his churning and commissions. Why didn't ASIC act in 2010 when you could have protected a lot of people with their financial advice and their investments? Why didn't you act then?

**Ms Bird:** Actually, as has already been mentioned, there are a lot of factors that influence whether we would take enforcement action against someone. We did look at Mr Cowper some years ago and did not take action for a number of reasons. One of the most significant reasons we did not take action were impediments in the law to taking actions against employed advisers. That situation has been changed with the Future of Financial Advice reforms, and since that time there have been a number of reforms that will really improve the situation in the financial advice industry. There have been the FOFA reforms that put obligations directly on individual advisers. We have had things like the financial advisers register that will make it easier for future employers to track where previous employers have been. We and the banks are working on things like reference checking, which should also stop this conduct.

**Senator WILLIAMS:** Good.

**Senator GALLAGHER:** Are you saying that essentially the law prevented you from being able to take action back in 2010, despite concerns being raised about this individual?

**Ms Bird:** It was one factor. 'Prevent' is probably not accurate, but there was a significant impediment at the time to banning certain advisers because the obligation to provide appropriate advice, which was at that time the appropriate obligation, did not sit on certain advisers; it sat on the licensee or authorised representatives. That was one of the specific things that FOFA changed, and ASIC specifically lobbied for that change because of that situation we had seen happen.

**Senator WILLIAMS:** Moving on to another person: Mr David St Pierre, a Westpac bank manager. I raised his issue in 2011 at a Senate inquiry. This is quite interesting. He gave a 30-year loan to a 97-year-old lady who was in an aged-care facility. The chair, Senator Cameron, asked, 'How old did you say she was, Senator Williams?' I said, '97'. He said, 'It must be a bloody good aged-care facility!' which was quite humorous at the time, but not for the elderly lady. He has been jailed for three years with a non-parole period of six months. I think that is what your media release said.

**Mr Kell:** Yes, that is right. Again, thank you, Senator, for drawing that matter to our attention. That has been a significant investigation and we are obviously pleased to have seen Mr St Pierre convicted. The consumers who were impacted have been remediated and we are continuing to work with Westpac on that matter. We also have an ongoing investigation in relation to other parties that are involved in that matter. It has been a significant matter for us, but we have been very pleased with the recent outcome in February.

**Senator WILLIAMS:** I did some work with Westpac and I think they were very good with the negotiations and cleaning up some of the mess that this rogue left for them. You made a media release. My chief-of-staff, Greg Kachel, watches your website often for media releases. They are always brought to my attention. It is very good to see, Mr Medcraft, isn't it?

**Mr Medcraft:** Yes, very pleased.

**Senator WILLIAMS:** You are doing an inquiry into one liquidator, Mr Andrew Wily.

**Mr Price:** Yes.

**Senator WILLIAMS:** Why?

**Mr Price:** We became concerned that there were certain liquidations involving Mr Wily where appropriate inquiries may not have been made. Of course, as you would appreciate, these matters are currently before the court, so I need to be a little careful in what I say.

**Senator WILLIAMS:** Yes, we can understand that, Mr Price. I can understand that. You are following the Viscarello-Max case in Adelaide, no doubt. The appeal was completed last week. I think we are waiting for the judgement.

**Mr Price:** That is correct.

**Senator WILLIAMS:** That is one I am following closely, I can assure you.

**Mr Price:** Yes. You may recall there was private action between those parties. There was an earlier court judgement that indicated there may have been failings on the part of the administrator to some companies. On the basis of that, ASIC commenced court proceedings, but, because the original court judgement was appealed, our proceedings are just waiting on the outcome of those separate proceedings.

**Senator WILLIAMS:** Mr Medcraft, for a long time we have talked about bringing in severe fines because some of the fines are outrageous. In an inquiry of the PJC last week, Nurofen I think made \$46 million out of some wrongdoing and were fined \$6 million. You would do that every day of the week if you came out \$40 million in front, wouldn't you? Are you doing a study or recommendation for the government about where to take these fines? Is there something underway in the process?

**Mr Medcraft:** Yes. As the government announced last year, they are going to review the penalty regime. That is underway at the moment.

**Senator WILLIAMS:** Who is 'they'? Is ASIC reviewing it?

**Mr Medcraft:** No, it is a committee that is reviewing it. Mr Mullaly is a member of the group that is looking at penalties. We are very much looking forward to it. As you know from a few years ago, the white paper we published particularly looked at the issue of civil penalties being really quite inadequate. Certainly it is an area that needs updating. Mr Mullaly, do you want to comment at all on that group?

**Mr Mullaly:** Certainly. It is a task force set up by government with representatives from ASIC, led by Treasury, AGD and the CDPP. It is looking at not just the penalties but also ASIC's powers and whether there should be any changes to those to make our job more effective and efficient. The penalties aspect of it looks at both the quantum of penalties, from a civil penalty perspective and the criminal penalties, and the range of penalties—that is, should we have the ability to, for instance, take different action for different matters than we currently can? And it is looking at some harmonisation across the range of acts that we have jurisdiction for, as well as similar acts such as consumer law and competition law.

**Senator WILLIAMS:** You are doing an investigation and it is now heading down the road for Dr Munro? You do not need to go into detail, but is progressing okay?

**Mr Mullaly:** No, we have a current investigation in relation to Dr Munro and we are hopeful of that concluding in the very near future.

**Senator WILLIAMS:** Finally, ASIC is doing an inquiry into CommInsure. Can anyone give us an update on that?

**Mr Kell:** We are looking to provide a significant public update on that within the next few weeks—certainly before the end of the month. We look forward to providing you with a very fulsome update.

**Senator WILLIAMS:** So do I.

**CHAIR:** I will just follow-up with that before I turn over to Senator Whish-Wilson. Last year, I think in about April, the government announced a \$120 million additional funding package for ASIC, specifically to pursue issues in regulations in the financial sector. Can you give us an update on how you have used those funds?

**Mr Medcraft:** Roughly, over three years, \$60 million is for enhancing surveillance and enforcement, specifically in the life-insurance sector, the financial advice sector, responsible lending and misconduct and breach reporting. To that end, we plan to recruit nearly 200 new staff. The second part is for data analytics—rolling out capabilities and data analytics, which I referred to a bit earlier. That is particular from a staffing perspective in terms of developing a data analytics team and we are currently recruiting data scientists. We are rolling out the system we already have in markets at the moment, Microsoft Dynamics CRM, and creating a single platform for taking external data and having a single workflow system through ASIC through enhancing our data analytics capabilities. As you know, we are already starting to pilot using artificial intelligence in our investigations. The two combined are where we are looking to recruit and we are well on the way to recruitment of that additional 200 staff in those two things. I believe it equips us well for the future.

**Senator WHISH-WILSON:** I am glad you have all those resources, Mr Medcraft. It is wonderful what the threat of a royal commission will do for this government in giving you guys resources to crack down on these issues.

**Senator McGrath:** Play nicely.

**Senator WHISH-WILSON:** I know you have experience working in US markets. Are you prepared to make a comment at all about some of the recent moves by the Trump administration on the executive order to cancel the fiduciary act and moves underway to scrap the Dodd-Frank. I would be particularly interested in the fiduciary act, given acting in the client's best interest is a debate we have had a lot here in the last four years with FOFA reforms and all this extra work that we have been doing.

**Mr Medcraft:** I cannot really comment on another country's political system, but I did meet last week with the president's appointee for Chairman of CFTC. As always, we will work with whatever government is in power. We have engaged early with CFTC, the new chair. Hopefully, I will be in Washington next month and I hope to meet the new chair of the SEC. I guess we will see how things evolve and we will adapt.

**Senator WHISH-WILSON:** The reason I asked that—

**Mr Medcraft:** It is clearly quite important what happens with the US administration to make sure that our cooperation continues. It is already very strong.

**Senator WHISH-WILSON:** That is right. That is why I asked the question—especially because of trade and service agreements being negotiated, and other close ties that we tend to have on regulations between countries, sharing of information and the bigger picture about laws and regulations. It seems like it is a backward step.



**Mr Medcraft:** As you know, one of the things that we have been pushing is to get some form of mutual recognition on debt capital markets with the United States to allow our issuers to more easily access the market. Equally, it will be a benefit to American issuers wanting to access our markets. Who knows with the openness? Maybe there are opportunities there. I'm always a half glass full!

**Senator WHISH-WILSON:** I will also ask APRA because it has implications for financial systems stability. That is why it all started—the biggest reform in their history was around trying to prevent that from happening again.

**Mr Medcraft:** I gather that Gary Cohn, who has been appointed to chair their council of financial advisers or something like that, is apparently looking at Dodd-Frank. I guess we will just see what happens on Dodd-Frank wind back.

**Senator WHISH-WILSON:** In relation to a couple of questions about your announcement yesterday regarding your court case into Westpac and mortgages—I know you cannot go into too much information while something is before the courts—I want to take you back to last year. In May 2016, Westpac and ANZ admitted to approving mortgages based on false income, especially foreign income. I understand they self-reported. They did self-audits. At the time, there were statements made that this had been passed on to the police; that ASIC were aware of it. I want to know if anything has come of those specific incidences of self-reporting.

**Mr Saadat:** I think we will have to take that on notice. That matter was unrelated to the announcement that we made—

**Senator WHISH-WILSON:** I understand that. I just wanted to ask that first, because the clear implication was that there may be a criminal investigation and criminal proceedings, but I have not heard anything about it. It was nearly a year ago.

**Mr Kell:** We will take that on notice. I might note—and I think we have indicated this to the committee previously—that we have undertaken an extensive set of actions over the last few years in relation to loan fraud and mortgage broker fraud. Some of those do involve more sophisticated criminal networks. We have some investigations underway, which I cannot comment on at the moment. But that is one of our areas of focus.

**Senator WHISH-WILSON:** To reiterate, the banks claimed that as a result of their internal investigations, they alerted police and the financial regulator, ASIC. So I know that may be separate. At the same time, our economics committee received a submission from LF Economics, which we had to heavily redact, but eventually made public—I understand that was commented on by *Four Corners*—around broader and systemic mortgage fraud in the banks. This not only had implications for consumers, also, potentially, for the financial system and the government's guarantee for banks. Are you able to comment today on whether your case against Westpac is just confined to Westpac, or are you looking at a similar kind of thing for the other banks?

**Mr Saadat:** We have been looking at a range of lenders. It started, really, when we conducted our review of interest-only loans in 2015. In conducting that review, we looked at the conduct of 11 lenders. We have announced action against Westpac, but we have been in discussions with other lenders. We hope to make an announcement about the work we have been doing with other lenders in the next few weeks—

**Mr Kell:** I would not want to necessarily suggest, though, that is linked directly to that LF report.

**Mr Saadat:** No, it is not.

**Senator WHISH-WILSON:** No, okay; I think his allegation was 21 financial institutions, and he provided evidence that our committee have—

**Mr Medcraft:** Is pretty clear we are focusing on responsible lending at the moment, as mentioned, so—

**Mr Mullaly:** I think it is important—there is not a link between false loans and this Westpac matter. There is no link.

**Senator WHISH-WILSON:** I read the details around what you announced yesterday. Interestingly, in terms of the time period—December 2011 to March 2015—are you able to tell the committee whether this indicated a change in practices before or after this period? Why that particular time period?

**Mr Saadat:** The conduct stopped when we were in discussions with Westpac. They agreed to change their practices. But, despite the fact that they stopped the practice we were concerned about, we have decided to bring this action because of the importance of the issues that it raises. In terms of the starting point, I would have to take that on notice. But the reason the conduct ceased when we identified it was that was when we engaged with Westpac on that issue.

**Senator WHISH-WILSON:** And you are confident that it has ceased?

**Mr Saadat:** Yes.

**Mr Medcraft:** I think my concern, more broadly, is that these things stop when we go and investigate. I guess it gets back to this issue I have been highlighting. We have been highlighting for a long time that this culture is still an issue. Basically, if you had good culture, it should not be a case of us coming and detecting something and then it stopping. A good culture would mean, actually, it was not there to start with.

**Mr Mullaly:** It may also be a limitations period for a litigation—so, six years from 2011.

**Senator WHISH-WILSON:** I did actually wonder about that. Considering you did proceed with this case, are you able to tell the committee how many cases, roughly, we are talking about? The quantum of this, or is it—Mr Kell is shaking his head. That is probably not going to happen.

**Mr Kell:** I do not think it would be appropriate to comment on other matters that are under assessment at the moment.

**Mr Saadat:** Is your question about Westpac or about other matters?

**Senator WHISH-WILSON:** It is about Westpac.

**Mr Saadat:** And when you say 'quantum', what do you mean by that?

**Senator WHISH-WILSON:** There was some detail provided in what you gave publicly yesterday in terms of some lines. But are you talking about impacts on customers here, or are you specifically talking about practices that you want changed, like using benchmarks rather than actual—

**Mr Saadat:** We are not necessarily alleging that there are many customers who are now defaulting on their loans as a result of this conduct, but what we are saying is that the process that Westpac used to assess the suitability of the loans was not consistent with what the legal obligations are. That is our allegation, and so it is quite important that we make that clear, because whether or not people are defaulting now is obviously an important question, but it is not the only question that we look at when we are looking at responsible—

**Senator WHISH-WILSON:** It is that it is prevented in the future, presumably.

**Mr Kell:** Exactly. Without commenting directly on the Westpac matter, it is a really important point that one of the aims of the responsible lending legislation is to enable ASIC to take action before the problems manifest themselves.

**Senator WHISH-WILSON:** Presumably, then, Mr Kell, if it is more systemic, in the sense that other banks are potentially doing the same things, they will look at this legal action and, hopefully, voluntarily change their practices.

**Mr Medcraft:** And as I said earlier, the issue is deterrence. When you launch a case, it is not just for that party, the it is to send a message to the broader sector. And that is what—

**Senator WHISH-WILSON:** I want to ask you specifically about that word 'deterrence'. Mr Medcraft, you have already mentioned this morning and a number of times that you want higher penalties. We agree, and we have an economics inquiry on this issue at the moment, which, incidentally, in relation to Senator Williams' question, was held a week before the government announced their own inquiry. But, nevertheless, it is good that they are both going ahead. I hope we do get you higher penalties for deterrence, but you have taken civil action. What kinds of potential penalties are we looking at here? Westpac makes billions of dollars in profits. Would a couple of hundred thousand grand or 50 grand or even a million really make a difference to them?

**Mr Medcraft:** As I always say, we do the best with what we have. We have the penalties we have, and we will do the best with what we have today.

**Mr Saadat:** The maximum penalty per contravention for irresponsible lending is \$1.7 million. We have alleged a range of contraventions, so it is difficult to estimate the maximum penalty that a court could award. It depends on the findings of the court and how they characterise the conduct.

**Mr Kell:** Of course. We are getting ahead of ourselves.

**Mr Saadat:** But, in theory, the maximum penalty is \$1.7 million per contravention.

**Senator WHISH-WILSON:** Just to be clear, there is a lower benchmark burden of proof on civil prosecutions, and that is why you did not pursue that. Or is it that there is no evidence of criminal law for it to be done at the moment?

**Mr Saadat:** In this case, we felt it was appropriate to bring civil penalty proceedings.

**Senator WHISH-WILSON:** I do note it is not your fault.

**Mr Medcraft:** Do not discount it, Senator. The fact that we have launched this action against one of the biggest banks in the country, as with the other actions that we have against the biggest banks in the country, sends a very clear signal to those banks that we are willing to take anyone on, as I have said before.

**Senator WHISH-WILSON:** I think that is a very good thing, Mr Medcraft. Do not get me wrong. But I do note that you pursued Storm Financial to the best of your abilities, but it took five years to get a prosecution in the end. These things do not happen overnight.

**Mr Medcraft:** Yes, and then, when I became chairman, I settled it and recovered \$800 million.

**Senator WHISH-WILSON:** Chair, I have one last question, which I will table.

**CHAIR:** I have given you plenty of latitude.

**Senator WHISH-WILSON:** Can I table this? It is a conditionally approved personal loan that was sent to one of my staffers the other day from the Commonwealth Bank.

**CHAIR:** I am sorry, we would have to see it before you could table it.

**Senator WHISH-WILSON:** It is just one question; that is all.

**CHAIR:** No, we are going to have to see it before you can table it. I will come back to you.

**Senator WHISH-WILSON:** Let me finish, Chair; this is one last question. Perhaps you could take this on notice. Does ASIC have concerns about emails that are still going out on conditionally approved personal loans? I will send you a copy of—

**Mr Kell:** I think we would need to see the—

**CHAIR:** Thank you, Senator Whish-Wilson.

**Senator BUSHBY:** On the Westpac prosecution, and tying in with the penalties issue, there are from time to time clear cases where corporations will deliberately breach their obligations because they know that the potential penalty is going to be far smaller than the potential profit they can make by that deliberate action. Similarly there are also cases where a corporation may get legal advice, because they believe they are in the right, but the enforcement authority thinks they are wrong. Which do you think is closer in the case of Westpac? Did Westpac think they were complying?

**Mr Mullaly:** The matter is before the court, and I really do not think we should be commenting on those particular issues. We understand the point but we should not be making comment about that matter right now because it is before the courts.

**Mr Medcraft:** But to your point, complying with the law should not be an economic decision by anybody. That is something that we will drive home with every possible resource we have. There was a case recently in the courts where that was considered, and the judges ruled that it was completely nonsense—it is not an economic decision, it is the law.

**Senator BUSHBY:** Absolutely. I actually agree with Senator Whish-Wilson that the penalty needs to be of sufficient scale to provide this incentive—

**Mr Medcraft:** It has to be a deterrent.

**Senator BUSHBY:** There has to be a deterrent but I guess, regardless of the size of the penalty, they need to be complying with the law as it stands.

**Mr Medcraft:** Clearly it should really hurt. You are absolutely right.

**Senator GALLAGHER:** You mentioned earlier the monitoring of financial institutions and their compensation schemes—

**Mr Kell:** Yes, in the advice space.

**Senator GALLAGHER:** on the *Fees for no service* report in particular—

**Mr Kell:** That is one of the areas, yes.

**Senator GALLAGHER:** Will you be providing an update on that?

**Mr Kell:** We will be providing an update within the next few weeks on the issue of how the largest advice firms have dealt with poor advisers in the past, how they have identified them—

**Senator GALLAGHER:** Sorry, when is that?

**Mr Kell:** Within the next few weeks. And, as part of that, how they have remediated affected clients. The issue of charging fees without providing any service, which we reported on last year, is, if you like, a parallel stream of work that is underway and we will provide an update on that later.

**Ms Bird:** We are planning on providing periodic updates on that around every six months. We will do another one, probably not another full report like we did last time, but it is more likely to be a media release updating the public on where we have got to with the remediation.

**Senator GALLAGHER:** You are looking at the time it is taking. I know some of these schemes have been in place for three years or so and they are still working through the compensation arrangements for people. It does seem to be taking a very long time. Do you have any concerns about that?

**Mr Kell:** Timeliness is a big concern for us. I should emphasise that these are often quite complex remediation programs. Identifying the affected consumers and how much they might be owed is not always straightforward. We want to make sure that the entities get it right but, having said that, we also do have concerns about the pace at which some of these programs are being worked through. Part of our reason for providing public reports is to highlight how progress is going and hopefully encourage a timely resolution of some of these matters. I think we all want to be over the other side of these remediation programs.

**Senator GALLAGHER:** But neither of these reports will be prior to the banks' appearance at the next round of hearings in the next weeks?

**Mr Kell:** The timing is not linked to those contingencies.

**Senator GALLAGHER:** I am not saying it was, but I am saying that both those reports are pretty important for the scrutiny that is needed on the banks at this time.

**Mr Medcraft:** They will be released pretty soon.

**Senator GALLAGHER:** The report about how dodgy advisers are being managed will be in the next few weeks and later for the—

**Mr Kell:** The initial report on fees for no service was relatively recent—at the end of last year.

**Ms Bird:** October last year, I think, and so we will probably do another update, probably by media release, around April.

**Senator GALLAGHER:** So you are looking at six months, essentially. In relation to the fees for no service, Mr Medcraft, you said:

Only one bank came to us and reported it, the rest we had to go out and discover it.

The ABA's release, which was just prior to those comments, says:

It is important to recognise that the banks had first identified the problem, proactively reported it to ASIC and are well on the way to resolving it.

There is a bit of an inconsistency there in terms of who and how many. Did they come en masse to you to say, 'We've identified this as a problem,' or, as per your comments, did you have to go out and find—

**Mr Medcraft:** My understanding is we had one bank report it to us, and then—

**Ms Bird:** We had a significant report made to us. Then we put out a media release saying that this was an issue, and we got a number of other reports as well.

**Mr Kell:** In response to that release.

**Ms Bird:** But I would really have to check through the timing, because the fee for no service is a collection of different sorts of breaches. When the breach reports came in is a matter for debate. We are at the point now where four institutions have put in breach reports, and we are dealing with the mediation for those plus we have asked all of the institutions to have a much more proactive, broader look across their whole business to make sure they do not have other problems in those businesses as well.

**Mr Medcraft:** It was, perhaps, the right nudge.

**Senator GALLAGHER:** I am getting the feeling that there is a fair bit of nudging going on.

**Mr Medcraft:** Again, it gets back to this issue about having the right culture.

**Senator GALLAGHER:** It does, and I was going to bring you back to those statements.

**Mr Medcraft:** The right culture means that you do not wait for us to arrive. The right culture means you are doing the right thing—that is it.

**Senator GALLAGHER:** I was going to bring you back to the comments you made about culture, just to get your opinion. It seems to me there is a lot of work that ASIC is undertaking—you have been given extra resources, we read about new cases, we read about new problems that are being identified. What is your view on how financial institutions are responding to some of the scrutiny that is being placed on them? Do you think there is cultural change happening? Is it too slow? What would you like to see happen?

**Mr Medcraft:** Certainly, regarding the level of the banks, they are very engaged now with the issue of culture and conduct. With ABA you have seen initiatives that have been launched. They are very engaged. The issue with culture, as you know, is: 'It's the way things get done around here.' It is not something you change overnight. Part of the problem with changing a culture is that at the top it can be there, but it can disappear as white noise in the middle and flowing out.

**Senator GALLAGHER:** I think that is a big problem.

**Mr Medcraft:** I think organisations are engaging with it, but I still think we are on a journey with a long way to go with changing culture. The development of artificial intelligence and data analytics and the ability to detect, understand and respond to poor conduct in a large organisation is one positive—at least that will give you better tools. But I think the boards in banks and financial services, when we meet with them, are very engaged, even having dashboards to give indications of poor culture or issues of culture in

organisations. So, yes, I think we are on a journey to improve it, but I think we still have a long way to go. As I said, the fundamental thing is that you have to have a culture that your customers can believe in. It is no good talking about it; you have to have whatever your staff and your customers can truly believe in. That is, frankly, the test. I have said to the banks, 'The message to your staff should be that everyone should think of that front-page test. What would this look like on the front page? Is it the right thing?' I think that is where we want to be, but I still think we are on a journey. I definitely think we are on a journey. Australians are telling financial institutions that journey has to continue.

**Senator GALLAGHER:** One thing I have noticed too is there is no doubt that the bank chief executives are speaking from the same sheet. Certainly what they say about the change they would like to see is very clear, but I think the issue as it filters through an organisation—that obviously has some deep rooted practices that have caused a lot of problems—

**Senator WHISH-WILSON:** They are all managed for remuneration and bonuses.

**Senator GALLAGHER:** In terms of conflicted remuneration and the pressure that seems to be still there to on-sell or cross sell—this balanced scorecard approach—has ASIC had a look at how that is working, and do you have any concerns around it still, in a sense, rewarding staff through incentive arrangements?

**Mr Medcraft:** Peter, do you want to comment on that?

**Mr Kell:** There are a couple of points there. The upcoming mortgage broker review, in terms of finalising the report, is very much focused on how remuneration works right across that part of the banking and lending sector both looking at the external parties, the brokers themselves, but also internal bank staff. We will have a story to tell around that. I think there is no doubt that there is complexity around the different ways in which people are remunerated and the potential conflicts that that raises. We will have a lot more to say about that in the near future on the broker side.

On the financial advice side, there is no doubt that we continue to focus on, for a start, whether anyone is breaching the conflicted remuneration provisions in FOFA when we look at the sector, whether conflicts of interest are being managed appropriately, and we are looking at that in the big vertically integrated firms so it is a focus for us.

**Mr Medcraft:** I think one of the other things on trust is as we discussed last year. For things like mortgages, the banks are thinking about whether they should move to tracker mortgages, which are much more transparent in the rate charge rather than just whatever they want to charge the customer. It is another way of winning trust and confidence, so thinking about how you win and maintain that trust and confidence, whether it is remuneration or products you are selling, is important.

**Mr Kell:** There is no doubt—this is not just in banks; it is right across the financial services sector—that conflicts of interest that are embedded in remuneration structures generate most of the problems that we see. That is the bottom line. That is the message that all of the players in the sector have to understand, and they need to be managed.

**Senator GALLAGHER:** I want to make sure, is it on your radar? Are you looking at whether or not banks could be circumventing some of the FOFA reforms around conflicted remuneration by using other methods like the balance scorecard bonuses, by the provision of general advice?

**Mr Medcraft:** Yes.

**Mr Kell:** It is picked up in some of the work we are looking at. I suppose your question is: do we have a particular project on that at the moment?

**Senator GALLAGHER:** Yes.

**Mr Kell:** It is something that we are considering as part of our upcoming business planning but certainly it comes up in just about everything we look at whether it is the mortgage broker review, whether it is our work on vertical integration so it is there. It has to be there. You cannot avoid it when you are looking at how the business models work.

**Senator GALLAGHER:** And how they involve evolve around legislative change.

**Mr Kell:** And it is how these things are operating. We were do regularly talk—frankly, not just to the banks but to others—about how these conflicts of interest are playing out in remuneration and whether the issues that they generate can be managed or whether people are going to have to change remuneration structures in some cases.

**Mr Medcraft:** A topic for our strategy tomorrow is actually the issue of general advice, personal advice and that sort of divide, and also remuneration in the integrated model, so it is something we are focused on.

**Mr Kell:** I would also say we are still working our way through some of the potential implications of the Sedgwick reviews that the banks have commissioned. We think that has been an important piece of work. There are elements of that that are challenging and have pointed to issues that need confronting.

**Senator GALLAGHER:** That is looking at particular levels within the institutions.

**Mr Medcraft:** That is something high on our agenda.

**Senator GALLAGHER:** Good. We will have further discussion about that. I have two more areas. One is add-on insurance. Are you involved in any proposals around regulatory or legislative change to address the issues that you have identified so well in your report on add-on insurance? I spoke with the ACCC yesterday about their decision in their draft determination to refuse authorisation for restricting to 20 per cent on commissions. What is next for ASIC on add-on insurance?

**Mr Saadat:** There is still a very big focus for us on add-on insurance. As you may know, we put out three public reports last year on the work that we have been doing there. We have highlighted that there are serious problems that need to be addressed. The insurers did come together and propose a cap on the commissions that they pay to the distributors of those products and, as you have just outlined, the ACCC has in its draft decision decided not to authorise that cap on commissions.

We see that cap as being one part of a broader package of measures that is required in order to improve consumer outcomes in this space. The cap itself is not enough. We have been talking to insurers directly but also through the Insurance Council of Australia on the additional things that we think are required to ensure that consumers are able to make good decisions in the environment that sells those products and also that those products are designed in a way that actually maximises consumer interests as well. So there is a lot of work that is still going on.



In parallel with that work to raise industry standards and improve consumer outcomes, we are also looking at enforcement action against specific insurers for breaching their obligations, either because of mis-selling or because of other conduct that is related to those products. We think it is important to leave all regulatory options on the table, given the range of misconduct that we are looking at.

**Mr Medcraft:** The UK deferred sales model is probably an interesting one to think about.

**Senator GALLAGHER:** Like a cooling-off period?

**Mr Medcraft:** Yes. Clearly, this is a year of focus on insurance for ASIC, whether it is life insurance or general insurance.

**Senator GALLAGHER:** Is there a line about where it is appropriate to get insurance—for example, is a car dealer seriously the best place you are going to be offered insurance in your life? Are you looking at that level?

**Mr Medcraft:** I think the government's proposal on product governance and distribution in terms of how products are distributed—not just the creation but also the distribution of that product—will be quite important in the future in thinking about where you distribute your product.

**Senator GALLAGHER:** Yes, because it is not just about cooling-off.

**Mr Medcraft:** Even before the change in law, one of the things we have said is perhaps you should be thinking about how your products are distributed—again, back to culture.

**Mr Saadat:** I think it also depends on the product itself. I would suggest that comprehensive car insurance is a product you probably want to be able—

**Senator GALLAGHER:** And income protection. What are the other types of—

**Mr Saadat:** There is a range of products. I think it goes to how well designed the product is and whether the sales process is designed to make sure that the people who buy the product are going to benefit from that product. I think there are a range of considerations there.

**Senator GALLAGHER:** I agree. I think at some point you have got to seriously—

**Mr Medcraft:** You cannot be blind to the issue when the manufacturer of a product says, 'It is no longer my responsibility.' That is an issue and it is an issue that the government is going to address through the obligation. But, equally, even before changing the law, a good company should be thinking about where its product is landing in terms of inappropriate and—

**Senator IAN MACDONALD:** When is the government going to have to stop looking after people's own stupidity? Most people are well educated these days, but is there a way that ASIC could look at requiring education so that people who buy a car understand that they can go and get their insurance from their own insurance company, broker or whatever? Similarly with finance; most people can look after themselves, and I am not sure that we need to change the laws except to perhaps educate people. Has that been looked at?

**Mr Medcraft:** As you know, Senator, we actually run the National Financial Literacy Program.

**Senator IAN MACDONALD:** Yes, I do know that.

**Mr Medcraft:** On MoneySmart there is quite a comprehensive amount of detail on car purchasing. We have an app now available for car loans. Do you want to comment further Peter or Michael?

**Mr Saadat:** As the chairman has said, we have a car buying app, and there are a lot of messages there for consumers to think about when buying a car and buying the add-on products that can be sold at the same time. I would say that, the way the market works, you cannot actually buy some of those products outside the car dealership. That is something that we think could change and would ensure that there is more competition.

**Senator IAN MACDONALD:** Which products can't you buy outside the car dealership?

**Mr Saadat:** Some of those add-on insurance products like gap insurance and tyre and rim insurance are not available other than through the car dealership.

**Senator IAN MACDONALD:** I must speak to my broker about that. I am sure that he would not agree with you.

**Senator GALLAGHER:** I have a question on performance payments within ASIC. I was reading your annual report—

**Mr Medcraft:** I am delighted. We put a lot of work into that.

**Senator GALLAGHER:** I do not mind reading annual reports, actually. There is a lot of information in them.

**Mr Medcraft:** You get out corporate plan.

**Senator GALLAGHER:** Yes. I am not aware of the history of performance payments in the organisation, but it says in the financial year 2015-16, \$8.3 million in performance payments spread out. So that is for meeting particular goals, is it?

**Mr Medcraft:** Yes. I can take that on notice and give you more detail, but I can say that commissioners and the chairman do not get bonuses. Basically, below us we provide incentive payments which range between zero and 15 per cent. They are based on performance reviews, and they are at three levels. As I say, we can provide you with more details. But they are capped at 15 per cent.

**Senator GALLAGHER:** Do people get multiple bonuses?

**Mr Medcraft:** No. It is on an annual basis and it is actually integrated with performance assessments.

**Senator GALLAGHER:** When you match up the number of recipients with your total employees, it does not quite add up.

**Mr Medcraft:** No; we do not pay bonuses to everybody.

**Senator GALLAGHER:** For example, it says that there are 44 SES and 45 recipients of bonus payments. Then there are 436 executive level 2s and 520 bonus payment recipients. It may be—

**Mr Medcraft:** I think that might be an issue of timing between the payments and a snapshot.

**Senator GALLAGHER:** I accept that.

**Mr Medcraft:** We are happy to come back to you with details of our incentive payments.

**Senator GALLAGHER:** And it is between 10 per cent and 15 per cent?

**Mr Medcraft:** No. It is between zero and 15 per cent. Not everyone gets a bonus.

**Senator GALLAGHER:** If you can take that on notice, that would be excellent.

**CHAIR:** I realise that we are very short of time, but I know Senator Bushby has been busting to ask a question.

**Senator BUSHBY:** I am curious as to how you are going with implementing the government's reform agenda in response to the Murray report and the extent to which ASIC is involved with that. What role does ASIC play and how are you going implementing that?

**Mr Kell:** First and foremost, we are very engaged with the reform processes that the government has announced in response to the Murray inquiry. A major one for us is the government's announcement of the review of ASIC's penalties and powers. Another one is the government's announcement of the process for implementing product intervention and product governance powers, so we are engaging with Treasury and our policy process around those. Another important issue for us has been undertaking the mortgage broker review, which was one of the responses from the government to commission ASIC to undertake that review. We are also in discussions with the government on looking at whether and how ASIC might have a competition mandate introduced into its legislation. So there is a lot of very broad based and important work going on.

**Mr Medcraft:** And, most importantly, the ministry funding model.

**Mr Kell:** Yes, it is very wide-ranging. There are several other aspects of the Murray inquiry relating to areas of reform that are already part underway but have been accelerated, such as professional standards for financial advisers. We have been very pleased to see that now introduced. There are the improvements to the life insurance advice regime. We are very pleased to see that now introduced, and there is more on the way. It is a very significant reforming agenda. We are very engaged with it.

**Mr Medcraft:** I will recognise, Senator, you have been a very long-term supporter of the ministry funding model.

**Senator BUSHBY:** Where are we at on the industry funding?

**Mr Medcraft:** With the industry funding model, the government, I believe, is about to come out and produce some draft legislation—

**Mr Kirk:** It was released on 22 February.

**Mr Medcraft:** It has been released, so it is getting closer. We are working at the moment on the new billing program. John, do you want to comment at all? It is moving forward.

**Mr Price:** Yes. On 20 April the government announced it would introduce the industry funding model. There have been multiple rounds of consultation about how that might work. The most recent round of consultation finished in December of last year. Draft legislation has been put out for comment. We expect that regulations, which set out the more detailed aspects of the model, may come out in the next couple of months. The government's aim, we understand, is for the legislation to be in place by the end of this year.

**Mr Medcraft:** I think that price signal on the use of our resources will be really important.

**Senator BUSHBY:** The shape of that draft legislation, which is obviously out there for consultation and subject to the further work, pretty much reflects what is recommended in Murray, does it?

**Mr Price:** Yes, and, importantly, it really does put costs and fees at quite a granular level. One of the most important things for us is that the model is sufficiently detailed so that the people who drive the need for regulation actually need to pay for it. That promotes good self-regulation. If you know a problem is going to be addressed by the regulator, there is a very good incentive to fix it yourself. That is something that is good for the economy as a whole, we think.

**Mr Medcraft:** And that DNA has to be preserved because that is the essence of it.

**Senator BUSHBY:** Absolutely. How does this particular proposal fit into the overall budget of ASIC?

**Mr Price:** What it would mean is that the majority of our regulatory costs would be recovered through this particular model. There are very limited costs that would still come from government. Importantly, ASIC's overall cost is still subject to government approval. So we are still appropriated costs for the government. There is still that control in place. Based on the consultation documents, around \$240 million of our regulatory costs would be recovered from the industry rather than from consolidated revenue.

**Mr Medcraft:** Another benefit is, clearly, it improves accountability and transparency back to industry. It is very powerful. I think it is a really good system, as you know.

**Senator BUSHBY:** Absolutely. Thank you very much. I look forward to seeing it.

**Senator GALLAGHER:** Do you identify or report anywhere how much money is returned from successful prosecutions, agreements reached, to the government into consolidated revenue? Is there somewhere I can track that?

**Mr Medcraft:** Do we report that in our enforcement report where we—

**Ms Armour:** Not in that detail but I think we can—

**Mr Medcraft:** We will come back to you on notice.

**Senator GALLAGHER:** Could I have that figure for the last few years?

**Mr Medcraft:** Yes, we will do that. As you know, we have changed our approach on enforcement. Where we successfully undertake an enforcement we now do seek recovery of our costs.

**Mr Price:** Not only legal costs. What the chairman is referring to is our investigation costs.

**Mr Medcraft:** Yes, investigation costs. Basically, we did that last year—or the year before, I cannot remember.

**Senator GALLAGHER:** On notice, could you provide that information for the last however many years that is convenient? And also where you reach agreements which provide money to third parties—

**Mr Medcraft:** Community benefit payments.

**Senator GALLAGHER:** Exactly; how many go there and maybe, if you can, on notice, the information that informs that. Who chooses those people? Who chooses the organisations where they go to?

**Mr Medcraft:** Certainly. We are looking at that area at the moment, the community benefit payments area, in terms of how we approach that more broadly in terms of where we give the money. But we will give you more information on the rationale.

**Senator GALLAGHER:** Thank you; I can ask again in May.

**Ms Armour:** I guess the vast majority of those payments have been directed to Financial Literacy Australia, which runs a grants program.

**Senator GALLAGHER:** Yes; I just would not mind understanding how that works. I will come back in May.

**Mr Medcraft:** Ideally what we try to do is have some sort of rational link between what has happened and the party it is going to. If you think about it that is logically what we try to achieve. That is certainly our thinking. That is our thinking more broadly on the topic of community benefit payments.

**CHAIR:** Thank you very much to Mr Medcraft and to all of the officers of ASIC. You are free to go. We could ask you questions all day, but we will not. Before we move on to APRA, I just want to note that the committee has agreed to table the documents provided by Senator Whish-Wilson.

#### **Australian Prudential Regulation Authority**

[10:42]

**CHAIR:** Good morning; thank you very much for your patience. I am sorry that we are already running over time. I welcome the officers of APRA and ask if you have an opening statement, Mr Byres.

**Mr Byres:** Thank you, Chair; I will just start with a few short remarks on some key issues that are currently on our plate. Before I do, however, it is important to note that Australia continues to benefit from a financial system that is fundamentally sound. That is not to say there are not challenges and problems to be addressed, but, as I have said elsewhere, to the extent we are grappling with current issues and policy questions, they do not reflect an impaired system that needs urgent remedial attention, but rather a desire to make the system stronger and more resilient while it is in good shape to do so.

The main policy item we have on our agenda for 2017 is the first recommendation of the financial system inquiry that we should set capital standards so that the capital ratios of our deposit takers are 'unquestionably strong'. We had held off taking action on this until the work by the Basel committee on the international bank capital regime had been completed, but delays to the work in Basel mean we do not think we should wait any longer.

Our goal in implementing the FSI's recommendation is to enhance the capital framework for deposit takers to achieve not only greater resilience but also increased flexibility and transparency. In doing all of this, we also will be working to enable affected institutions to adjust to any policy changes in an orderly manner. If we achieve our goals, it will not only be delivering improved safety and stability within the financial system but it will also aid other important considerations, such as competition and efficiency.

We have many supervisory challenges at present, but there is no doubt that monitoring conditions in the Australian housing market remains high on our priority list. We have lifted our supervisory intensity in a number of ways, including reinforcing stronger lending standards and seeking, in particular, to moderate the rapid growth in lending to investors. These efforts have had the desired impact. We can be more confident in the conservatism of mortgage lending decisions today than a few years ago, and lending to investors was running at double-digit rates of growth but has since come back to single figures. However, strong competitive pressures are producing high rates of lending growth again. This is occurring at a time when household debt levels are already high and household income growth is subdued. The cost of housing finance is also more likely to rise than fall. So we therefore see no room for complacency, and mortgage lending will inevitably remain a very important issue for us in the foreseeable future.

The final issue I wanted to mention was our work on superannuation governance. This is an area where we remain keen to lift the bar. There are some excellent examples of good practice governance in the superannuation sector, but equally there are examples where we think more can be done to make sure members' interests are paramount. Late last year we finalised some changes to our prudential requirements to strengthen governance frameworks. The changes we implemented were relatively uncontroversial at the time and have largely been included within the principles for sound governance that have subsequently been generated by the industry itself. With those remarks as background, we are very happy to take your questions.

**CHAIR:** Thank you, Mr Byres, and thank you for providing the committee with a copy of your opening statement. We are happy to take that as tabled. I will now open questions with Senator Ketter.

**Senator KETTER:** Thank you, Mr Byres, for your opening statement. I am just looking to your macroprudential supervision to start with. The Reserve Bank Governor said last week, in relation to this area, that in the last six months it has picked up again and, if current trends continue, it will not be long before the guidance has become binding again. Is that correct?

**Mr Byres:** Some of the guidance—it is binding now because it was trying to raise minimum standards, so would like to think that element of the work that we have done is already binding. But, in terms of the benchmark that we had set for the rate of growth in investor lending, the industry had come down well below that benchmark. More recently, the rate of growth is starting to accelerate again, so it will head towards that benchmark, and there are some individual institutions that are already very close to it.

**Senator KETTER:** In relation to CBA and Bankwest, you are probably aware of their recent announcement in respect of negative gearing and investor loans. Have you had any engagement with CBA and Bankwest on that issue?

**Mr Byres:** As part of the work we are doing with all the lenders, we are keeping very close track of how they are travelling, both in terms of the lending policies that they are applying at any particular point in time and not just their current rate of growth but their projected rate of growth, because we would much rather have a discussion with institutions before they reach the benchmark than after they have exceeded it. So, yes, we have had discussions with CBA, the same way we have had discussions with all of the major lenders.

**Senator KETTER:** It would seem that that was a fairly blunt way for Bankwest to limit the growth of its investor book.

**Mr Byres:** Yes, but we have not been prescriptive in terms of asking them to choose any particular way of dealing with the accelerating rate of growth. We have left it to them to decide how they want to respond and how they want to deal with their customers. Our concern is simply that they are on top of the issue and doing something about it.

**Senator KETTER:** I am interested in whether there are other comparable countries that have introduced these macroprudential tools and whether any of them have made changes or ceased using them since their introduction.

**Mr Byres:** Others have done a range of things. For example, the New Zealanders have LVR limits, certain restrictions on LVRs, and at various points they had different limits for Auckland versus the rest of the country. In the UK they have tried to limit high debt-to-income loans as part of their response. In some countries like Singapore and Hong Kong, in Asia, they have tended to use both prudential means and tax measures, particularly stamp duty, as a way of trying to temper exuberance in the housing market. We are far from alone in responding to this sort of issue. There are a range of tools that different jurisdictions have chosen to use. Largely the choice of tool depends on what you think is the source of the problem that you are trying to tackle.

**Senator KETTER:** Have any of those jurisdictions had any major changes or ceased using them after a period of time?

**Mr Byres:** The New Zealanders have had various iterations of their regime. They have not removed it, but it has changed on a number of occasions depending on exactly what their requirements were. I cannot off the top of my head think of one where there was something in place and it has subsequently been removed.

**Senator KETTER:** Can I ask you to take that on notice.

**Mr Byres:** We will see if we can think of any.

**Senator KETTER:** What information do you publish in respect of the use of these tools?

**Mr Byres:** We started in December 2014 when we sent a letter out to all the ADIs, the authorised deposit-taking institutions. We have made that letter public on our website. That was where, for example, we set out the benchmark for 10 per cent growth in investment lending. It was also where we set out some interest-rate buffers for loan serviceability calculations. We said that banks should be assessing customers' ability to service loans using a buffer of at least two per cent over the rate they are actually paying or seven per cent, whichever is higher. That has been public. That has been on the public record for a couple of years. I do not think we have done anything since then that has not been public. We have updated more recently. We published last week an updated prudential practice guide. It is essentially guidance on what we think sound residential mortgage lending should look like. All of our guidance and expectations are pretty clearly in the public domain.

**Senator KETTER:** Given your opening statement where you said that there is no room for complacency—and I think I know the answer to this question—is there a sense that APRA will start reconsidering the use of these macroprudential tools, being the cap on growth and on investment loans? Is there any potential for these not to apply in the future?

**Mr Byres:** We always keep them under review. We always envisaged, in particular, the 10 per cent benchmark for investor lending as a temporary measure. The questions would be: what is the appropriate time to remove it and should it be removed without replacement or removed and replaced by some better measure? That is something that is regularly reviewed. But, at this point, we have not got any plans to change it.

**Senator KETTER:** How often do you and the Council of Financial Regulators review the results of the macroprudential tools?

**Mr Byres:** The council meet quarterly. I cannot think of a meeting we have had in the last couple of years where housing has not been one of the items on the agenda.

**Senator KETTER:** Is it possible for Australian ADIs to be inadvertently financing foreigners buying Australian property by lending to foreign funds that are lending to foreigners buying Australian property?

**Mr Byres:** Yes—that is the short answer. All of those things could be happening. One of the problems that you have whenever you have a reasonably blunt quantitative limit like the 10 per cent benchmark is that there is a measure that we use to track that and people are inventive and innovative and there can be structures and ways in which credit will flow around the economy that, either deliberately or just incidentally, circumvent that limit. So it will have a limited life.

**Senator KETTER:** Are you aware of any anecdotal evidence that this may be happening—for example, if a Brisbane property developer with a 100-unit apartment block opens a sales office in Hong Kong and sells all the apartments for \$150 million with financing from HSBC and they securitise the mortgages and approach ANZ to refinance them?

**Mr Byres:** If you could track all of that and find it specifically, then we would take that into account, but inevitably there are going to be a range of indirect means through which credit will find its way to fund housing. It is also true that, at a very simple level, our constraints apply to ADIs, which we regulate. There are a whole raft of other providers of housing finance that we do not regulate. There are other providers of finance that we cannot impact, and they will naturally to some extent fill any gap.

**Senator KETTER:** What about the institutional divisions of Australian ADIs lending to foreign funds that have securitised loans to foreigners buying Australian property?

**Mr Byres:** If we found out that there was a deliberate structure in place, as I said, we could take that into account, but there will be all sorts of interactions that will be happening between international and institutional investors. That could be happening coincidentally rather than deliberately, so it is just a very hard thing to track.

**Senator KETTER:** So you are not proactively looking at ways that ADIs could be circumnavigating—

**Mr Byres:** That is not quite right. We are thinking about all of those things, because, with the effectiveness of any policy tool, you have to think about the ways in which it could be circumvented. At this point I would simply say that we have not come across any obvious examples of people deliberately setting out to work their way around.

**Senator KETTER:** Okay. My second area of questioning is in relation to private health insurance. Can you tell me what prudential data APRA collects concerning private health



insurance and how this data is used to analyse their robustness particularly in relation to contributions to the risk pool?

**Mr Byres:** I will ask Geoff to take that one, because he oversees the PHI work in APRA.

**Mr Summerhayes:** As you are aware, we are concerned with the prudential risk of those insurers. We are interested in their governance, risk management and appropriate capital. I think you were also referring to the risk equalisation fund that to a certain extent normalises claims experiences across the sector. Depending on an insurer's experience in claims, you can be either a beneficiary or a contributor to that risk equalisation fund, which is adjusted on a quarterly basis.

**Senator KETTER:** Does APRA have a role in advising government on the annual premium increase bids by the private health insurers?

**Mr Summerhayes:** We have a role, but we certainly do not make any explicit advice on those increases. Our role is to collect the data and assemble the data. Our concern is whether those increases create any prudential concerns for the viability of the insurers, but we do not pass a judgement as to whether we think those increases are, for example, too high.

**Senator KETTER:** But you do not provide any advice in relation to those statistics that you provide?

**Mr Summerhayes:** We collect the data because we are the mechanism and the agency to do that. It is then up to the Department of Health to analyse that data and form a judgement on the appropriateness of those increases.

**Senator KETTER:** Okay. In relation to the practices of individual insurers, beyond APRA assessing the contributions to the risk pool, do you look at the practices of individual insurers? For example, would you be concerned about an insurer who had a particularly high percentage of patients receiving treatment in public hospitals?

**Mr Summerhayes:** Not especially. We would only be concerned to the extent that it would impact the prudential soundness of that insurer. That said, we are concerned with the operational risk of insurers as a pointer to their broader governance and risk management. If there were particular issues in insurers that, for example, other agencies might be investigating then we would take a keen interest in that because it might point to other issues within that insurer's governance and oversight.

**Senator KETTER:** Have you been asked to consider any changes to regulations affecting private health insurance?

**Mr Summerhayes:** We have not been specifically asked, but we are making a number of changes. As I think we have outlined to this committee previously, we took over the administration of private health from the PHIAC agency, going back some 18 months ago now, and we have outlined a road map over the next three years for making changes to their risk management, their governance and their capital in those three tranches, which we have certainly consulted with industry on. The first tranche of those is risk management practices within the industry, for which we are adopting similar frameworks to APRA's other regulated entities. We have commenced the consultation phase on that.

**Senator KETTER:** Just coming back to the issue of the macroprudential regulations for a second, are there any metrics that you can look at in terms of measuring the ways in which some of the ADIs may be getting around the limits on investor loans, Mr Byres?

**Mr Byres:** Certainly you could look for changes in pattern of lending that might lead you to ask some questions, but it is very difficult to say there is any particular metric that would be an obvious red light if you saw it change.

**Senator KETTER:** Have you noticed any increasing trend in the area?

**Mr Byres:** No.

**Senator KETTER:** Do you think that there is a risk, with certain banks or financial institutions, of breaches to residential mortgage lending standards?

**Mr Byres:** Sorry; could you ask that question again?

**Senator KETTER:** I understand there was an article in the *Financial Review* on this today. Is there a risk, with certain Australian banks or financial institutions, of breaches to residential mortgage lending standards?

**Mr Byres:** I guess there is always a risk that someone is not doing what they should do. We have put in a lot of effort—it has probably been one of our most intensive supervisory efforts over the last couple of years—to not just set out the expectations that we have for ADIs in terms of sound residential mortgage lending but also do some review work to make sure that that is actually happening in practice. But we have a limited number of people. The financial system is large and the number of lenders doing housing lending is large. We cannot be everywhere, overseeing every lending decision. There are always risks, even if institutions have all the right policy settings and all the right systems, that people will go outside those systems.

**Senator KETTER:** Have you detected any Australian institutions working around the cap?

**Mr Byres:** No.

**Senator GALLAGHER:** I have some questions around the banks and super funds. Is that to you, Mr Byres, or Mrs Rowell?

**Mr Byres:** You ask your question, and we will see who is best placed to answer it.

**Senator GALLAGHER:** I have a line of questioning on this. Almost all of the retail sector funds are run on a for-profit basis. Could APRA explain how these funds make a profit? How does it work in practice, from your understanding of the retail sector? Do you have line of sight on that?

**Mrs Rowell:** In essence, the basis of any business making a profit is to do with the charges and the arrangements that they have in place, the structures that they have in place. All super funds charge fees to members, which ultimately pay for the services and benefits that are provided. In the case of the bank-owned or retail sector ones, those would go through to the parent company, in the same way as a dividend would go through to the bank from the insurer that it runs or all those sorts of—

**Senator GALLAGHER:** Or back into the members' funds in the not-for-profit sector. Do you keep an eye on how much profit is being made out of superannuation in the retail sector?

**Mr Byres:** There are various statistics we keep. Most of our focus is happening at the fund level rather than at the aggregate level, I think it would be fair to say. One of the metrics we keep track of, to see whether members' interests are being looked after by trustees, is the operational costs and expenses that are being incurred to operate the fund and being charged to members. Helen has been on the record saying two things: first of all, that there is a fair variation in the level of those costs and, second, that the data that is available is not as good as it could be. It would be in everyone's interest—consumers, regulators, trustees—if there was a better picture of the costs that are being incurred by members in running super funds.

**Senator GALLAGHER:** Across the sector?

**Mrs Rowell:** Across the whole industry. I think it is also fair to say that that variation in costs is evident in all of the segments of the industry. There is wide variation in cost levels within the not-for-profit sector as well as for-profit sector.

**Senator GALLACHER:** My line of questioning is around the retail sector funds in particular. Mr Byres, you say you keep an eye on profits. My question was around can you see or do you require the funds to show what is the profit being from the management of their superannuation accounts.

**Mrs Rowell:** There is a requirement for reporting and some disclosure of related party arrangements, so there would be some information provided around the nature and the structure of the arrangements between, say, a parent entity and a retail fund. At an aggregate level, obviously, when we are in a prudential sense looking at any institution, including the large banks, we would look in broad terms at the profitability of the different parts of the business lines and the contribution that that is making to the financial strength of the organisation at an aggregate level. There would be information disclosed about that as well about the profitability that is being generated by different parts of the businesses that they operate.

**Senator GALLACHER:** Do you think that in the for-profit sector of superannuation it is important that members know how much profit is being generated out of their superannuation accounts?

**Mrs Rowell:** I think it is important that members understand the benefits and the services that are being provided and the costs that are being paid for that relative to the costs that are available from other service providers. The degree to which individuals need to understand relative profitability or the details of profitability is, I think, an open question, and different people would have different views on that. At the end of the day, what counts from a member's perspective is the net outcome that they achieve over their working life towards their retirement, which is a factor of the contributions and investment returns less costs. That is what I think it is critical that members understand.

**Senator GALLACHER:** So you do believe it is important information that members have access to that.

**Mrs Rowell:** I think it is important that members have access to information on net outcomes and the contributors to net outcomes, one of which is fees and costs. And that information is provided.

**Senator GALLACHER:** Do you know how much profit has been earned from superannuation products by the banks in the last financial year?

**Mrs Rowell:** I don't, no.

**Senator GALLACHER:** Does APRA know that information or would you have that information?

**Mr Byres:** We could take on notice to see if we have that information. I suspect it would be a very difficult question, because it would require a lot of estimation and assumptions about cost allocations and various things, but we can take the question on notice.

**Senator GALLACHER:** What you can manage there would be—

**Senator BUSHBY:** Maybe the contribution to earnings of the banks from their wealth management divisions might be interesting.

**Mr Byres:** Information on Senator Bushby's question about contribution from the entire wealth management division is probably publicly available. The more detailed question is more difficult.

**Senator GALLACHER:** Would you rule out profits as a reason why some of the bank owned and retail funds underperform other types of funds?

**Mrs Rowell:** I would not necessarily want to rule in or rule out any factors. I think there are a large number of reasons for variations in costs and performance across all of the industry. How they structure their fees and the margins they are trying to generate on those is one aspect of that, but I would not say it is necessarily the determinative factor.

**Senator GALLAGHER:** I have a question about some of the big banks' funds. I have tried to have a look at this myself, but could you provide, on notice if you cannot now, that the funds run by the big four banks—I think you have provided a list of those that were owned by the big four in answer to question on notice No. 162. Could you confirm that, as of June 2016, \$317 billion of assets were held by these funds that account for nearly 60 per cent of retail fund assets?

**Mrs Rowell:** I would have to take that on notice.

**Senator GALLAGHER:** If you can, have a look at that on notice. I have also had a look at the 28 bank owned super funds for which APRA does have a ten-year rate of return. And from my looking at this, only six of them are above the median return of all funds and 22 are below it. Could you confirm that?

**Mrs Rowell:** I would have to take that on notice.

**Mr Byres:** We do publish the statistics.

**Mrs Rowell:** We publish the statistics. Our focus is actually on underperformance across the industry, and I think, when we have done some analysis recently, we are looking at the bottom performers very closely and are going to be having pretty firm conversations with them across a range of factors, not just net investment performance. Performance is a much broader set of metrics. Actually, in our list of the bottom segment, a large proportion of those are not-for-profit and industry funds in particular.

**CHAIR:** I would just like to follow that up. The terms 'not-for-profit' and 'for profit' funds, I think is a very unhelpful vernacular.

**Mrs Rowell:** It is.

**CHAIR:** Having worked—

**Senator GALLAGHER:** Well, they are my questions. It is not about whether it is helpful to anyone else.

**CHAIR:** I understand, but I am just interested in the way the conversation is moving. Having worked in an industry super fund before, I do know that it is not a charity. Certainly, if you go to the car park of an industry superannuation fund, there are an awful lot of BMW X5s owned there by the senior executive. I think a profit versus not-for-profit is a very different—

**Senator McALLISTER:** Point of order. Doesn't Senator Gallagher have the call?

**CHAIR:** I think I am allowed to suggest that potentially a different vernacular can be used in the conversation Senator Gallagher is having. I am suggesting.

**Senator GALLAGHER:** I don't know—the language I am using is quite appropriate. There are retail funds—

**CHAIR:** Well, can we talk about retail funds versus industry funds?

**Senator GALLAGHER:** No—for-profit and not-for-profit.

**CHAIR:** What about corporate funds? Have we spoken about corporate funds?

**Senator GALLAGHER:** I am not letting you write my questions for me, Chair. I am going to ask some questions, and we will get through it very quickly.

**Senator IAN MACDONALD:** Point of order. When are other people besides the Labor Party going to get an opportunity to ask questions?

**CHAIR:** The Labor Party has had nearly half an hour. We are going to break at 11.15, and after that we are going to allow other parties to have questions.

**Senator GALLAGHER:** Yes, and then we will come back and finish our questions.

**CHAIR:** You may continue your line of questioning. You have the call, Senator Gallagher.

**Senator GALLAGHER:** Could APRA confirm for me my previous question, which you have taken on notice? Of those six that are above the median return of all funds over the 10-year return, I think only one of them is open to the public for public offering. The others are staff funds run by the banks, and there is actually quite a difference in return for staff funds run by the bank in all instances. It is anywhere from one and a half per cent to almost 3 per cent higher for the funds that are run for staff than those that are open to public offering. I would like APRA's view on that.

**Mrs Rowell:** I would have to take that on notice. I do not have the details of that performance in front of me.

**Senator GALLAGHER:** Can you have look that at so we can have a further discussion around this in May. It is an issue when you pull out the staff funds and the vast majority sit below the median return of all funds in the for-profit sector.

**Mrs Rowell:** As I have said—

**Senator GALLAGHER:** And I would not mind APRA's view on that—

**Mrs Rowell:** Sure.

**Senator GALLAGHER:** and what has led to that in terms of performance, because that does have a significant impact on members' retirement incomes at the end of the day.

**Mrs Rowell:** And, as I have said on previous occasions, a contributing factor to that is that a lot of that money is invested at the choice of the individuals in those funds. So that proportion of default money in the retail sector is relatively low, and that is quite clearly disclosed in our reporting—

**Senator GALLAGHER:** Yes. Well, that is why—

**Mrs Rowell:** which means that the nature of the investment choices that the individuals are making are often more conservative, and hence you have a different asset allocation with different performance over the long term.

**Senator GALLAGHER:** Well, okay, if that is the legitimate reason, I think that is good to explore further. Last time I asked about members going into the low-cost MySuper accounts. I think in an answer to question on notice 159 from last estimates retail funds had only 10 per cent of members' assets in the low-cost MySuper products and industry funds had almost 65 per cent in low-cost products. I raised this last estimates and I am just wondering whether you have looked in more detail as to why such a small proportion of member assets are actually held in the MySuper products and why banks have not put more of their members into these products. Are you watching this?

**Mrs Rowell:** All what you might call default contributions that need to be allocated to a MySuper product are now being allocated to those MySuper products. The vast bulk of the old default money that needs to be transferred across by 1 July this year has now been transferred. In fact, the latest statistics that we released for December show that that proportion dropped significantly in the December quarter because of some large transfers.

**Senator GALLAGHER:** I noticed that.

**Mrs Rowell:** But the proportion of what you might call default money for retail funds will always be much lower than the choice money—the proportion of individual choice assets for those retail products—simply because they offer a wide range of retail products to individuals, and individuals choose to take up those wider set of products; whereas the primary focus of the industry funds is on default arrangements between employers and the fund and the award arrangements. So there is a distribution difference and an individual choice difference that is occurring between those two different types of business models.

**Senator GALLAGHER:** So you do not have any concerns with that at all?

**Mrs Rowell:** It is the structure of the industry; it is their business model; it is how they operate. Our concern is how the trustees of those different funds are making sure that they are acting in the member's best interests, whether it is a choice model or a default product, and that is the focus of our supervision—

**Senator GALLAGHER:** And that goes back to my—

**Mrs Rowell:** and that is why we place such significant emphasis on governance and operational management and looking at all aspects of performance.

**Senator GALLAGHER:** And outcomes, presumably.

**CHAIR:** Senator Gallagher, we might wind it up now. It is time for our morning tea. Thank you very much. We will suspend this meeting for 15 minutes.

**Proceedings suspended from 11:18 to 11:31**

**CHAIR:** I welcome back the officers of the Australian Prudential Regulation Authority. I have a couple of questions for you following on from previous questions from Senator Gallagher. We were talking about governance practices. I am wondering whether APRA can provide some examples of poor governance practices that may have arisen out of conflicts of interest and superannuation fund boards.

**Mrs Rowell:** Thank you for the question. Governance, as you would appreciate, is something that we focus on quite a lot and is an area that we discuss and review with the superannuation industry as a whole and, in fact, the wider APRA regulated industry as well. As the chairman said earlier, there are some very good practices in the industry and some examples of good practice. There are also some areas of concern and some boards that are not necessarily up to better practice standards. Some of the types of examples where we would suggest that there is room for improvement would include around practices in board selection, appointment and renewal. For example: where is the pool of directors coming from, what skills and capabilities are being brought to the board and how are they ensuring that they get the right balance between experience and renewal on boards?

There are some operational aspects of board decision-making and fund operations where we see some, what you might call, laxity of governance and oversight. Those are around expense practices and expenditure more broadly, both at a board level and a fund level—so is there monitoring, oversight and decision-making around how members' money is used and an ongoing focus on ensuring that, if you did decide to spend money in a particular way for a particular reason, it has achieved the objectives that you wanted and the right outcomes. This is particularly for related party arrangements, marketing arrangements and those sort of things where we would see that, in some cases, there is room for improvement.

Some of the selection processes around service providers is an area of governance and oversight where we think there is room to strengthen. That has been a focus of APRA in recent years—some of the investment decisions that are being made and whether they are being made for the right reasons and generating the returns that are needed to deliver good outcomes for members. We have seen some examples there. More particularly, in the area that we have been particularly focused on most recently, is this issue of future strategy and sustainability, so: is the board seriously looking at the ongoing sustainability and viability of the fund into the future and taking adequate steps to ensure that there is that long-term strategy in place so that the fund as a whole is going to continue to deliver good outcomes for members?

**CHAIR:** I am not asking you to name and shame, but I am wondering if you could follow-up on that idea of the related party transactions for me.

**Mrs Rowell:** I think there are a number of different types of related party arrangements that are in place, whether it is an investment entity that is providing services to a group of funds or single fund, whether it is within a group in the retail space—those sorts of things—and administration and insurance arrangements as well. What is the benchmarking and the objective assessment that is being done about getting value for money for those arrangements? Similarly, if there is spending on particular promotions or use of members' money with an objective of growing the fund in the best interest of its members, how is that

being monitored and what is the link back from the expenditure of that money to actually achieving the outcome that was intended in the first place?

**CHAIR:** APRA have been quite vociferous in the past about the need for mandatory minimum numbers of independent directors. Can you expand on that for the committee.

**Mrs Rowell:** I think APRA's views on that, not just in the superannuation space but in the regulated sector more broadly, are quite well known. We think that independent directors bring objectivity, a different perspective and a wider set of skills to boards and assist with enhancing governance practices and oversight more generally.

**CHAIR:** Do you think that the regulatory toolkit at your disposal is sufficient to address issues of poor governance practices; and, if not, I suppose, what additional powers might you need to assist you in oversight of this area?

**Mrs Rowell:** The powers that we have, in broad terms, are reasonably good in a number of respects, but we have highlighted in the past a couple of areas where some strengthened requirements would be helpful. We have been on the record as saying that we think that the directions powers that we have in superannuation are too narrowly focused and having some broader powers to allow us to step in and take action where we see things would be helpful.

We have limited powers around changes of ownership, and we have seen some examples in recent times where there has been a change of ownership, which we have not been able to intervene in, which has led to a replacement of the governing board where the directors are not necessarily adding the right skill sets and strategy in that sense.

I think issues around governance and what is in members' best interests are inherently judgemental, and so it is always going to be difficult for us to ensure that the highest standards are being met across the board, because there is scope for different views. That is why we need to focus on the way in which boards go about making decisions, that they have been through a rigorous process and are using robust benchmarks and analysis to support their decision-making. Where we see that is not the case, then we do have some powers to intervene; however, the hurdle for us in taking action against individual directors, or a board as a whole, is set quite high in terms of the need for there to be really serious and fundamental detriment to members' benefits and best interests. Again, there are differences of views about when that test is met, and it can be quite difficult to have sufficient grounds for the necessary legal action that we might want to take.

**CHAIR:** Does APRA have—in fact I think APRA has expressed in the past a desire to see some of the smaller industry funds consolidate or some consolidation in the industry generally. What do you think are the barriers to that?

**Mrs Rowell:** In part it comes back to what we have talked about. It is to do with the way the industry is structured and the fact that there is this very difficult judgement that needs to be made around whether a board is acting in the best interests of members and delivering outcomes for members. We now have much better data that is giving us much better information—more comparable, reliable and consistent data—than we have had in the past so that is an area that we are starting to focus on. However, at the end of day, unless there are really egregious outcomes, the decision rests with the directors and, if the directors do not come to the view that there should be a merger, then it can be difficult for us to push it.



**Mr Glenfield:** There is always difficulty in getting a board to face up or agree that their time is finished. Most boards have a business plan or strategy looking out with the view, 'This will improve and this is where we are going to get to.' It is difficult to reach that point where you say, 'Actually, it's not in the interests of members for us to keep going.' Having reached that point there is then, 'Where do we actually successor fund transfer to?' And there are often challenges around finding like-minded organisations to come to, which I think is often one of the bigger challenges.

So whilst I think there is a desire to do the right thing, it is often that there are roadblocks which people cannot work through. But I think with the better statistics and whatnot that we have now that we are starting to see a more compelling reason for people to think about mergers.

**Senator WHISH-WILSON:** G'day everyone. Mr Summerhayes, congratulations on your speech to the Insurance Council of Australia annual forum in Sydney—the speech you gave a few weeks ago. I noticed that in that speech you said you and your colleagues have been reflecting, essentially, on carbon risk to the Australian economy more broadly over the 12 months since your previous speech.

I am particularly interested in Australia's input into the Financial Stability Board's study that is going on globally. Does APRA have any contact with the Reserve Bank of Australia or the Treasury in relation to their positions on that board?

**Mr Byres:** The answer is yes, we do. Treasury and the RBA are the Australian members of the FSB Plenary—the main group. Below that there are various working groups that individual agencies sit on, depending on particular areas of interest. So we serve on one of the FSB working groups, Treasury is on another one and the RBA et cetera. So we are all in the loop in terms of the work that is going on, the papers that are being drafted and the proposals that are being developed.

**Senator WHISH-WILSON:** Before I ask my next question, I will note that my colleague in the other place, Adam Bandt, asked Dr Lowe about this specifically, and I asked Treasury yesterday. We are not sure that the answers indicated that there was a close working relationship on this. Perhaps I will give you those transcripts.

I am interested in who is responsible for monitoring and advising the government regarding the financial stability impacts of carbon risk? Would that be something APRA would do, or would that be Treasury? Or Treasury with you guys included?

**Mr Summerhayes:** Just to clarify a few points: in fact in October of last year you asked a question on climate—

**Senator WHISH-WILSON:** I did, yes.

**Mr Summerhayes:** While we made some comments at the time, we also took that question on notice. The response was that we had been considering the issue and had been improving APRA's understanding of the issue. The reason why we chose to make the speech when we did was that there were three significant events that have occurred post-October of last year. One was the coming into force of the Paris agreement; the second was the draft release of the FSB's work on climate and related disclosures; and the third was a legal opinion by Noel Hutley SC on directors' liabilities under the Corporations Act as they relate to climate-related or foreseeable-climate-related risks.

APRA thought it was appropriate to make comments, as I did in the speech, about the importance of institutions picking up on both these policy and potential regulatory shifts as market signals which will affect pricing of assets in terms of transition risks, which I guess were the main focus of the speech—ensuring that organisations consider those risks, form a judgement on those risks and, if they are deemed to be material to the organisation, that the board's oversight, strategy and ongoing risk management of those is put in place.

**Senator WHISH-WILSON:** Okay. We do have a Senate inquiry coming up into this soon, so I will not go into any more detail. No doubt, we will go into these things in a bit more detail then.

Mr Byres, may I ask you a question in relation to the question I asked the Treasury secretary and, earlier this morning, ASIC? I might just very quickly frame it up for you: in terms of financial regulation changes overseas, in the US, in around 2012 to 2014 a number of countries were synchronising their fiduciary laws around financial planning and conflicts of interest. Obviously, the US President has already essentially got rid of the fiduciary act, and we know that the Dodd-Frank legislation is also looking like it is going to be dismantled. Considering we have close relationships with these countries and that financial stability is an issue for you, have you any concerns or have you at least looked at this issue or discussed this issue?

**Mr Byres:** We are certainly watching the issue carefully. I think the difficulty is that in all these things the devil is in the detail. There are sweeping statements like, 'Dismantle Dodd-Frank', but what does that actually mean? Does it mean to repeal the legislation in its entirety? When you hear people involved in the US administration talking about priority areas, often there are pieces of it which they would like to repeal—

**Senator WHISH-WILSON:** That is right, yes.

**Mr Byres:** Many of the pieces that they talk about repealing—or the ones that seem to attract attention—are not part of the internationally-agreed post-crisis response for strengthening financial regulation. They are often things that the US did over and above the internationally-agreed things. So, the Volcker Rule, which in simple terms is a rule about derivatives trading by banks, is a US rule. Most other jurisdictions, including ourselves, do not have that. The US Financial Sector Oversight Council, which has come under some scrutiny, is not a body we have here or which other jurisdictions have necessarily. You talked about the fiduciary rule: that is right, they are doing that, or proposing to do that, but there would be no obligation on Australia or on any other jurisdiction to change tack just because they chose to—

**Senator WHISH-WILSON:** I understand there is no obligation, but I am just wondering if you have identified it as a risk to financial markets? I talked about this to the Treasury secretary yesterday, and he quoted the head of the IMF as saying that the three risks she saw to the global economy were a race to the bottom on corporate tax cuts, financial deregulation and, of course, protectionism in trade. So I am just wondering if you agree with the head of the IMF that this sort of thing is a concern for the global economy?

**Mr Byres:** The thing that is within my area of expertise is the financial regulation one. I would say that it is too early to tell. Obviously, we keep a close eye on it. But as I said, if you get beyond the high-level headline of 'Get rid of Dodd-Frank' and talk about what the specific

things are that seem to be primary targets for change then they are not necessarily things that would change the international financial architecture or fundamentally undermine the agreed reforms—at this stage and as far as we know.

**Senator WHISH-WILSON:** At this stage. Okay. I just note from my experience that especially trade deals are the teaser—for example, the trades and services agreement. They are essentially pushes to synchronise regulations between countries on things such as financial services. So perhaps a watching brief is a good answer on that.

**Mr Byres:** Yes, we keep watching.

**Senator WHISH-WILSON:** I just wanted to bring to your attention quite an interesting article published in *The Financial Review*, called 'Uncovering the big Aussie short'. I do not know if you have read it, but maybe you could—

**Mr Byres:** This is the risk—

**Senator WHISH-WILSON:** It was called 'Uncovering the big Aussie short' and it is basically two fund managers—

**Mr Byres:** I think this was about 12 months ago? There was a big splash of publicity about—

**Senator WHISH-WILSON:** Yes. It was by a fund manager who had a short position in the housing market, and who possibly could have been talking-up their short position—to put that on record. We have talked a lot about what you can and cannot do in terms of your powers.

**Mr Byres:** Yes.

**Senator WHISH-WILSON:** But have you seen since then any evidence of mortgage brokers advising clients to lie on application documents? Have you seen any continuing trends with interest-only loans? These are not necessarily things that you can cover in changing regulations, but are you monitoring these kinds of things?

**Mr Byres:** Yes. Certainly, we are watching the interest-only loans issue. That is one of the indicators that we do keep an eye on, because that is something that has been growing, or the proportion of lending that is interest-only has been growing. It has certainly attracted our attention because we are keen to make sure that it is legitimate. There are legitimate reasons why people want an interest-only loan, but we like to make sure that they are legitimate reasons, not just because that is the only thing they can afford.

**Senator WHISH-WILSON:** And what about re-evaluations on properties?

**Mr Byres:** On the broader issue of fraud, which was the allegation in a large part of that story—which was essentially that all of the information that banks were getting was fictitious—we kicked off an exercise last year which is essentially asking the external auditors to go in and do a bit of a deep dive into the reliability and consistency of data, and the controls that banks have in place to check the reliability of information. I should not pre-empt the outcome of that. There is work underway to deal with that very issue.

**Senator WHISH-WILSON:** I do not know if they publish their sources or their own data, but, obviously, from their experience it was quite damning that there were these qualitative issues. I know ASIC looks at fraud differently; you are interested in financial stability and that

kind of stuff. What about revaluation on properties to increase equity for speculative purposes? Are there any benchmarks you can ascertain in respect of that?

**Mr Byres:** We have some guidance out—it is more than a guidance; I think it is in one of our prudential standards—about the requirements we have about the way banks should undertake valuations, and all the things that you would expect a good valuation to take into account—that it neither be too high nor too low and that it is a proper representation of a valuation. It is a requirement that banks follow that.

**Senator WHISH-WILSON:** Do you have the kind of data where you can identify how many multiple properties, for example, an individual investor may have? Is that available across different banks or institutions?

**Mr Byres:** We do not have it. We could certainly request what banks have. Whether it is collectible in a form that is able to be aggregated, I am not sure.

**Senator WHISH-WILSON:** Thank you. That is all from me.

**Senator BUSHBY:** Thank you, officers from APRA, for assisting us today. I have some follow-up things from some of the questions that have already been asked. Mr Summerhayes, on the issue of the climate change questions that you were asked, are you saying that it is a top priority? There is a quote from a speech that you gave not that long ago, where you said, 'It doesn't mean suddenly elevating climate related issues to the top of our priority list, but it does mean joining the wider conversation that is already going on.' Is that an accurate summation of where APRA is at on this at the moment?

**Mr Summerhayes:** That is correct. Thank you for the question. We see our role as being to highlight emerging risks. Again, in follow-up to the earlier question, we chose to say something this time because those three events that I referred to were signals to markets of potential regulatory and policy change at some point in the future. If institutions have the discussion and deem that, ultimately, the risks are not material to the institution, that is a matter for the institution. That is fine.

**Senator BUSHBY:** But you have done your job raising it in the meantime?

**Mr Summerhayes:** Exactly.

**Senator BUSHBY:** Also following up from earlier questioning, it was suggested in reaction to a question that the so-called not-for-profits—acknowledging the chair's point—the industry funds, otherwise known as the union funds, return all their profits to members. Are you satisfied that industry funds return all their profits to members?

**Mrs Rowell:** I think the business model of those organisations is different to the retail model in that there is not a shareholder expecting dividends or a parent company expecting dividends. But, in the same way as any business is run, to ensure that it can pay its staff and make payments to service providers, it sets fees and charges to cover costs with some sort of margin, typically. It is not necessarily helpful terminology to talk about profits in a super sense. As I said earlier, what is relevant in terms of outcomes from the superannuation system is the end outcomes for the individual members towards their retirement and through retirement, which is the money that is put in, the investment return that is earned on it and the costs that come out of that.

**Senator BUSHBY:** I do not disagree with that, but whether it is a retail fund, a corporate fund or an industry fund, all super funds levy a fee of some sort to cover the costs of management and other things.

**Mrs Rowell:** That is correct.

**Senator BUSHBY:** What degree of transparency is there over the fees that are charged by industry funds? Does APRA know what happens to that money when it is levied and how it is used?

**Mrs Rowell:** Up to a point. There is some requirement for reporting to us. All entities need to produce financial statements which will have some level of disclosure around expenditure. At the moment for superannuation that is relatively high level and it is perhaps one area that could be extended a little bit in terms of the granularity of the disclosure around expenditure through financial statements. I think the other observation that the chair noted earlier is that some of the reporting around expenditure and types of expenditure and the categorisation of that is inconsistent across the industry and so it can be quite difficult to identify at a granular level what those fees and charges are actually being used for, and it requires quite a detailed audit, if you like, to be able to drill down and investigate that, so that is not something that we would do as a matter of routine. Where through our reporting and data collection we identify some obvious anomalies, we try to follow those up and get those clarified. The short answer would be there is some room for enhancing transparency around expenditure of members' money in the superannuation sector. What that looks like I think needs a bit more discussion and development.

**Senator BUSHBY:** Are there any restrictions around how that money can be spent? If an industry fund comes in and levies a certain percentage of a fee of members' money, what restrictions are there then about what they can do with that?

**Mrs Rowell:** There are really none, in a sense that, like any other business, the board in running its business operations has discretion to determine what costs it incurs and how it uses that money.

**Senator BUSHBY:** As has already been highlighted today, you periodically report fund level superannuation performance data, and in that data you list each fund by fund name, trustee name, whether it is, to use terminology that the chair probably does not like so much, profit or not-for-profit, and so on. Is that correct?

**Mrs Rowell:** That is correct. We did consult with the industry when we were introducing the Stronger Super reforms back in 2013 about trying to change the categorisation and the labelling that was used in the industry. At that point there was no consensus within industry at all as to what you would change it to or the merits of changing it at all, so we have ended up left where we are, with descriptors that are not necessarily as helpful as they could be. It is something I think we might look at again at some point in the future. For us, I think a key distinguishing factor in the industry is something that was raised in the context of one of the questions earlier, which is: is the fund open to the public or not? In essence you want to be holding all of the funds that are open to the public to the same standards of governance and performance and all other attributes. Again, some of them are more closed funds but they still need to be well run and the like but, particularly in the current environment where members

can choose from a menu of funds, those public offer funds are the ones where it is really critical that the higher standards of governance are in place.

**Senator BUSHBY:** One of the funds that you list has the legal name Industry Fund Investments Limited, trading as AUSfund. Is that a fund that manages lost superannuation accounts?

**Mrs Rowell:** I think it might be an ERF.

**Senator BUSHBY:** It appears to me that your data lists AUSfund as a for-profit fund, not an industry fund, yet in its legal name it presents itself as Industry Fund Investments Limited. Are there any issues from APRA's perspective in a fund operating as a for-profit fund but saying that it is an industry fund, which suggests that it is a not-for-profit?

**Mrs Rowell:** That issue has not occurred to us. The labelling in terms of those categorisations is determined by the ownership structure and who owns that entity. I cannot recall off the top of my head who owns that one.

**Mr Glenfield:** I suggest that we will need to go back and have a look at that labelling and come back.

**Senator BUSHBY:** That is fine. The board of AUSfund includes Robbie Campo, who until recently was deputy CEO of Industry Super Australia, as well as ex-ACTU employee Linda Rubenstein, and ex-ACTU employee Cath Bowtell is its CEO. Are you aware of whether that is still the case? You might need to take it on notice.

**Mr Glenfield:** I would take that on notice.

**Senator BUSHBY:** Looking at that APRA data again, it also indicates that the average director of AUSfund gets paid \$38,000 per annum. I presume you are not going to be able to answer that one off the top of your head?

**Mr Glenfield:** No.

**Senator BUSHBY:** So, take it on notice, please. Would you know—and I guess you are going to have to take this on notice, too—whether that money is passed on by the directors to either Industry Super Australia or the ACTU or another union?

**Mr Glenfield:** Again, we would have to take that on notice.

**Senator BUSHBY:** Is that information something you would know?

**Mr Glenfield:** It is something we will know when we have a look at it.

**Senator BUSHBY:** If it is passed on, that would suggest that the union or the industry fund or lobby group, as appropriate, would be receiving money that is generated from a retail for-profit superannuation fund.

**Mr Glenfield:** Again, I will have to have a look at how it works.

**Mr Byres:** I do not think we have ever said that it is a retail fund.

**Senator BUSHBY:** But it is a for-profit fund.

**Mr Byres:** Yes.

**Senator BUSHBY:** And if it is not passed on, then presumably the only other conclusion you can draw is that the directors would be receiving money from a for-profit fund that they were appointed to by trade unions? I will leave that to you to answer on notice.

I also understand from the performance data that AUSfund returned 1.5 per cent last year and was the second-worst of the eight performing unclaimed super funds. I guess you will probably need to check that, too?

**Mrs Rowell:** Yes.

**Senator BUSHBY:** I also understand that AUSfund charged 2.4 per cent per annum in fees, which was the third-highest fee rate for all the unclaimed superannuation funds. So, you might need to check that, too, if you could. Now, Industry Super Australia and the ACTU have consistently made claims that APRA's performance data—and I think we have discussed this a bit today—shows that industry funds outperform retail funds using APRA classifications. If ISA used your categorisation of AUSfund as a for-profit fund, would its poor performance drag down the average performance of for-profit funds?

**Mrs Rowell:** I suspect it would, at best, at the margin—

**Mr Byres:** As a statistical calculation, if you put something low in the average, it lowers the average. It is relatively small, relative to an industry, so, as Helen said, the impact would be marginal. But we could do a calculation with it in and out.

**Mrs Rowell:** And, again, I think I am on the record as saying that APRA's view is that comparing averages by segment is not necessarily meaningful because of the difference between the funds—

**Senator BUSHBY:** Yes, we have had this discussion before as well.

**Mrs Rowell:** The comparison that you did, which was comparing those ERFs' performance as a group, because of their nature and their business model, is one thing. Comparing default products is another, sort of more comparable basis of assessing performance.

**Senator BUSHBY:** In a way, one of the reasons I was asking the questions was to give you the opportunity to highlight that fact again. You can highlight those things, but the reality is that you are not necessarily comparing apples with apples.

**Mrs Rowell:** That is correct.

**Senator BUSHBY:** And there are a range of other factors that can feed into decisions that have been made by members about particular characteristics of funds that they want their funds in, which can impact on outcomes that are not shown up by a direct, simplistic comparison.

**Mrs Rowell:** That is correct. And people would understand that individuals are members of individual funds; they are not members of a conglomerate of some fund average. So, it is important to look at the variations in the performance of the individual funds on an as like-for-like basis as you can achieve.

**Senator IAN MACDONALD:** Do you have information on the fees paid to directors and senior management of these not-for-profit funds? Is that something you would normally get in your—

**Mrs Rowell:** We do collect information—

**Senator IAN MACDONALD:** And I am sorry for calling it 'not-for-profit'—the BMW-driver funds, I call it!

**Mrs Rowell:** We do collect that information and have done for the last few years, and it is now published in one of our publications at an aggregate level, and it is also available at a fund level in terms of what the—

**Senator IAN MACDONALD:** What do you mean by 'aggregate'? Will it show that there are four directors getting \$100,000, or—

**Mrs Rowell:** Well, our publications tend to show some information for the super fund industry as a whole. We also break down some of our data by segment of the industry, but then we also do fund-level publications, where we would disclose the total director fees that are paid by a fund in aggregate. I do not believe we publish information about individual director fees, as in, 'The chairman got X and the other directors got'—individual amounts.

**Senator IAN MACDONALD:** So, you would just say that the chairman and all directors got \$2 million, and there are six of them, and you can work out—

**Mrs Rowell:** Yes, a total, and you can look at some of the differences in averages and the like.

**Senator IAN MACDONALD:** Where would I find that? Which of your publications would lead me to that information? Perhaps you could take it on notice—tell the committee and give us a link or something.

**Mr Byres:** We will send you the link.

**Mrs Rowell:** There would be information in both of our annual publications, because I think it is an annual data item that we collect.

**Senator BUSHBY:** And for further clarity and follow-up to the question I asked, would that information also show whether particular directors have chosen to pass that on or accept it personally?

**Mrs Rowell:** No, that would be something that would not necessarily be collected by our normal reporting. It would be something we would need to look at through our supervision activities in terms of undertaking further inquiries about—

**Senator BUSHBY:** So, that would be for specific funds rather than a general—

**Mrs Rowell:** That is correct.

**Senator BUSHBY:** You do not know that about every fund?

**Mrs Rowell:** That is correct.

**Senator IAN MACDONALD:** I have a question relating to insurance. I was questioning some officials yesterday about insurance in non-metropolitan Queensland. Can you indicate to me what role and what impact state taxes and, particularly in the North, laws relating to strata title have on insurance premiums? Is that something I can reasonably ask you? You would probably know the state taxes, at least.

**Mr Summerhayes:** I think it would be better if I came back to you with some specifics on that. Just so that I understand exactly what you are looking for—

**Senator IAN MACDONALD:** My understanding is that the states—and I can really talk only about my own state of Queensland—impose stamp duty on insurance premiums that adds to the cost. I am just wondering whether you have details on that and whether you could make them available.



**Mr Summerhayes:** The states do, and they do across a range of different insurance—general insurance, life insurance—so you are interested across the board.

**Senator IAN MACDONALD:** Yes, across the board.

**Mr Summerhayes:** I am happy to provide that information.

**Senator IAN MACDONALD:** I mean, we are desperate to try to address the issues of insurance. The industry itself is doing a lot more specific premium calculations, and that is making a difference. But every little bit counts. So, I am just interested in what—

**Mr Summerhayes:** I think the various industry associations have been quite vocal on the inconsistency of taxes as they relate to both general and life insurances across states, and that has been spelt out much more specifically in insurers' policies and policy renewals in some cases. But I would happily come back to you with a detailed breakdown of how that varies across the different jurisdictions.

**Senator IAN MACDONALD:** Okay. I am interested, obviously, in Queensland, but I would like the others, too, for comparison. Secondly, are you aware that the strata title laws, which, again, are individual by state, have any impact on what has to be insured or how the insurance is done for the body corporates of strata units?

**Mr Summerhayes:** They obviously do have an impact, but, again, I would prefer to come back and give you a more thoughtful response.

**Senator IAN MACDONALD:** Actually, my question was, do you have that information, or can you get it?

**Mr Summerhayes:** If we do, I would be happy to provide it—I suspect maybe not on the strata issue, but I would be very happy to point you in the direction where that information could be found.

**Senator IAN MACDONALD:** Thanks very much for that.

**Senator GALLAGHER:** I have just a couple more questions. First, I know you have taken a large number of my questions on notice, and maybe you will have to take this one as well. But I am interested in the percentage of members' assets in the bank-owned retail funds that are in the bottom quartile of performers compared with other fund types. Is that okay?

**Mr Byres:** Yes.

**Senator GALLAGHER:** And there is a matter that is coming before the Senate—a disallowance motion—which I think Senator Whish-Wilson has foreshadowed. So, I have some questions before that, before we debate it. APRA did a consultation process—

**Mrs Rowell:** That is correct.

**Senator GALLAGHER:** on a new prudential standard?

**Mrs Rowell:** Yes.

**Senator GALLAGHER:** SPS 510?

**Mrs Rowell:** Yes.

**Senator GALLAGHER:** Did you get much feedback during that consultation process?

**Mrs Rowell:** We got a number of submissions. I cannot tell you off the top of my head how many. We actually undertook that consultation through 2015 and received submissions

in 2015 that led to a sort of near-final draft version of the standard being released in December 2015, dealing with some enhanced requirements and additional guidance around particularly board charters, board governance procedures, appointment and renewal processes and the like.

**Senator GALLAGHER:** So, that came up in December 2015.

**Mrs Rowell:** It was released as a near-final draft in December 2015, and then, given the delays in the governance reforms legislation, we released the standard as final in late 2016, because the pieces of the changes in the prudential standards that we were making around board governance processes and practices and policies stood alone, and we had very limited concerns raised with those from industry through the consultation process.

**Senator GALLAGHER:** Okay—limited concerns raised. Were they originally meant to track alongside the governance legislation? Was that your original thinking?

**Mrs Rowell:** That is correct.

**Senator GALLAGHER:** So, when that legislation did not pass, that had lapsed and you reinstigated it as a standalone—

**Mrs Rowell:** That is correct.

**Senator GALLAGHER:** APRA considered that it was standalone changes?

**Mr Byres:** Perhaps just to clarify, we had sets of changes that followed from the legislative proposals—one set of changes. Then we had some other changes which were, if you like, independent. They were still governance related but we would have proceeded with or without the legislative proposals. When the legislation did not proceed, obviously those ones that were consequential on the legislation dropped out. We did not proceed with those. But the other set of proposals, which had no direct connection to the legislation—

**Senator GALLAGHER:** But were complementary to the legislation, in APRA's view?

**Mr Byres:** In the sense that everyone's objective I think was good governance in the superannuation system, and the standard is a standard of governance. Then we continued with those. And as Helen said, we continued on with those because there was actually very little feedback to suggest that people had concerns with those proposals.

**Senator GALLAGHER:** I do not know whether that is easily available. I do not want people to do a lot of work. But I would not mind, leading up to the debate—we have not formed a position on this, but I am actually genuinely trying to understand what has happened in the past, what issues were raised, how APRA dealt with those. In some of the discussions around this, my understanding has been that it is due to come into effect on 1 July 2017—

**Mrs Rowell:** That is correct.

**Senator GALLAGHER:** the instrument that has been put in place, and that is essentially picking up your prudential standard in its entirety, isn't it?

**Mrs Rowell:** That is correct.

**Senator GALLAGHER:** Why is APRA creating a separate standard for superannuation trustees than for other ADIs or insurers?

**Mrs Rowell:** It goes back to the history of the prudential framework. APRA only got the power to make prudential standards for superannuation in 2013, as part of the Stronger Super

reforms, whereas we had historically had prudential-standards-making power in the other industries for much longer. So over time we had moved from separate industry standards on topics such as governance and fit and proper in banking and insurance to a cross-industry standard, but, because prudential standards as a concept were new to the superannuation industry, we started with a separate superannuation standard initially. There are also some, I think, features of the superannuation industry and its governance model that are a little bit different to the other industries and that warranted a separate standard at that time. So, for the time being, we have opted to have separate prudential standards for the superannuation industry. At some point we might move to harmonise the standards, but at this point we do not think we are ready to do that or that the industry is ready to do that.

**Senator GALLAGHER:** My reading of it is that the standards that you are going to require under SPS 510 versus CPS 510—there is a great deal more granular detail required by that than the general approach in CPS 510, which was reflected in previous governance arrangements for superannuation trustees. It is almost word for word the same paragraph. When I have gone back and had a look at what existed prior to this new instrument, you almost had, word for word, whatever SPS 510 is now. It is the same number.

**Mrs Rowell:** SPS 510 was introduced in 2013. The revised version, which takes effect mid this year and which was released in December 2016, only has changes to some parts of it. It is not a complete revision of the whole standard.

**Senator GALLAGHER:** I get that, but, in relation to the governance and the selection, renewal and all that, the new standard has inserted quite a bit more detail: a couple of pages, from memory, versus one paragraph that applies to ADIs and insurers. It is almost like APRA is going: 'Well, you know what: you can manage all that yourself under this general guidance from APRA. But superannuation: we are going to tell you that 12 years is enough.' It is being a lot more direct, a lot more specific in that. It has been put to me that you seem to be accepting one standard for banks and insurers and another for the superannuation industry. If good governance is good governance, it is good governance, isn't it?

**Mrs Rowell:** There are, I guess, variations in quality of governance and governance practices across the different industries. Our view would be that, in the case of superannuation—to use a bit of a clichéd phrase—they are on a journey and need more guidance. In fact, in some cases, in the early consultations on this, there was a request for more specificity around what we expected and the standards that should be set. There is, in part, a response to industry requests for additional guidance and clarity. In part, it is addressing some of our observed weaknesses in practice across the industry over the last however many years, and the view that that level of granularity, as you call it, is appropriate to ensure that governance standards, board renewal processes, charters and policies are taking into account all of the factors that we think are relevant to good governance. Some of that is in the standard at a high level, in terms of the factors that need to be considered, and then there is non-prescriptive guidance, which talks about some views on board size, tenure and the like—which is guidance; it is not prescriptive.

**Senator GALLAGHER:** Is there any intention to align the two sections of those standards in the future?

**Mrs Rowell:** It might be something that we would look at down the track. I suspect that that is some years off, in terms of aligning the super industry with the other industries and moving to a cross-industry standard.

**Senator GALLAGHER:** You are setting a higher or greater standard to meet for governance in super than you are in banks and insurance, and then you are just saying, 'It might be some years before we pull those together.' I am trying to understand what the policy thinking is about why that is acceptable.

**Mrs Rowell:** I do not think we are actually setting a higher standard. We are probably putting more detail in the prudential standard than—

**Senator GALLAGHER:** Okay, a more detailed standard.

**Mrs Rowell:** is in the other industries, but what we think needs to be canvassed in governance standards and practices by boards across the industries would be fairly consistent.

**Mr Byres:** It is also, if I can just add—

**Senator GALLAGHER:** It is not consistent under the prudential standards.

**Mr Byres:** You talked about the 12-year thing, which is an example. There is much more prescription—that is right—and much more detail in the guidance, but the guidance is not the enforceable standard. The guidance is, if you like: 'If not, why not? This is what we think, but, if you've got a good reason to do something different, you can do something different, as long as it's a conscious decision.' Part of the reason why the guidance might be more detailed is—to Helen's point—that we constantly got requests saying, 'This standard is principles based, but can you tell us more what you mean?'

**Senator GALLAGHER:** So the industry asked for it. I have read through all the documents; I just do not have them with me, unfortunately. But I think it is fairly specific. It uses the language 'exceptional circumstance' if someone is to be appointed for more than 12 years, so I am not sure that it is quite: 'This is guidance; if you choose not to follow it, that's over to you.' I think from when I read it that it is actually sending a very strong message, and the language used in it is quite clear that APRA would want to understand the exceptional circumstances that would lead you to continue with an appointment.

**Mr Byres:** That is true. We would be interested in what that was, and we are very clear in saying—

**Senator GALLAGHER:** People would have to justify to APRA?

**Mr Byres:** Yes. There is a standard that says you should be thinking about these things. You should be thinking about board renewal. You should be refreshing your board periodically. That principle applies across all industry sectors. ADIs have to have renewal policies. Insurance companies have to have renewal policies. We have said in the guidance in super that we have set some benchmarks that we think align to practice in the other industries. I appreciate your point that the words are different and the language might be a little different. I am not sure that the actual outcomes are any different in terms of what we do day to day.

**Mrs Rowell:** I think it is important to note too that the standard requires the boards to develop their charters and their policies and their procedures around these aspects, form a view as to what they think is, for example, appropriate tenure and the like and have in place a process that they go through to decide whether they go outside of those policies and practices

in any particular area. So it is not that they have to necessarily justify it to us at the time; it is a decision that the board would make. We might ask some questions about it, but we are not imposing any requirement on them to talk to us about it before they make any decisions about individual director appointments.

**Senator GALLAGHER:** In my reading of it and the way it is framed, it seems much more stern information from APRA than perhaps what you are indicating is intended by it. I will just wrap this up. The boards put in place tenure renewal policy as required. Most of them, I imagine, would have that. A board determines that a director, despite a long period of tenure, is still the best-placed appointee for that job, just in this situation, given their skills and experience. What happens then? It has decided that. It exceeds 12 years. What does APRA do with that?

**Mrs Rowell:** In most cases, probably, other than seeking to understand the decision of the board, there would be no need for any further action. There would be some sort of further discussion about it if we had concerns about the quality of the board and the quality of the governance or any information that—

**Senator GALLAGHER:** So it would come down to an individual? If you were concerned about an individual—

**Mrs Rowell:** Or a funder of a board or whatever, in terms of overall governance practices.

**Senator GALLAGHER:** But that would indicate that they would have to report to you about any appointments over the 12 years.

**Mrs Rowell:** No, not necessarily. You have to understand that we have quite regular engagement with the boards of all super funds and the boards of banks and other entities, so this is just part of our normal dialogue with institutions. Where there are changes, we would ask questions about those changes and the reasons for those changes.

**Mr Byres:** For anyone that is appointed to a board, there is a notification process, so we know when they are appointed. We therefore know when 10 years are up, 12 years are up, 15 years are up or 20 years are up, so it is not as though they have to tell us that the anniversary has been hit. Those things are available to us, and we know the tenure in the mix.

**Senator GALLAGHER:** Thank you. That is a useful discussion. Minister, I might just flag that, in the lead-up to debate on the motion to disallow, I might request further information from APRA just to inform the debate. I just flag it with you. I know you are not the responsible minister, but—

**Senator Sinodinos:** I try to act responsibly!

**Senator GALLAGHER:** I just want to put that on the record, so hopefully that could be assisted by the government at the time. Thank you.

**Senator BUSHBY:** I have just a couple of questions. Has APRA formed an opinion on the proposals that have been floated regarding superannuation to give union representatives on boards the power of veto over majority decisions by other board members? Are you aware of those proposals?

**Mrs Rowell:** I think you are referring to media commentary on—

**Senator BUSHBY:** Possibly, yes.

**Mrs Rowell:** the AIST's governance code?

**Senator BUSHBY:** That may well be the case.

**Mrs Rowell:** I think our view on that code is that it is fully consistent with many aspects of our governance prudential standards and practice. The requirement that you are talking about, I think, relates to the level of majority that is proposed for decisions by the board where it goes to a vote. The code reflects that a higher proportion of directors need to support a vote where you have independent directors on the board. I believe that is the context of that point. My understanding of the intent behind those provisions is that it is not so much to achieve a veto but more to ensure that all of the components of the board have a say in decision-making for the board as a whole, which is not inconsistent with APRA's view that, no matter what the board's structure, whether it is a representative board structure or a structure that has independent directors, you want to make sure that there is a voice for all of the components of the board in decision making.

**Senator BUSHBY:** A different subject is in relation to unlisted investments held by super funds. Is APRA doing any work on refining its policy on valuation to ensure that members are not disadvantaged by sudden movements in asset prices?

**Mrs Rowell:** We are not doing any current work in that space. When we updated our guidance last, we did include some material in the guidance around valuation practices, when it would be appropriate and the sorts of factors that should be considered in undertaking valuations of all sorts of investments, including infrastructure investments. We are not aware of any particular concerns that have been raised in that area in recent times, so we do not have any other specific investigative work in train.

**Senator BUSHBY:** I have asked questions about unit pricing and similar issues over the years. I was just wondering whether there were any current concerns or any current work being done, but not at this stage?

**Mrs Rowell:** Not at this stage.

**CHAIR:** As there are no further questions, thank you very much to the officers of APRA. You are free to go. We now call upon the Australian Small Business and Family Enterprise Ombudsman, and I would be remiss if I did not also welcome Senator Sinodinos, the Minister for Industry, Innovation and Science.

**Senator Sinodinos:** It is always a pleasure to be here.

**CHAIR:** Thank you very much, Mr Byres, and thank you very much to all the officers of APRA.

**Mr Byres:** Thank you.

[12:29]

#### **Australian Small Business and Family Enterprise Ombudsman**

**CHAIR:** Welcome to the officers of the Australian Small Business and Family Enterprise Ombudsman. Ms Carnell, do you have an opening statement?

**Ms Carnell:** I will be really brief because I know you are running a little late this morning.

**CHAIR:** Our apologies for that.

**Ms Carnell:** We are nearly 12 months in. Our anniversary is on 11 March. During the 12 months, I think we have established ourselves as a source of information for Australia's nearly three million small businesses that turn over under \$10 million a year. We have had 2,000 small businesses contact us for assistance or advice, 50,000 visits to our website and a very large number of people input into our various inquiries. We have done two inquiries at the request of the government: the Road Safety Remuneration Tribunal inquiry, and, more recently, the small business bank loan inquiry which was presented to the government in December and tabled quite recently. During that inquiry we had the opportunity to use our legislated powers to gather information and compel banking executives to attend hearings. We also required information documents and so on, using our powers to require documents, on a number of occasions. We had private hearings that were held to gather feedback from small businesses before conducting public hearings with the four major banks that were streamed on the internet so that the information was available to small businesses broadly. We also have a self-generated inquiry into payment terms and times.

When we set up the office 12 months ago and went out to small businesses to ask them what was the thing that was driving them the most crazy, we expected a range of things such as industrial relations and issues like that. What we ended up with were all of those things but it surprised me that right at the top was the fact that people were paying slower—particularly big businesses and government instrumentalities which are on that list too of slow payers. We will complete that inquiry towards the end of next month. We had 2,500 small businesses contribute to a survey—quite a long survey, so it was a big commitment from them—and 130 submissions into the inquiry. We have recently launched our 2017 advocacy agenda that outlines our work plan for the next 12 months. It looks at issues surrounding red tape, flexible industrial relations, fair and competitive trading frameworks, a less complex tax system, access to justice, small to medium businesses having access to government procurement and a range of other issues. Those are the issues that small business say are important to them. So it has been a big first 12 months and I hope reasonably successful.

**CHAIR:** Thank you, Ms Carnell, and happy anniversary.

**Ms Carnell:** Thank you very much.

**CHAIR:** I will turn first for questions to Senator Ketter.

**Senator KETTER:** Ms Carnell, thank you for your opening statement. Firstly to the small business loans inquiry and that general area.

**Ms Carnell:** Yes.

**Senator KETTER:** You have commented on the PJC inquiry report on the impairment of customer loans and you have said that one-third of the cases looked at had real issues where bank conduct was unacceptable and possibly unconscionable. Can you outline the impact these banking failures had on the small businesses involved?

**Ms Carnell:** Those businesses are bankrupt, on the whole—that is the effect. There are people who used to be running often quite successful businesses living in garages. I can get quite emotional about this, because the stories that we have heard—and not just stories. We have required people to turn up and to provide evidence and we have used our powers to get documents, so we have a pretty good view of what actually happened in a range of these cases. The impact is huge, and for a good number of the cases in that third, as I mentioned,

these were people who had not missed a payment on their loan, so they were not in financial default. The default came as a result of nonfinancial defaults, issues surrounding ratios or issues surrounding rollover of loans and lack of time frames, those sorts of things. We tried to address a range of those issues in our recommendations, which we hope the banks will pick up on.

**Senator KETTER:** You have been fairly blunt in your media commentary about this inquiry—in fact, you have said you are 'fed up' with the banks, which is a fairly strong comment. Could you elaborate on that? I think you have already touched on some of these points, but what has led you to be fed up?

**Ms Carnell:** Seventeen inquiries from various perspectives since the global financial crisis, 40 recommendations that have been repeated in various forms over that period of time and very, very little movement from the banks. In a range of things from really important issues down to something you would have thought the banks would have picked up on. Banks can require a valuation on your property that your business loan might be secured against at any time, really. They require a valuation on your bricks and mortar that is the security for your loan. They then charge you for that valuation but will not give you a copy of it. That has been brought up a range of times over the years, the fact that if you pay for something you would think you probably have a right to have a look at it. Taking into account that very often the bank then uses that to change the basis of your loan, you think that would be something incredibly simple to fix. No. Some banks have started to do it, but it shows you the level of lack of action from the banks on these things have been brought up time and time again.

**Senator KETTER:** With the greatest of respect, after those 17 inquiries that you have touched on what makes you think the banks will listen to your recommendations?

**Ms Carnell:** I suppose I am a glass-half-full sort of person. We worked really closely with the Phil Khoury inquiry into the banking code of conduct and with Steve Sedgwick and the work that he is doing—there are a lot of inquiries going on. You may have seen Phil Khoury's 99 banking code recommendations; he backed up our recommendations totally and said that ours should be put into place. What we tried to do was come up with a group of recommendations that would make a difference to small business but would not cause the banks any huge damage. In fact, you would not be surprised that one of the people that we worked with on an inquiry was David Murray, who did the Murray inquiry and, of course, was CEO of Commonwealth Bank for number of years. David made the point that he did not believe that any of the things we were talking about here would make one speck difference to the bank's share price, return on investment or profit. In fact, he suggested that maybe it would cut some of their costs because they would not need as many lawyers. So we have tried really hard to make these doable and doable quite quickly, because they are not new. We have not come up with any hugely new recommendation; they have been up there before. The \$5 million figure is probably a new figure, but it has been accepted by Phil Khoury and probably by FOS as well. I reckon it is doable, and why would not the banks embrace them.

**Senator KETTER:** I note that you are a glass-half-full person, and that is very good, but I also note that you have said:

... the big four banks ... believe – for whatever reason – that they can continue with business as usual and they don't have to change.

Do have a sense as to which of your recommendations they might be likely to run with?



**Ms Carnell:** I do not want to go down that path, because I want them to go with all of them. Again, they are all doable and have been backed up by the banks' own inquiry into the code of conduct. The banks agreed in our public hearings that their code should be registered with ASIC, so we have on the public record the fact that they will accept that. For the code to be accepted by ASIC, it needs to have measurables, deliverables—the sorts of things that, on the whole, the code has been a little bit soft on in the past. I would hope that the banks realise now that doing nothing is not an option.

**Senator KETTER:** Going to your report, the table on page 28 seems to suggest that two of the four major banks were resistant to providing borrowers with the two-page summary of key clauses and covenants that might trigger default. Is that correct?

**Ms Scott:** That is correct. We did a survey of all the members of the APA, and these are the results from the four major banks.

**Senator KETTER:** Can you tell us why they were resistant?

**Ms Scott:** They just do not agree with that recommendation.

**Senator KETTER:** On the same page, the first item in the table suggests that three of the four major banks do not want to remove the nonfinancial covenants from small business loans.

**Ms Scott:** Yes, which is unusual because they said they do not use them for loans less than \$1 million.

**Ms Carnell:** This was one of the frustrations—the banks told us that they did not use these nonfinancial covenants, and yet in a lot of cases we looked at they did. I have a view, as I suspect most people do, that why would you have clauses in a contract if you are never going to use them.

**Senator KETTER:** You have made a recommendation in relation to this. Why do you think that recommendation is important?

**Ms Carnell:** I think that the community believes, and certainly small businesses believe, that if you pay the amount you are supposed to pay every month and you do not break any of the standard rules—like selling the property that your business loan is secured against, those sorts of standard pieces—that should be all you are required to do. For the banks to be able to default small businesses with loans under \$5 million when people are compliant financially, we do not think that is a reasonable approach. Remember, small businesses do not have in-house lawyers. They also have very little capacity if not no capacity to negotiate these contracts—it is, 'Sign here and, if you don't want to, go somewhere else.' We believe that getting rid of nonfinancial covenants for loans under \$5 million is really important for small businesses to be able to get on with the job of growing their businesses.

**Senator KETTER:** Why do you think the banks want to retain these types of provisions?

**Ms Carnell:** I think pressure should continue to be placed upon them. As you would know from our inquiry, we have said we will report every six months on how well they have gone with implementing these sorts of things. We would hope that the pressure is put on them from the economics committee in other places to make it clear to them that this really is important. And again, the Murray inquiry said nonfinancial covenants were not essential, so it is not just us saying it.

**Senator KETTER:** Going to page 40 of your report, it seems to suggest that three of the four major banks do not want to provide copies of the valuations, which you touched on in your opening statement.

**Ms Carnell:** I just shake my head.

**Senator KETTER:** Can I just confirm that that is the case?

**Ms Scott:** Correct.

**Senator KETTER:** Also, one of the four major banks does not want to provide a copy of the loan contract to the borrower, where no financial default has occurred. Is this a fair position for that bank to take?

**Ms Scott:** The loan contract in terms of the valuation? I do not understand the question.

**Ms Carnell:** This was the valuation—the actual document around the valuation, including the basis of the valuation. You can get different valuations by having different bases of the valuation. If it is a distressed borrower in a market with lots of properties, shall we say, you are probably going to get a lower valuation than you would with a different requirement. That is the bit we are talking about. The reality is that what you see there is what happened as a result of real data back from the banks.

**Ms Scott:** When you have something like a valuation, which can be disputed, the borrower having the instructions to the valuer as well as the valuation report, and the facility to question that report internally within the bank, would be very important to transparency.

**Senator KETTER:** Going back to how you undertook your inquiry. You were tasked with reviewing a selection of cases, some of which were through the PJC process. Can you advise how you went about reviewing those cases?

**Ms Scott:** We had a methodology. We used the parliamentary joint committee report and the hearings as a basis to understand the valuation themes that were coming out from that report, and the other 17 previous inquiries—the themes around the code of practice, around contracts and unilateral changes, lack of notice on rollover of contracts, and access to justice—so, the internal dispute resolution and external dispute resolution. We went through the 150-odd selected cases that we could use as a good benchmark to understand the practices of the banks a bit more. We received submissions from those people, some of whom did not want to re-live the experience, once they found out that our inquiry was not about seeking compensation or intervening in legal proceedings, and some people felt that they were too traumatised to do it all again. But in the end we had a selection of 20-odd cases, eight of which we did a deeper dive on with some expertise.

**Senator KETTER:** How did you select the cases for the deep dive?

**Ms Scott:** They were cases in particular where we had a range of the themes, and there were some questions we had about the banks' practices with regard to those cases that we wanted to look into a bit deeper.

**Ms Carnell:** We used external experts to have a look at the cases to determine the ones where there appeared to be more to see.

**Senator KETTER:** In your terms of reference you were also tasked with referring any matters to the relevant authority for further consideration, if considered necessary. Did you do that?

**Ms Scott:** We are still working on some of the material. We are in discussions with ASIC on certain matters.

**Ms Carnell:** We have not reported on the deep dive cases, in the time lines we had, which were quite short. But the deep dive cases have taken a little bit longer.

**Senator KETTER:** Did you notice any banks changing their approach or offering people new terms following your intervention?

**Ms Carnell:** There were a few people on our list who seemed to get settlements, which was very nice to see. I will not make a comment on why that might have been the case, but it was good to see a few people who were going to part of the inquiry ending up with an outcome they were happy with.

**Senator KETTER:** Can you tell us which cases they were?

**Ms Carnell:** I do not think that would be reasonable.

**Ms Scott:** They signed confidentiality agreements.

**Ms Carnell:** The challenge in this case is that whenever there is a settlement the confidentiality agreements are fairly dramatic, and you can understand why people would not want to talk about it.

**Senator KETTER:** You mentioned in your initial press release that you are intending to use royal commission powers, or could possibly use them, as part of your inquiry. Did you use any of those powers?

**Ms Carnell:** We issued 38 requirements to attend and, I think, 26 requirements for documents and information. That included a range of people, including some past bank employees who were involved in particular cases. So it was not just that the banks needed to come to our public inquiry. There were individuals we took evidence from.

**Ms Scott:** The notices themselves covered a range of different cases. It was not one notice per case.

**Senator KETTER:** There were 38 requirements to attend and 26 requirements for documents.

**Ms Carnell:** That is right, isn't it?

**Ms Scott:** Yes.

**Senator McALLISTER:** I want to ask you about the measure in MYEFO in relation to tax integrity. This is the measure on page 113, seeking to 'improve the transparency of taxation debts'. Last night we had an extended conversation about this with the ATO. Are you aware of the measure?

**Ms Carnell:** Yes.

**Senator McALLISTER:** Have you been consulted about that measure?

**Ms Carnell:** We have been talking to the ATO about this measure—I have to say, probably not before MYEFO, but since then. We believe that some of the comments with regard to small business need to be managed very carefully by the ATO in terms of issues surrounding possibly handing over information to credit agencies. Those sorts of issues need to be handled very carefully.

**Senator McALLISTER:** Could you elaborate on what the risks are, from a public policy perspective, and what the risks are to small business? Then, could you step through some of the feedback you might have provided about what handling it carefully would look like?

**Ms Carnell:** If a small business is handed to a credit agency, then there is every chance that they will not be able to continue to trade—people will not deal with them and a range of issues happen. Getting back to our banking inquiry, one of the default clauses that exist in contracts is that if a small business enters into a payment arrangement that is a potential default clause.

**Ms Scott:** With the ATO.

**Ms Carnell:** With the ATO. So if you enter into a payment arrangement or a range of other things, it can potentially be a default clause for a small business.

**Senator McALLISTER:** In terms of their other financial arrangements with a credit provider?

**Ms Carnell:** With a bank. So, if you have a loan with a bank and you enter into a payment arrangement, say, with the ATO, even though you are paying your bank what you are supposed to pay, on time and so on, that in itself—

**Senator McALLISTER:** And that you are now committed to paying the ATO in an orderly way—

**Ms Carnell:** That is right. You would think that was actually good outcome, except that it can be used. It is one of those clauses will we think should go in bank contracts—that the mere fact of entering into a payment arrangement could be a default mechanism.

**Senator McALLISTER:** You have a material concern that banks might use that disclosure to trigger other things?

**Ms Carnell:** Yes. By the way, the banks have indicated to us that, as much as they never use those clauses, that sort of information is really important to them. It could indicate something else about the business, and maybe it is a reasonable reason to have a closer look at that loan. I do not think that is reasonable. From time to time small businesses have cash flow problems and that can mean entering into payment arrangements with the ATO. We encourage them to do that. There should be no discouragement.

**Senator McALLISTER:** One of the things we are interested in is whether you are concerned that small business might be unable to pay tax obligations due to large businesses failing to pay small businesses in a reasonable time frame. Is that one of the dynamics we should be thinking about?

**Ms Carnell:** Absolutely. Our payment terms and times inquiry has shown that 61 per cent of small businesses are having problems with large businesses' or governments' payment times. We have evidence to suggest that big multinational corporates are, almost as a business strategy, moving their payment terms to things like 120 days. It is on the public record that some companies—Mars, Kellogg's, Fonterra and so on—are moving to 120 days for small businesses, which is untenable. Payment terms are in the contract, as are payment times—people being late.

**Senator McALLISTER:** It is an instructive comparison because the threshold in the measure is 90 days overdue, and yet there is an indication that you could wait as long as 120

days for a payment from one of your creditors, a small business, and that would be within the terms of the arrangement.

**Ms Carnell:** I think there are some terms that just are not acceptable when it comes to small businesses. We are certainly hoping that larger businesses in Australia will accept that, if we really want the economy to fire and we want small businesses, the engine room of the economy, to be able to help that growth, it does not happen if you do not pay them in reasonable time frames. They simply cannot operate. Fascinatingly, and probably understandably, that is often why they end up with payment arrangements with the ATO. They have to pay their staff and they are waiting for a payment from a large business. They have to pay their staff, they have to pay their landlord and they have to pay their suppliers, so they end up in payment arrangements with the ATO.

**Senator McALLISTER:** One of the responses from the ATO last night was that it is unhelpful to think about this as just a relationship between the ATO and the business itself and that there are, indeed, a whole range of people in the ecosystem. The point made by the ATO was: 'Sometimes other suppliers come to us and say, "If we'd known how deep this particular business was in, we would not have kept supplying to that business. We were willing to excuse late payment, but, had the ATO been transparent about the scale of the problem between that business and the ATO, we wouldn't have kept supplying."' How should we think about that line of argument?

**Ms Carnell:** I would be very concerned about that line of argument. I think we have to be really careful that the ATO does not end up creating a worse situation for small businesses. I am not sure that it is the ATO's role to make SMEs' business situations visible to third parties. You have to be pretty careful about that because you would want to make sure that you were right.

**Senator McALLISTER:** You have used the word 'careful' a couple of times in the context of being careful about designing this. It sounds like you are not opposed to the measure but you are urging caution. What are the particular elements of the design that you think government might think about?

**Ms Carnell:** First of all, we believe that small businesses and everybody should pay their tax. It goes without saying—people should pay their tax and they should pay their tax when it is due. But, for small to medium businesses, we have talked about cash flow issues, and they can happen from time to time for a whole range of reasons that are outside control, including payment times from big business. Sometimes the pavement is dug up in front of your shop. There are things that happen that get in the way. We have to make sure that the way the ATO manages those situations takes into account the issues that the small business might be experiencing.

There are also a whole range of issues around mental health. Small business owners are as likely as, maybe more likely than, anybody else to experience mental health issues. One of the great dilemmas of mental health issues is that they make it pretty hard for you to stay focused and to not procrastinate on things you really should be doing something about. The ATO have taken that on board and they are doing some good stuff in managing mental health issues with small businesses, but that shows that there can be really individual issues.

**Senator McALLISTER:** What does that mean when it comes to designing the measure? What practical changes might you ask for or advocate for to respond to these factors?

**Ms Carnell:** The point we have made to the ATO is that it is really important for them to spend a little bit of time talking to us and to the small-business sector more broadly, maybe through us, to look at approaches that will work. We want small businesses to pay their tax on time. We know that, if small business gets too far behind, that can be a real problem too. We should look at approaches that address issues early and do it in a way that allows small business to catch up. And just do not let things drag. That can be a problem in itself.

**Senator McALLISTER:** Regarding your remarks about consultation, do you feel that the ATO is adequately consulting at the moment? Do you have any concerns about the current implementation timetable, noting that the measure is scheduled to commence from 1 July?

**Ms Carnell:** We have indicated to the ATO we have some issues with the implementation time.

**Senator McALLISTER:** Is that associated with the time required to adequately consult?

**Ms Carnell:** Yes, and also to be confident about the methodology they are going to use. They have indicated to us that they will not be handing over names of small businesses to credit agencies willy-nilly—it will only be under certain circumstances—and a range of other things, but we need a bit more clarity on what those circumstances are.

**Dr Latham:** I would throw in that the transparency and the conversation with the small businesses are really key here, so that there are no surprises around it. That is in the consultation for the measure but also in the practice of the operations.

**Senator McALLISTER:** So, even if one was able to complete the consultation by 1 July, there are a whole other series of communications to undertake in the implementation phase that may need to occur before the referrals actually start happening.

**Ms Carnell:** Possibly there would be a capacity for the most egregious cases to be implemented on 1 July, but it would only be that group of chronic underpayers. For this to be a broad based approach, I think there is some work to do.

**Senator McALLISTER:** Thank you very much.

**CHAIR:** The government's enterprise tax plan provides a tax cut to businesses over 10 years. One of the more contentious issues has been the proposal to change the definition of a small business from one with a turnover of \$2 million to one with a turnover of \$10 million. I know that you have been quite outspoken on this issue. I wonder if for the benefit of senators you would explain why that redefinition is so important.

**Ms Carnell:** Moving to a definition of small business as having a turnover under \$10 million brings in about 99 per cent of businesses in Australia. So it brings in a lot of numbers, and that is really important because it is those businesses that are turning over \$2 million to \$10 million that are often the growth businesses. I am not suggesting that is not the case for littler businesses as well, but those small businesses that are really in growth phase are just the people who need this sort of a break so they can continue to invest in their businesses. Remember this is turnover. I think sometimes the media gets confused between turnover and profit. It is turnover, and a \$10 million turnover is not that much for a range of businesses that have large cash volumes but really quite low profits. So these are not huge businesses. Ten

million dollars sounds a lot, but a lot of businesses operate at five per cent profit and even less in some circumstances. So once you take the \$10 million you can see these are not hugely profitable businesses, but they are often businesses that are growing.

**CHAIR:** The other criticism, I suppose, that has been levelled is that potentially a tax cut to business means more money in the pockets of the business owner. Obviously, you have said that it actually gives great opportunity for reinvestment in that business. What is the evidence that you have, whether it be anecdotal or evidential, that that is in fact the case?

**Ms Carnell:** Anybody who has ever been anywhere near small businesses or small-to-medium businesses in that sort of space knows that every last dollar goes back into the business, growing the business and going to the next phase. It always makes me almost laugh when I hear comments about small businesses putting those dollars in their back pocket. We are seeing the same argument around penalty rates a bit. It is just not how small businesses operate. They are spending huge amounts of time and effort and their house is riding on it. If they have an extra dollar you know exactly where it goes: into staff and into growth.

**CHAIR:** Terrific. Thank you very much, Ms Carnell and all officers from the Small Business and Family Enterprise Ombudsman. Thank you, Minister. We will break now for lunch and return at two o'clock with the Australian Nuclear Science and Technology Organisation.

**Proceedings suspended from 13:06 to 14:03**

**INDUSTRY, INNOVATION AND SCIENCE PORTFOLIO****In Attendance**

Senator Sinodinos, Minister for Industry, Innovation and Science

Senator Canavan, Minister for Resources and Northern Australia

**Department of Industry, Innovation and Science****Executive**

Ms Glenys Beauchamp, Secretary

Ms Sue Weston, Deputy Secretary

Mr David Hazlehurst, Acting Deputy Secretary

Mr Mike Lawson, Acting Deputy Secretary

**Anti-Dumping Commission**

Mr Dale Seymour, Commissioner of the Anti-Dumping Commission

Mr Paul Sexton, General Manager, Investigations

Dr Annette Weier, General Manager, Economic and strategic services

**AusIndustry – Business Services**

Ms Chris Butler, Head of Division

Ms Jayne Facey, General Manager, Industry, Structural Adjustment and Science Programs

Ms Lisa Hind, General Manager, State and Territory Network and Victorian State Office

Mr Gene McGlynn, General Manager, Community, Small Business and International Science Programs

Ms Lisa Peterson, General Manager, Program Design and Business Grants Hub

Mr Steve Stirling, General Manager, Single Business Service Program and Cooperative Research Centres Program

**AusIndustry – Innovation Programs**

Ms Sarah Clough, Acting Head of Division

Ms Joanne Mulder, General Manager, Accelerating Commercialisation and Innovation Connections

Mr Andrew Garth, General Manager, Centre for Defence Industry Capability

Mr Frank Tonkin, Acting General Manager, Business Management

Ms Sarah Kosciuk, Acting General Manager, Business Equity and Incentives

**Australian Building Codes Board**

Mr Neil Savery, General Manager, Australian Building Codes Board

**Corporate**

Mr Michael Schwager, Chief Operating Officer

Mr Brad Medland, Chief Financial Officer

Ms Margaret Tregurtha, General Counsel

Ms Virginia Dove, Acting General Manager, Communications



**Digital Strategy and Operations**

Mr Matt Boyley, Chief Information Officer

Mr Clive Rossiter, General Manager, Business Services

**Economic and Analytical Services**

Mr Mark Cully, Chief Economist/Division Head

**Industry Growth Policy**

Mr Trevor Power, Head of Division, Industry Growth

Dr Anne Byrne, General Manager, Industry Transition Branch

Mr David Lawrence, General Manager, Growth Centres Branch

Ms Terry Moore, General Manager, Food, Chemicals, and Business Facilitation Branch

Dr Gary Richards, General Manager, Advanced Technologies Branch

**National Measurement Institute**

Dr Peter Fisk, Chief Executive and Chief Metrologist

Dr Bruce Warrington, Deputy Chief Executive

**National Innovation and Science Agenda Delivery Unit**

Mr Garry Fleming, Head of Division, National Innovation and Science Agenda Delivery Unit

**Office of Innovation and Science Australia**

Ms Ann Bray, Taskforce Operations General Manager, Office of Innovation and Science

Dr Charles Day, Chief Executive Officer, Office of Innovation and Science

**Office of Northern Australia**

Mr Mark Coffey, Head of the Office of Northern Australia

**Portfolio Policy and Innovation Strategy**

Dr Chris Locke, Head of Division, Portfolio Policy and Innovation Strategy

Ms Anthea Long, General Manager, Strategic Policy and Digital Economy Branch

Ms Louise Talbot, General Manager, Business Simplification Branch

Mr Wayne Calder, General Manager, Business Tax and Finance Branch

Ms Lyndall Milward-Bason, Acting General Manager, Trade and International Branch

Ms Donna Burgess, Manager, International and Strategic Engagement, Trade and International Branch

**Questacon**

Ms Kate Driver, Acting Director

Mr Craig Whelan, Acting Deputy Director

**Resources**

Mr Bruce Wilson, Head of Division, Resources

Mr Michael Sheldrick, General Manager, Onshore Energy Branch

Ms Lisa Schofield, General Manager, Offshore Resources Branch

Mr Joshua Cosgrave, Acting General Manager, Onshore Minerals Branch

Mr Graeme Waters, General Manager, National Offshore Petroleum Titles Administrator

**Science and Commercialisation**

Ms Jane Urquhart, Head of Division, Science and Commercialisation Policy Division

Ms Clare McLaughlin, General Manager, Science Agencies Governance Branch

Mr Gino Grassia, General Manager, Science Policy Branch

Mr David Wilson, General Manger, Commercialisation Policy Branch

**AGENCIES**

**Australian Institute of Marine Science**

Mr John Gunn, Chief Executive Officer

Mr David Mead, Chief Operating Officer

**Australian Nuclear Science and Technology Organisation**

Dr Adi Paterson, Chief Executive Officer

**Commonwealth Scientific and Industrial Research Organisation**

Dr Larry Marshall, Chief Executive

Mr Craig Roy, Deputy Chief Executive

Ms Hazel Bennett, Chief Operating Officer

Dr David Williams, Executive Director, Digital, National Facilities and Collections

Dr Peter Mayfield, Executive Director, Environment, Energy and Resources

Dr Helen Cleugh, Research Manager, Oceans and Atmosphere

Dr Jack Steele, Director, Science Impact and Policy

**Geoscience Australia**

Dr James Johnson, Acting Chief Executive Officer

Ms Jane Coram, Chief Scientist

Dr Andy Barnicoat, Chief of Community Safety and Earth Monitoring Division

Dr Stuart Minchin, Chief of Environmental Geoscience Division

Mr Andrew Barrett, Acting Chief of Resources Division

Mr Trent Rawlings, General Manager of Corporate Services Branch

Mr Antony Stinziani, Chief Information Officer

Mrs Vanessa Graham, Chief Finance and Human Resources Officer

**IP Australia**

Ms Patricia Kelly, Director General

Ms Fatima Beattie, Deputy Director General of the Intellectual Property Rights Division

Ms Deborah Anton, Deputy Director General of the Policy and Corporate Division

Ms Frances Roden, General Manager of the Policy and Governance Group

Mr Doug Pereira, Chief Financial Officer and General Manager of the Finance, Quality, Reporting and Property Group

Ms Paula Adamson, General Manager of the People and Communication Group

Dr George Vuckovic, General Manager of the Patents Mechanical and Oppositions Group

Dr Benjamin Mitra-Kahn, Chief Economist of the Office of Chief Economist and Assistant General Manager of the Policy and Governance Group

**National Offshore Petroleum Safety and Environmental Management Authority**

Mr Stuart Smith, Chief Executive Officer

Mr Derrick O'Keeffe, Head of Division – Safety

Mr Cameron Grebe, Head of Division – Environment

**Northern Australia Infrastructure Facility**

Ms Laurie Walker, Chief Executive Officer

**CHAIR:** I declare open this meeting of the Senate Economics Legislation Committee. The Senate has referred to the committee the particulars of the proposed expenditure for 2016-17 and related documents for the industry, innovation and science portfolio. The committee is due to report to the Senate on 28 March 2017 and has set Friday, 17 March 2017 as the date by which senators are to submit written questions on notice. The committee has fixed Thursday, 13 April 2017 as the date for return of answers to questions taken on notice.

Under standing order 26 the committee must take all evidence in public session. This includes answers to questions on notice. Officers and senators are familiar with the rules of the Senate governing estimates hearings. In particular I draw the attention of witnesses to an order of the Senate of 13 May 2009 specifying the process by which a claim of public interest immunity should be raised, and which I now incorporate in *Hansard*.

*The extract read as follows—*

**Public interest immunity claims**

That the Senate—

(a) notes that ministers and officers have continued to refuse to provide information to Senate committees without properly raising claims of public interest immunity as required by past resolutions of the Senate;

(b) reaffirms the principles of past resolutions of the Senate by this order, to provide ministers and officers with guidance as to the proper process for raising public interest immunity claims and to consolidate those past resolutions of the Senate;

(c) orders that the following operate as an order of continuing effect:

(1) If:

(a) a Senate committee, or a senator in the course of proceedings of a committee, requests information or a document from a Commonwealth department or agency; and

(b) an officer of the department or agency to whom the request is directed believes that it may not be in the public interest to disclose the information or document to the committee, the officer shall state to the committee the ground on which the officer believes that it may not be in the public interest to disclose the information or document to the committee, and specify the harm to the public interest that could result from the disclosure of the information or document.

(2) If, after receiving the officer's statement under paragraph (1), the committee or the senator requests the officer to refer the question of the disclosure of the information or document to a responsible minister, the officer shall refer that question to the minister.

(3) If a minister, on a reference by an officer under paragraph (2), concludes that it would not be in the public interest to disclose the information or document to the committee, the minister shall provide to the committee a statement of the ground for that conclusion, specifying the harm to the public interest that could result from the disclosure of the information or document.

(4) A minister, in a statement under paragraph (3), shall indicate whether the harm to the public interest that could result from the disclosure of the information or document to the committee could result only from the publication of the information or document by the committee, or could result, equally or in part, from the disclosure of the information or document to the committee as in camera evidence.

(5) If, after considering a statement by a minister provided under paragraph (3), the committee concludes that the statement does not sufficiently justify the withholding of the information or document from the committee, the committee shall report the matter to the Senate.

(6) A decision by a committee not to report a matter to the Senate under paragraph (5) does not prevent a senator from raising the matter in the Senate in accordance with other procedures of the Senate.

(7) A statement that information or a document is not published, or is confidential, or consists of advice to, or internal deliberations of, government, in the absence of specification of the harm to the public interest that could result from the disclosure of the information or document, is not a statement that meets the requirements of paragraph (1) or (4).

(8) If a minister concludes that a statement under paragraph (3) should more appropriately be made by the head of an agency, by reason of the independence of that agency from ministerial direction or control, the minister shall inform the committee of that conclusion and the reason for that conclusion, and shall refer the matter to the head of the agency, who shall then be required to provide a statement in accordance with paragraph (3).

(d) requires the Procedure Committee to review the operation of this order and report to the Senate by 20 August 2009.

*(13 May 2009 J.1941)*

(Extract, Senate Standing Orders, pp 124-125)

Witnesses are specifically reminded that a statement that information or a document is confidential or consists of advice to government is not a statement that meets the requirements of the 2009 order; witnesses are instead required to provide some specific indication of the harm to public interest that could result from the disclosure of the information or the document.

I remind senators and witnesses that microphones remain live unless I instruct otherwise—for example, at suspension or adjournment. I would ask photographers and cameramen to follow the established media guidelines and the instructions of the committee secretariat. Please ensure that senators' and witnesses' laptops and personal papers are not filmed. I remind members of the public and everyone in the gallery that they are not permitted to speak or interfere with the proceedings or with witnesses at any point during the hearing. Security is present and will be asked to remove anyone who does not follow these instructions.

#### **Australian Nuclear Science and Technology Organisation**

[14:05]

**CHAIR:** I welcome Senator the Hon. Arthur Sinodinos AO, Minister for Industry, Innovation and Science, and the officers from ANSTO. Minister or officers, would you like to make an opening statement.

**Dr Paterson:** I will make an opening statement, if I may. Thank you for the opportunity to update you on ANSTO's work. With over 60 years of experience in nuclear science and technology, ANSTO is committed to undertaking world-leading research for the benefit of all Australians. As an organisation we are delighted that the commitments of successive governments, which have been instrumental in securing much of our landmark infrastructure, have enabled us to achieve significant outcomes for Australia and the broader global community in the areas of human health, the environment and the nuclear fuel cycle. However, we recognise there is even more that we can do to advance science and technology in Australia, through bolstering links with industry and actively contributing to the training of the next generation of highly skilled STEM professionals.

As outlined in the *ANSTO corporate plan 2016-2020*, ANSTO is developing a proposal for an innovation precinct at its main campus in Southern Sydney. This precinct will cluster together scientific partners, subject matter experts, high-tech businesses, industry, partner universities and graduates, and utilise ANSTO's unique capabilities and research infrastructure to create an innovation ecosystem that does not exist at the moment. Using this model of co-location, the precinct will remove barriers to mobility for STEM professionals between publicly funded research agencies, universities and industry, boosting researcher, university and other research organisation engagement with industry.

The graduate institute, a critical aspect of the broader innovation precinct, aims to establish a formal training program for researchers, with approximately 300 to 400 postgraduate students and postdoctoral fellows undertaking research at ANSTO in collaboration with their universities. We also hope to in the future extend this to our Melbourne campus. Under the proposals, students and postdoctoral fellows would spend significant time at ANSTO but stay in strong association with their universities. The supervision and access to the infrastructure provided at ANSTO and the connections with industry add the elements to the mix that would make this a powerful platform for increased innovation based on the utilisation of nuclear science and technology techniques and the best endeavours of our universities to select and bring forward excellent researchers.

I am happy to take your questions.

**Senator KIM CARR:** Dr Paterson, I understand you have started your new contract.

**Dr Paterson:** That is correct, yesterday.

**Senator KIM CARR:** I congratulate you on another five years. I think you have had a very successful period at the head of ANSTO. I am sure you will be delighted to think about another five years of Senate estimates.

**Dr Paterson:** It is one of my greatest joys.

**Senator KIM CARR:** It is. Has the board provided you with a set of expectations for the new term?

**Dr Paterson:** We are working in the context of our published plan. We work very closely with the board in the development of that plan, and they fully support the major projects and initiatives that are contained in the five-year plan. We then regularly discuss with them the progress and the timing of the different settings in which that plan will develop. I believe we have an excellent and supportive board, but they definitely apply the governance role strongly for ANSTO.

**Senator KIM CARR:** Have they adjusted your performance objectives?

**Dr Paterson:** My performance objectives set with the board are done through the chair and are aligned with the corporate plan, and there are some shorter term objectives where issues come up from time to time that need more careful management and to which the board wants to pay attention. One at the moment, for example, is the whole issue of cybersecurity, which is very much in all of our minds, where the board has asked me to work with the relevant agencies in Australia and with others to ensure that the nuclear cybersecurity for which we are particularly responsible is sufficient for all the protections that we need.

**Senator KIM CARR:** The previous minister, Minister Macfarlane, issued a statement of expectations. Is that the last one you have received?

**Dr Paterson:** We have had a discussion with the current minister about the statement of expectations, and the department is working to finalise that at present.

**Senator KIM CARR:** When do you anticipate that matter to be finalised? Minister, are you able to assist me in that?

**Senator Sinodinos:** Once I get advice from the department, it will be pretty expeditious. With statements of expectations, my approach is not to make them too complex or try to make more targets than you have instruments to hit them with, so I am keen to make sure it is as clear as possible.

**Senator KIM CARR:** It is just that it has been three years since the last one. It is due. That is my concern, because all the agencies are required to have statements of expectations, so I raise it in that context.

**Senator Sinodinos:** That is good advice.

**Senator KIM CARR:** Could I ask you about your remuneration, Dr Paterson? How much do you receive as your package?

**Dr Paterson:** I will get an exact figure; I do not have it right in front of me here.

**Ms Beauchamp:** Remuneration for our officers is covered in the Remuneration Tribunal framework. Full-time public offices, of which Dr Paterson is holding a chair, is in category E, and so the remuneration for the position, as agreed with the board seeking advice from the Remuneration Tribunal, is \$509,796. That is the total remuneration, including superannuation payments and the like.

**Senator KIM CARR:** That is the total package?

**Ms Beauchamp:** That is correct.

**Senator KIM CARR:** These figures were published in the annual report. I will not find that in the current annual report, will I?

**Ms Beauchamp:** In the financial statements of the current annual report you will find senior executive remuneration at an aggregate level and the number of staff it applies to. We are currently looking at whether we should be more specific in that remuneration both across the department and across the portfolio.

**Senator KIM CARR:** I am asking all the agencies this question, so do not think that I am particularly pursuing Dr Paterson's special circumstances. The change that occurred was a result of a government policy position in 2013, where the Public Governance, Performance

and Accountability Act was altered. These figures were always published—well, certainly in recent years to my correct knowledge. The finance department has written to a number of agencies following the questioning of Australia Post through the work of the Senate Environment and Communications Legislation Committee. Has ANSTO received any correspondence in this regard?

**Dr Paterson:** I am not aware of any correspondence in the most recent days.

**Senator KIM CARR:** Not in the recent days, but you have not—

**Dr Paterson:** We tend to hear from the Remuneration Tribunal at around this time every year.

**Senator KIM CARR:** I am not referring to the Remuneration Tribunal's decisions, which of course are public, but they do put it in general terms in bands. There has been this question about senior executives within the government and whether or not that information should be made public, and as I understand it, that is—

**Ms Beauchamp:** We operate under the guidance and instructions of the Department of Finance. It is a whole of Australian Public Service issue, so any changes that we do make we will do in consultation with our colleagues in the Department of Finance. As I mentioned earlier, we are looking at how we might provide more specificity around those numbers.

**Senator KIM CARR:** Fair enough. Madam Secretary, can you check your file there, your brief. I am told that Dr Paterson is in category D, not E.

**Ms Beauchamp:** It is category D. My apologies, that is correct.

**Dr Paterson:** It is category D, tier 1.

**Senator KIM CARR:** Is the information correct as to the salary?

**Dr Paterson:** It is, yes.

**Ms Beauchamp:** It is, yes.

**Senator KIM CARR:** I wonder if you could provide on notice the remuneration for ANSTO's executives, not including non-executive board members. Can you provide that?

**Dr Paterson:** We can provide that.

**Ms Beauchamp:** We can provide that on notice, yes.

**Senator KIM CARR:** I am wondering: how many people actually make up the ANSTO executive?

**Dr Paterson:** The ANSTO executive currently has six members.

**Senator KIM CARR:** How do you define executive status within ANSTO?

**Dr Paterson:** The executive status relates to the roles the people play in the organisation and their reporting relationship to me.

**Senator KIM CARR:** And there are six people?

**Dr Paterson:** There are six and me, yes.

**Senator KIM CARR:** So it is seven?

**Dr Paterson:** Yes, seven in total.

**Senator KIM CARR:** In regard to the synchrotron, how much does ANSTO need to raise to cover the cost of the new beamlines?

**Dr Paterson:** The evaluation of the seven beamlines which have been agreed with the community is \$114 million. We think that within that envelope, depending on how technology is developed, we might be able to secure an eighth beamline, so that is the quantum. The process, as you may recall, is that we will go to the community for that funding—state governments, the New Zealand government, universities, medical research institutes and publicly funded research agencies.

**Senator KIM CARR:** What are the time lines in that?

**Dr Paterson:** We would need to secure commitments to the full quantum by July next year but we are hoping that we can make some earlier announcements based on earlier commitments. Discussions in relation to those commitments have progressed in a series of meetings, and we are now formalising that process to request funding specifically from different institutions based on those discussions.

**Senator KIM CARR:** So how soon do you need to actually have that money? It has been put to me that you actually need to raise about \$20 million by 30 June?

**Dr Paterson:** I think it would be useful to secure that level of funding by that time but it is not absolutely necessary. It is a seven-year program, so the cash flow over the program will obviously be somewhat front-end loaded because of procurement requirements. It is intended to have those discussions to incentivise our community to make the commitments in a way that will meet the requirements of the program.

**Senator KIM CARR:** How many have actually committed to date?

**Dr Paterson:** In terms of formal written commitments, we do not have commitments at the moment but we have got some indicative commitments from, I think, six universities and one publicly financed research agency, and an indicative discussion has taken place with the New Zealand government.

**Senator KIM CARR:** Is that the extent of your consultations, the six universities?

**Dr Paterson:** My team has had other discussions. I think there has been a set of meetings that have been held with the Victorian government. I understand that most of the universities, which are significant users, will have had at least a face-to-face discussion to outline the scope of the program.

**Senator KIM CARR:** So how many additional universities are there, over the top of the six?

**Dr Paterson:** The top universities using the synchrotron include the Group of Eight plus about six other universities that, because of the history of their involvement with synchrotron related techniques, are significant users.

**Senator KIM CARR:** Could you take on notice to name them?

**Dr Paterson:** We will provide a list.

**Senator KIM CARR:** Have you approached the CSIRO?

**Dr Paterson:** I will take that on notice. I am not sure if we have had a formal discussion at this point.

**Senator KIM CARR:** What is the CSIRO's involvement at the moment with the synchrotron?



**Dr Paterson:** CSIRO is a very significant user, both now and historically, and in fact has invented some of the detector devices that were used in the synchrotron. I am pretty sure that the CSIRO will continue to be a major player in that setting.

**Senator KIM CARR:** Everyone is being cooperative, are they?

**Dr Paterson:** Yes. I think it is been a very good discussion. It is one that people have expected because the discussion about the beamlines has been pretty open over the last few years and so everybody knows what is on the table.

**Senator KIM CARR:** In regard to the nuclear medicine facility there, when do you expect it to become operational? Is it still the end of the year?

**Dr Paterson:** It is towards the end of the year. I think that at the moment we are looking at October as being an important date when the first product will go to players in the market and that, initially, will be for evaluation by regulatory authorities.

**Senator KIM CARR:** When do you expect it to reach full capacity?

**Dr Paterson:** It is expected to reach full capacity towards the end of the first quarter of next year.

**Senator KIM CARR:** In terms of your contract order book, how are you going on that?

**Dr Paterson:** It is very productive at the moment and I think this is a credit to the team in the current facility in Building 54 at ANSTO. It is always difficult to estimate this market in detail, but during the course of the last 24 months they have moved us from less than 10 per cent of market share to about 16 per cent by expanding the capabilities of the facility.

**Senator KIM CARR:** Is that internationally?

**Dr Paterson:** This includes international sales into the United States, Japan, South Korea, China and other countries in the region. We are now a significant supplier into the United States market.

**Senator KIM CARR:** So you will need to put on new people?

**Dr Paterson:** We do have a requirement for new headcount, and during the course of the next period we are intending to increase the headcount for nuclear medicine production by 26 people.

**Senator KIM CARR:** This has been a longstanding issue within ANSTO; has there been any further discussion with Treasury about the terms in which you are able to operate the facility?

**Dr Paterson:** I have not had any discussions with Treasury, but we have had very active discussions with our department around the importance of getting this model right. I think we have strong support in that regard.

**Senator KIM CARR:** Has the department had any conversations with Treasury about the operation of this facility?

**Ms Beauchamp:** I think we have more discussions with the Department of Finance in terms of the arrangements around the administration of this venture.

**Senator KIM CARR:** So is it the Department of Finance I should be asking about?

**Ms Beauchamp:** Yes.

**Senator KIM CARR:** What is the nature of the conversations with the Department of Finance concerning this particular facility?

**Ms Beauchamp:** Our objective is obviously to have it on a sustainable governance model, an operational model, and we are looking at a number of options with the Department of Finance.

**Senator KIM CARR:** They are not finalised?

**Ms Beauchamp:** No.

**Senator KIM CARR:** When do you anticipate that ANSTO can have some certainty about this matter?

**Ms Beauchamp:** I would have to take that on notice.

**Senator KIM CARR:** It has been in for quite a while now, hasn't it?

**Dr Paterson:** I think the discussions have been very productive and we have had the complete support—

**Senator KIM CARR:** Everything is rosy, Dr Paterson! You have been very productive on a number of fronts, I hear. I am pleased to hear that. I appreciate that.

**Dr Paterson:** It is a close partnership.

**Senator SINODINOS:** He has done well to earn his salary.

**Senator KIM CARR:** Yes, he has. In regard to the National Research Infrastructure Roadmap, what has been your contribution in regard to the development of that road map?

**Dr Paterson:** I was appointed as a member of the expert working group and I attended a number of the consultations that took place around the country. I have also been involved in the discussions that took place between the members of the expert working group and in reviewing drafts of the first document, which was issued in December, and then, subsequently, reviewing the responses and assisting with the further development of drafts from the road map process.

**Senator KIM CARR:** The reactor was built 10 years ago. Has there been some discussion about the need for a neutron beam guide hall for the facility at Lucas Heights?

**Dr Paterson:** Yes.

**Senator KIM CARR:** Where does that stand in regard to the road map?

**Dr Paterson:** In the published road map in December, it does identify the second beam hall as one of the research priorities for the future for infrastructure. The detailed timing of that is not indicative in the document but it is identified for that investment.

**Senator KIM CARR:** You say it is vital. Is that a bid you are engaging with government on?

**Dr Paterson:** The second neutron beam hall should really in my mind be built during the second decade of operation of the reactor. That is the optimal timing. We still have room for a small number of instruments in the current beam hall, but there are important developments in neutron optics and this is a moving field which develops internationally and also we have some very strong local capabilities. To expand the services to Australian, regional and international scientists in the course of the next decade would be really important and we have indicated that the planning phase needs to be kicked off in the next couple of years.

**Senator KIM CARR:** What sort of money are we talking about?

**Dr Paterson:** I will take that on notice because there are indicative amounts in a number of areas and I would like to be sure that we give you a number that is right up to date.

**Senator KIM CARR:** In regard to the overall national priorities, where does this fit?

**Dr Paterson:** The priorities are not put in priority order in the current documents.

**Senator KIM CARR:** Clearly, you will have a view that yours are higher than others.

**Dr Paterson:** Not absolutely. If one is on an expert working group, the generosity principle applies where one takes off one's institutional hat and looks at the broader picture.

**Senator KIM CARR:** Given the ecumenical approach you are taking on this question, can you give me some assessment of where you see this measure fit within the national priorities?

**Dr Paterson:** I think, because of the impact on modern biology and related fields and the impact on energy systems—for example, the ability to understand the application of metallurgical techniques in all sorts of emerging precision industries with additive manufacturing—the broad range of applications of neutron scattering would be attractive to our user community locally and, as I said, regionally and internationally and so I would expect it to be a pretty high priority.

**Senator KIM CARR:** Minister, this might be a question directly for you but I am interested to know what ANSTO's view is. Where are we at at the moment in terms of the construction of a new waste dump facility?

**Dr Paterson:** We have been working very closely with the department in the discussions that are taking place in South Australia. We supply technical support and backup to the discussions of the current site. Two other sites have now nominated and are going through technical assessment, in my understanding. We believe that there is an opportunity over the next period of time to get a lot of clarity about the future of that facility. I think it really falls into the ambit of Minister Canavan, so more than our technical support—

**Senator KIM CARR:** I understand the department also has responsibility for some of these matters.

**Senator Sinodinos:** It is one department, but Canavan is directly responsible for it.

**Senator KIM CARR:** In terms of the administrative orders though, who is the lead minister on this?

**Senator Sinodinos:** Canavan.

**Senator KIM CARR:** What role would the officers have in regard to this matter?

**Ms Beauchamp:** We are supporting Minister Canavan on the development of the low-level radioactive waste facility site. As you will see from our website—

**Senator KIM CARR:** So it is a matter for later in the evening, is it?

**Ms Beauchamp:** Indeed.

**Senator KIM CARR:** Thank you very much. That concludes my questions.

**Senator LUDLAM:** Thanks for coming in, Dr Paterson. It is nice to see you again. This time last year you and I were trying to establish what percentage of current isotope production

is for domestic use, strictly within Australia, and what percentage is for the global market, including near neighbours like New Zealand and South Korea. I am trying to establish what percentage of our current isotope production is used domestically and what percentage is sold overseas.

**Dr Paterson:** The production of isotopes as it leaves the facility at Lucas Heights allows us to determine the relative amounts that go to different jurisdictions but, because of the different travel times, different amounts are actually finally deployed in those jurisdictions, because of the decay effect. We would be very happy to provide you with an end-of-production number for the facility as a whole but, because of the fact that this is a real market with real prices and real volumes, we would really not be in a position to disaggregate that into too much detail, because it would have implications for the market.

**Senator LUDLAM:** Is it because you do not know—that is, you are selling to third parties who then may or may not export it—or is it because you do know and are unwilling to put that to this committee?

**Dr Paterson:** We make estimates but we do not publish those estimates, because those estimates have got market relevance for other actors.

**Senator LUDLAM:** I thought markets required all participants to have a reasonable amount of information so they could function properly and set prices.

**Dr Paterson:** When we meet in the High-level Group on the Security of Supply of Medical Radioisotopes in Paris, that is the position that ANSTO takes. Unfortunately, that transparency has not yet come through to this market. But we are firm believers that, as that transparency comes forward and as there is agreement about how those proportions are disclosed, we will be in a position to disclose them. So we share a common view that there should be more transparency in this market.

**Senator LUDLAM:** Sorry, I might have missed a step. Who is it in Paris who says that we cannot do this?

**Dr Paterson:** The High-level Group on the Security of Supply of Medical Radioisotopes is a multi-country negotiating forum that looks at how we move this from being a subsidised market to being a true market with the appropriate rules of market transparency.

**Senator LUDLAM:** How can we be sure that cartel-like behaviour is not occurring if we are not given any information about how prices are set?

**Dr Paterson:** There is a voluntary disclosure process. At the moment, two countries fully disclose where they are with the production side. One is South Africa and the other is Australia.

**Senator LUDLAM:** So we do know or we do not know how much is exported? It feels like I could find this out for iron ore—uranium is obviously a bit of a separate example, but I could find this out for bauxite or iron ore or any other commodity or any other manufactured product.

**Dr Paterson:** We do not know formally for—if one takes the Dutch, the Belgian, the small amounts from Poland, the ANSTO contribution, the South African contribution, it is not possible at the moment to determine in a clear way with one set of rules what the export volumes are in a way that would truly be transparent.

**Senator LUDLAM:** I was not expecting to be hung up on this, so apologies that I am dwelling here because I have a few other questions. Are you saying that it is not possible or that it is not part of the agreement? They feel like two different things.

**Dr Paterson:** At the moment full agreement has not been reached as to how that information is disclosed.

**Senator LUDLAM:** Got it. And, therefore, 'it is not possible in a commercial sense', rather than 'it is not physically possible'. It could be done.

**Dr Paterson:** Yes. In principle, one can do the calculation and link it back to universal time and then you know how much you have got at a certain second of the day. Yes.

**Senator LUDLAM:** We do not need to be quite that precise; I am just looking for rough orders of magnitude. Is there anything you are able to provide us on notice that would give us some understanding. I think the taxpayers who are funding your plant deserve to know how much is exported and how much is not. It sounds like we are of the same view.

**Dr Paterson:** We will seek to do that. We will also, I think, be able to find publicly available information about the size of the market as a whole. And we can take the rest on notice.

**Senator LUDLAM:** Yes, if you could. My next question, which might end up falling into the same category, is about your future estimated production from the proposed building 54 plant. Assuming Australia's demands are not likely to change dramatically—and tell me if that is not the present trend—then what percentage would be used domestically and what would be sold for export?

**Dr Paterson:** I will take that on notice.

**Senator LUDLAM:** Present production and potential future production. The synroc plant, I understand, has been licensed. Construction was due to begin in 2015. Can you give us an update of what is happening there?

**Dr Paterson:** Yes. I have briefed this committee on that. The time scales for the synroc plant are not the driving force for this project; it is the engineering maturity.

**Senator LUDLAM:** When did you brief this committee?

**Dr Paterson:** We will draw the record. It is about a year ago, I think.

**Senator LUDLAM:** What has happened since then?

**Dr Paterson:** The synroc plant is going through its design engineering stage. We are building a cold demonstration facility at the Lucas Heights site. That demonstration facility will operate at one level in the second half of this year and will continue with a slightly different arrangement of equipment in the first half of next year. It is intended that by the end of 2019 the plant will be ready for operations, having gone through cold and hot commissioning. The hot commissioning material will come from the building 54 intermediate-level liquid waste, but there will be no requirement to take waste from the new facility because it has a two-year decay period—

**Senator LUDLAM:** So you have to warehouse it for that period.

**Dr Paterson:** before it goes. So we have holding tank capacity for that.

**Senator LUDLAM:** But you must have substantial residues of material that has gone through that decay process that you could start experimenting on?

**Dr Paterson:** Yes. That is a building 54 material as well. But one would not want to have people waiting around for two years watching a plant after you have your hot commissioning licence.

**Senator LUDLAM:** I am with you.

**Dr Paterson:** You really have to time it to minimise cost and maximise the throughput when it does come.

**Senator LUDLAM:** Okay. So hot commissioning or—I do not get to call it 'commercial scale synroc glassification', but when you would have it to its capacity, say—when are you anticipating that?

**Dr Paterson:** So the hot commissioning would be to test that capacity statement and to demonstrate that that would take place, and that would take place in the second half of 2019.

**Senator LUDLAM:** Thank you. And even that, if you get it running to capacity, that would be considered a pilot plant; wouldn't it? That is still just a test process.

**Dr Paterson:** No, it is not a pilot plant, in the sense that it will be able to treat the waste from the nuclear medicine facility and eventually the historical waste from building 54; and, therefore, from a nuclear medicine perspective it is a commercial scale nuclear medicine waste facility.

**Senator LUDLAM:** Will that be the first of its kind in the world?

**Dr Paterson:** It will be the first of its kind in the world.

**Senator LUDLAM:** In the interests of time, because there are other senators piling in and we are on the clock a bit, could you provide us on notice with your estimated volume throughput in an annual production cycle, if you will, or disposal cycle—however you will measure the economics whether it is dollars per kilogram of material glassified or whatever your metrics are—just to give us some idea? And then, finally, how long it would take to treat the inventory of waste that would be appropriate for treatment in this manner; that is in the Australian inventory, I guess?

**Dr Paterson:** We will take that on notice. I will say, however, that there is some commercial interest in these plants from other nuclear medicine facilities so—

**Senator LUDLAM:** I hope so.

**Dr Paterson:** we might have to take some care and give you a range of numbers on the cost of the waste.

**Senator LUDLAM:** The more you can provide the better. I will move on, but I think you have got the gist of what I am seeking.

**Dr Paterson:** Yes. As I have indicated, there is some keen interest to use this technology more broadly internationally, which is quite exciting.

**Senator LUDLAM:** I would hope so. I have a couple more questions on transport, if I may. What are the updated time lines for proposed transport of OPAL reactor irradiated nuclear fuel waste to the US?

**Dr Paterson:** There have been developments which we have taken over the last year to identify a cheaper and more integrated waste management strategy for the waste, so the first waste return will take place during 2018, towards the middle of it. It will go to France. Indeed, all of the waste from the full operational life of the reactor will go to France and will be returned to Australia with one less shipment than would have been the case if we had used the US solution as well.

**Senator LUDLAM:** Is that breaking news or has that been in the public domain for a while?

**Dr Paterson:** I think it has been in the public domain since about November last year.

**Senator LUDLAM:** All right. Just give us, if you could, a thumbnail description of why we have abandoned the US for reprocessing agreement.

**Dr Paterson:** There were three reasons we abandoned the US process. The first one was that the proposal that was put to us by Areva, the French company, was a more integrated solution. It was also lower cost and one less shipment. All of those seemed to make sense. The second thing was we could not get an absolutely deterministic date from the fuel return program in the United States. And the third element was that we reached a consensus with our colleagues from the US that if we did use the French option it would not in any way deteriorate our relationship with them.

**Senator LUDLAM:** Commercial or otherwise?

**Dr Paterson:** Yes.

**Senator LUDLAM:** Okay. That is useful. Did you ever consider a no-reprocessing option, in terms of cost and efficiency of storage? Was a no-shipment and reprocessing option considered?

**Dr Paterson:** I think if one looks at a life-cycle cost of storing spent fuel relative to the reprocessing and return, we think that the life-cycle cost is lower and it is a better disposition of the fuel.

**Senator LUDLAM:** Does the surplus enriched uranium and plutonium that would be extracted from the fuel—what is to become of that? And would we just roll existing agreements with the French—

**Dr Paterson:** The agreements we have with the French are that that will go into a civilian mixed oxide fuel program. So they eventually put it into reactors and burn it further.

**Senator LUDLAM:** 'Eventually' meaning 'never', but that would probably need another couple of hours of evidence and that is probably a bit off my brief. So I think you said the time line was 2018. Do you have that to the nearest month?

**Dr Paterson:** Sorry—

**Senator LUDLAM:** Yes, go ahead.

**Dr Paterson:** Just in terms of the HIFAR return fuel, I understand that that has indeed been reprocessed and is currently being used as a source of electricity in German reactors.

**Senator LUDLAM:** In Germany?

**Dr Paterson:** In Germany, yes.

**Senator LUDLAM:** They are planning on shutting down their entire reactor fleet though.

**Dr Paterson:** But they are using our uranium before they do that.

**Senator LUDLAM:** All right. Like I said, I am bit outside my brief, but I will do a bit of research. Thanks for that additional information.

**Dr Paterson:** Thank you.

**Senator LUDLAM:** Are you still anticipating a shipment once every five years? One less shipment obviously is welcome news, but what is the tempo of the—

**Dr Paterson:** We will give you an indicative schedule on notice.

**Senator LUDLAM:** That would be appreciated, thank you.

**CHAIR:** Senator Ludlam, I am just conscious of time.

**Senator LUDLAM:** I can submit a bunch of stuff on notice. Thanks, Dr Paterson.

**CHAIR:** Terrific. Senator Bushby.

**Senator BUSHBY:** Just one question: I note that ANSTO recently—maybe even Monday of this week—appeared before the Joint Standing Committee on Treaties; was it this week?

**Dr Paterson:** Yes.

**Senator BUSHBY:** It was to discuss the proposed extension to the Regional Cooperative Agreement for Research, Development and Training Related to Nuclear Science and Technology for Asia and the Pacific, or—much more friendly—generally termed the RCA. Could you explain how the activities undertaken by ANSTO under this treaty are contributing to Australia's interests throughout the region, particularly through facilitating scientific cooperation?

**Dr Paterson:** The RCA operates under the auspices of the International Atomic Energy Agency. We are fortunate, as a country, to hold a permanent membership of the board of governors as the leading state in the region in nuclear science and technology. Because of our active involvement in the RCA, we are able to demonstrate that that leadership in Vienna is replicated with our engagement in the region, and so this helps us to maintain that position in the International Atomic Energy Agency, as well as to broaden the skills in nuclear science and technology into our region.

Australia has longstanding support for economic development in the region, and our technical cooperation programs, therefore, do a number of things that help those countries. We are working on education and training of medical physicists in Thailand, the Philippines, Malaysia and Bangladesh, in radiation therapy for cancer treatment, nuclear medicine and diagnostic radiology. These are critical parts of the health systems in those countries, and the support that we provide for that training has, to date, resulted in 18 medical physicists coming to Canberra Hospital for that training under this program. So it develops linkages with our hospital community in Australia and it advances the cause of really careful and well-executed nuclear medicine. So the countries in the region build capacity and they meet also with a community of physicists in the region who can continue to work together. Active participation demonstrates Australia's compliance with article 4 of the Treaty on the Non-Proliferation of Nuclear Weapons and strengthens our bilateral ties with countries such as Japan, Indonesia and Singapore who share our interest in a very stable and peaceful region.

**Senator BUSHBY:** As to the countries involved, how many countries are there through the Asia-Pacific region?



**Dr Paterson:** It is 22 countries in all. It is a wide-ranging group, from countries that have very limited nuclear capability but want to use the benefits and positive outcomes of peaceful uses, through to very sophisticated countries like Japan that have an integrated approach.

**Senator BUSHBY:** And which would have nuclear power?

**Dr Paterson:** Yes.

**CHAIR:** There being no more questions from senators, thank you very much, Dr Paterson, for appearing before the committee today. You are free to go. I now call upon officers from the Anti-Dumping Commission.

#### **Anti-Dumping Commission**

[14:43]

**CHAIR:** Good afternoon, gentlemen, and thank you very much for appearing earlier today and accommodating our adjusted schedule. Do either of you wish to make an opening statement? No? Then we will commence questions with Senator Carr.

**Senator KIM CARR:** Can I thank the commissioner and the minister; I presume it is this minister that has provided responses to questions on notice.

**Senator XENOPHON:** If they were provided on time, it must be this minister.

**Senator KIM CARR:** I say that because I think the work that the commission does requires bipartisan support, and there has been substantial progress made in the anti-dumping arena. I think it is particularly important that we have a strong national approach to this and a fair system, of course, to ensure that it remains a strong national system. So I am interested in the questions that I put to you and the reports that you have written to ministers Pyne and Hunt on the steel and aluminium markets. I recall that in the context where the previous minister actually asked for a report you provided an incredibly helpful response, a very comprehensive response, to those answers. I am particularly interested in the letter dated 19 August 2016. I would like to ask if you are able to go through your recommendations which are detailed on page 3 of the letter. These are in regard to the efficiency and timeliness of your investigations. Can you provide us with advice on what is being done about those matters?

**Mr Seymour:** Certainly. It is a pleasing progress report, really. I think as you and others senators would recall from previous submissions made by me at these hearings, the commission was set up as a statutory entity within the Customs service in July 2013 and was transferred under the machinery-of-government decision following the election of the coalition government in late 2013 to the department of industry. Not only was there a machinery-of-government change in departments but also there was a decision taken by the previous government that set up the commission to relocate the commission to Melbourne from Canberra. This presented significant challenges in terms of developing the capacity and capability to both maintain the ability to undertake investigations under the Customs Act and also build new capability in a new city outside Canberra. Bear in mind, the Customs service had always done the dumping, in that sense, including the antidumping authority in the industry department some 20 years ago. But it had always been Canberra based.

The pleasing story there is that we have advanced on what I estimated we would do. We have developed what I call—and this is what I say at the WTO meetings—a competent trade remedy authority under legislation, and it is consistent with the world trade obligations.

**Senator KIM CARR:** Yes, it is.

**Mr Seymour:** And I am pretty pleased with that, three and half years down the track. It is not to say that I do not want to do more. The area of time lines and efficiency is one that remains front and centre for me as the commissioner.

In my recommendations to ministers—and I have been very consistent about this—I have proposed a myriad of operational reforms, and I will spare the senators from the detail on those. But they really go to making sure that we bring the time lines down to ensure: that these investigations are concluded as sufficiently as we are able to do, bearing in mind that we are absolutely required and obligated to provide full procedural fairness to all of the parties, but here and abroad; that, obviously, from a substantive position we do so within the law, which is the Customs Act, section 15B; and, again, that we are consistent with world trade obligations in relation to the antidumping agreement, and the subsidies and countervailing measures agreement. That flows off the tongue quite easily but it is a bit complicated. What it requires is, really, a balance between ensuring that procedural and substantive aspects are properly covered, and that we do them as quickly as we can to provide the remedy to Australian businesses as quickly as possible.

**Senator KIM CARR:** One of the problems is that the question of timeliness remains central to your deliberation. Manufacturers are particularly concerned about this issue. Your letter goes, on page 3, to this matter in regard to: the new investigation model to improve timeliness, quality and evidence base for decisions; adopting a more active approach for addressing circumvention activities, on page 4; a stronger whole-of-government approach to compliance, on page 4; improving market intelligence, on page 4; stronger international information-sharing protocols, on page 4; the better use of Australian industry expertise in investigation. These are quite detailed.

**Mr Seymour:** Would you like me to address each one? I am more than happy to.

**Senator KIM CARR:** We are under a bit of time pressure. What I want to know is what progress has been made since you wrote that letter in August last year, and what the resource implications will be for you.

**Mr Seymour:** I am very pleased to report that we have a new investigations model, and we started implementing the model from October last year. That new investigations model is designed to bring the time lines down closer to the 155 statutory calendar days in the act, and also it is balanced against the need, as I said earlier, to ensure procedural and substantive fairness to all the parties through the investigation. So the new investigations model is live and is working extremely well.

There is a raft of information that I have taken the International Trade Remedies Forum members through, which is industry, unions and government, on the detail of that new investigations model, and I am more than pleased to share that information with senators if that is required. It goes to the very detail of how we go about the practice regime of investigating the allegation of dumping, both here and abroad. It is designed around the need to get better information earlier into the system so that we are in a position to be more informed and to act more quickly in making our deliberations, the first of which is the most important one, which is a day 60 preliminary affirmative determination by me to take securities, where I believe that a prima facie case has been made that dumping has actually

occurred. I am pleased to say that that is working extremely well. That was an amendment that was made two years ago by the government in a direction to me that I would have to do that on day 60 in every case and have a very good reason not to. That is working extremely well and is supported fully by this new investigations model. I have examples, if senators are interested, in terms of how that has moved the securities—

**Senator Kim Carr:** Perhaps I could get, on notice, the examples and the other supporting information. That would be very useful. I have asked you specifically about resource implications.

**Mr Seymour:** Okay. I was working my way through your list of four in my letter. I will go to resources. It is pleasing to be able to report that, working very closely with the secretary and the executive of the department, I have been able to secure additional resources in the last couple of years to further support a more efficient and effective delivery of Australia's trade remedy service. That has been a very pleasing outcome, I think, and has made a major contribution in the form of at least an additional \$1 million to the budget, which has gone solely into investigation capability and which supports the four fully funded investigations units that we currently have. If you asked me as the commissioner whether I would want to do more, the answer is always: yes, I want to do more, but I understand that there are certain limitations in relation to that ability to do more with resources. But certainly I am very pleased with the support I have got from the department and government in that regard.

**Senator KIM CARR:** Your letter on page 4 says: 'I seek your endorsement for my proposed operational reforms.' This is a letter to the minister. I am just wondering whether that has been provided.

**Mr Seymour:** Are you referring to the letter to Minister Hunt?

**Senator KIM CARR:** That is the letter I am referring to, yes. Was that provided?

**Mr Seymour:** Mr Hunt certainly gave me his endorsement, and that was reflected in the support that Assistant Minister Laundry gave subsequent to that, in the operational sense, in terms of both the way he has supported my work and also the words that he gave in support of the last International Trade Remedies Forum in Adelaide in December.

**Senator KIM CARR:** I ask the current minister: what is your view on this matter?

**Senator Sinodinos:** On?

**Senator KIM CARR:** On these operational changes.

**Senator Sinodinos:** Most of this in a day-to-day sense is with Mr Laundry. But what I have said to Mr Laundry is that it is important for the regime to be transparent. If there is a resource issue, at any time it is open to Mr Seymour to raise it with me and the department. In terms of policy reforms, I have been keen to make sure that anything we do is consistent with our WTO obligations. I am conscious we are going into choppy waters now, given what is happening internationally and the ructions there may be around the world on various fronts.

**Senator KIM CARR:** There is no suggestion that this is in breach of WTO.

**Senator Sinodinos:** No, but what I am saying that I am conscious that the commission could come under some interesting pressure given some of the other pressures that work around the world. We are keeping an eye on that, but at any time, whether through me or Mr Laundry, it is up to the commissioner and the department to advise if they need assistance.

**Senator KIM CARR:** Senator Xenophon has to go, and I was wondering if it was okay—

**CHAIR:** That is fine.

**Senator XENOPHON:** Mr Seymour, good to see you again. There is a report in an august publication, *Stationery News*, under the headline, 'Anti-Dumping Commission delays copy paper report', which relates to the extension that has been granted to the commission to present its report into the alleged dumping of A4 copy paper exported to Australia from Brazil, China, Indonesia and Thailand. The report was to be presented on 20 January but it has been extended to 6 March. To the extent that you can, could you briefly tell us why the delay? A common complaint that I have from manufacturers here in Australia is that sometimes this dumping is really hitting them hard and, by the time a decision is made, the damage has already been done.

**Mr Seymour:** Thank you for your question. I will go to the last point first. The system is retrospective in the way it is applied. It is retrospective in terms of the analysis of the alleged dumping and the analysis of the alleged injury to Australian industry. The remedy is applied prospectively for up to five years. There is little that can be done in terms of the WTO agreement and the domestic legislation to change that approach. I would just make that point at the front end.

**Senator XENOPHON:** So why the delay?

**Mr Seymour:** In relation to A4 copy paper, this is one of the most complicated investigations we have done. It is both a dumping and a subsidy investigation.

**Senator XENOPHON:** But it is just paper.

**Mr Seymour:** Paper is one of the most utilised commodities by all of in this work, and most of it is A4 copy paper. There is a multitude of manufacturers, exporters, traders and importers.

**Senator XENOPHON:** Senator Carr uses parchment.

**Senator KIM CARR:** You have got to toughen up these questions and enjoy the moment.

**Mr Seymour:** The A4 copy paper investigation has been extremely complex because of a number of areas. I will talk to two of them and then I will take advice from the minister as to whether I should go further.

**Senator XENOPHON:** I am sure he will let you.

**Mr Seymour:** The first two points that I would make is that the number of exporters and importers are many. It required a very comprehensive analysis undertaken over the last 12 months in relation to the alleged impact on Australian Paper at Maryvale, including extensive visitation and assessment of their own data and also extensive overseas verification of the data provided by exporters and traders in that regard. I have gone through the draft final and I am due to provide my final report next week. I am very confident that the matter will be concluded by early next week.

**Senator KIM CARR:** Mr Seymour, you only put a notice out yesterday for another extension. You made findings in December and a report was due in January and now another extension is sought. Are you under pressure because of the Indonesians?

**Mr Seymour:** The harsh reality here is that we undertake a subsidies investigation and a dumping investigation. You are required under the WTO to consult with other governments.

Therefore, it is necessary that you take a very careful and nuanced approach to how those consultations take place.

**Senator XENOPHON:** So it is a yes?

**Mr Seymour:** As a result of that, the process we provide is straight down the middle. I do not play any games with any government or any importer or exporter. They are all treated equally. They are all asked questions that are relevant to the investigation, and they have a certain period of time in which to respond. Should they not respond, I move forward. On this particular matter, how many submissions have we had, Mr Sexton?

**Mr Sexton:** There were 150 submissions.

**Mr Seymour:** Each of which are extremely complicated and require very careful assessment.

**Senator KIM CARR:** How many from Indonesia?

**Mr Sexton:** I am not sure how many are in relation to Indonesia. But, as an example, we had five submissions only last week. They are still coming in.

**Senator KIM CARR:** But you have already found that there is dumped paper being bought by Australian government departments. You have already made that finding. You are not suggesting that you are going back on that, are you?

**Mr Seymour:** I am not prepared to talk about my recommendation to the minister. That is confidential.

**Senator KIM CARR:** That is fair enough.

**Mr Seymour:** What I will talk about are the securities I took some time ago. The impact of those securities on the vast majority of exporters from many countries has had a marked effect already on the dumping of paper in the Australian market. Those securities, which are price signals into the market, are taken on or after day 60. Because of the complex nature of this matter I ended up making three decisions securities which have had the desired impact of sending a very strong price signal to those who would seek to import dumped paper into the Australian market.

**Senator XENOPHON:** Chair, I have two more questions to ask. But, before I do that, I want to ask the minister a question. In relation to what the commissioner and Senator Carr just said, if here has been a finding that dumped paper has been bought by Australian government departments, what can the Australian government do to regarding the damage caused to Australian industry by that? Presumably it was inadvertent and the finding was made subsequent to the purchase?

**Senator Sinodinos:** I think we can only work prospectively, not retrospectively.

**Senator XENOPHON:** Sometimes governments do some things retrospectively if it is an egregious enough issue.

**Senator Sinodinos:** This issue will ultimately be addressed once the report is—

**Senator XENOPHON:** Prospectively, how can we avoid a situation where dumped paper is bought?

**Senator Sinodinos:** What I have done since I became the minister is write to my colleagues regarding Australian made paper, recycled paper and all the rest of it. My

colleague Anne Ruston, from a slightly different angle, has also done the same. I have asked my department to up the proportion and, if possible, to maximise it, because it was relatively low compared to even the Public Service average. So I have done those things.

**Senator KIM CARR:** The Department of Finance now has 100 per cent; why can't you? Free trade looms large in the Department of Finance. How come you cannot?

**Senator Sinodinos:** That is what we are working towards.

**Senator KIM CARR:** Have you mandated that within the department?

**Senator Sinodinos:** I have told the secretary.

**Ms Beauchamp:** And I am looking at how we absolutely maximise that in line with the Department of Finance.

**Senator Sinodinos:** Frankly, I was surprised at how low the proportion was in the department.

**Senator KIM CARR:** We are only too well aware of that.

**Senator XENOPHON:** Minister, are you aware of the new procurement rules that came into force on 1 March?

**Senator Sinodinos:** Yes.

**Senator XENOPHON:** Acutely aware of them, I would imagine.

**Senator Sinodinos:** Yes; they are excellent rules.

**Senator XENOPHON:** I think they are excellent rules, too.

**Senator Sinodinos:** I agree with them.

**Senator XENOPHON:** Even Senator Carr thought they looked pretty good.

**Senator KIM CARR:** I thought they were very good, but let's just see how they are implemented.

**Senator Sinodinos:** On this issue of implementation, I think everybody is quite serious about implementation.

**Senator KIM CARR:** We welcome that.

**Senator Sinodinos:** We are also picking up the signals elsewhere.

**Senator XENOPHON:** Mr Seymour, I have two questions. Can you advise how many applications from SME industry applicants have resulted in the publication of a dumping and/or countervailing duty notice since July 2013? I am not sure whether you want to take that on notice or have a stab at it now.

**Mr Seymour:** If you would not mind, I will take that on notice.

**Senator XENOPHON:** Sure. Further, can you advise how many applications from SME industry applicants have been terminated, including any part termination of investigations? Finally, are you looking at a ministerial directive on material harm to make sure that, when dumpers make choices about where they dump, they do not come anywhere near Australia? In other words, so that, if other countries tighten up, Australia does not turn into a dumping ground as the softest target or the weakest link in terms of goods being dumped here.

**Mr Seymour:** May I take those on notice and respond?

**Senator XENOPHON:** Yes.

**Senator KIM CARR:** Minister, I welcome the statement you have written. Could we get a copy of that letter?

**Senator Sinodinos:** Yes.

**Senator KIM CARR:** Thank you. I appreciate the answers that you have given in regard to paper. We look forward to your final report on this matter. I take it that will be made public, will it?

**Senator Sinodinos:** What is that, sorry?

**Senator KIM CARR:** The report from the 10th.

**Mr Seymour:** The procedure—if I might help, Minister—is simply that I provide my final report and, in this case, the assistant minister receives that report and has 30 days to consider it, or a longer period if he so requires. I would have thought it is due for decision, without an extension at his end, by about 8 April. So it is very close, bearing in mind that those securities have been in place for sometime and have had their desired effect.

**Senator KIM CARR:** Could I just return to the letters I was referring to in my first round of questions. On 4 April 2016 there appears to have been a variation in the letters that you have written. A second letter seems to be in more detail and more specific on the measures that you were seeking support from government on. Is that your reading of it?

**Mr Seymour:** The differences are only slight and relate to a firming-up of my view about the operational reforms. I had some months in which to consider it and, given that I live and breathe antidumping, obviously in that period I had the opportunity to sharpen the pencil, so to speak, in relation to the operational arrangements. And of course in that period of time we were implementing operational arrangements, because most of those operational arrangements do not require agreement by government; they are simply within my purview under the act to implement, which I routinely do. The other aspect was: the earlier report did give some detail in the report around the views of stakeholders. I chose to shape the second report slightly differently by simply taking those out of the report so that the report would stand on its own as a proper assessment of the steel and aluminium markets globally and their impact in the Australian market, and I provided the rest of the advice to the minister by way of a cover letter. But they did not vary in substance.

**Senator KIM CARR:** Recommendation 3 make some suggestions regarding the lesser duty rule. You say there that steel and aluminium producers have submitted that the application for a lesser duty rule has reduced the effectiveness of the measures and you go on to say, 'The United States does not apply the lesser duty rule.' That is on page 5. What is the change? That has been omitted from the later letter, has it not?

**Mr Seymour:** The view there is simply that the views of stakeholders were being picked up through the department's policy reform process, and consultations had commenced on policy reforms, and I took the view that the lesser duty rule was a policy issue that needed to be considered by the department. I am not responsible for policy in antidumping. So it was more appropriate that the department took that forward, along with other issues that were being raised by stakeholders through the ITRF meetings last year. They have their own process, quite properly, separate to mine, to consider those policy ideas and take them forward. That is an example of one of those ideas. That reference that you have read is really the view of the stakeholder. So stakeholders have the view that the application of the lesser

duty role in the Australian system lessens the robustness of the remedy that otherwise might be provided in certain circumstances. Other jurisdictions do not have that.

**Senator KIM CARR:** On page 5 of the APRA letter, you note the recommendation about reviewing the functions of the Anti-Dumping Review Panel, and that of course does not appear in the August letter. Is the government still pushing to have a fee for producers accessing the review panel? Is that still government policy?

**Ms Beauchamp:** We have not put any further advice up to the minister on that.

**Senator KIM CARR:** This was a matter defeated in the Senate.

**Ms Beauchamp:** Correct.

**Senator Sinodinos:** I have not seen anything since I have been minister.

**Senator KIM CARR:** This is a fee of up to \$10,000 for users. I am just wondering what the formal position is. Do you want to take that on notice?

**Senator Sinodinos:** Yes, but, since it was defeated, I cannot see it coming back any time soon.

**Senator KIM CARR:** I am pleased to hear that. As you know, there are a number of 'zombie measures' in the Senate.

**Senator Sinodinos:** The Minister for Finance does not like them being referred to as 'zombie measures'.

**Senator KIM CARR:** Yes, but he is not in the Senate, is he?

**Senator Sinodinos:** No; he is: Cormann.

**Senator KIM CARR:** The question then is whether or not it remains as part of the government's assessment for the future. That is why I am asking the question in that regard.

**Senator Sinodinos:** We will take that on notice.

**Senator KIM CARR:** In regard to the steel inquiry—I take it you are following those proceedings—the South Australian government has made a submission to the Senate steel inquiry calling on the government to implement further reforms, including on anti-dumping. I am just wondering if you are aware of that submission?

**Mr Seymour:** I do not have it in front of me. I certainly make it my business to read them as they are made available in the system.

**Senator KIM CARR:** So as a matter of procedure, do you speak to the South Australian government about these matters?

**Mr Seymour:** I have spoken to the South Australian department of industry, I think it is—the equivalent department to the Commonwealth department—on a number of occasions about anti-dumping matters.

**Senator KIM CARR:** What sort of additional measures do you think would be appropriate in terms of the local steel industry?

**Mr Seymour:** It is an interesting question. If you look at the effectiveness of Australia's anti-dumping system, there are over 40 measures already in place in relation to steel products either on application—

**Senator KIM CARR:** It still remains the bulk of your work?



**Mr Seymour:** It absolutely does; over 60 per cent of the work is steel, and another 20 per cent is aluminium, so the two sectors make up over 80 per cent of my work. There are, as I say, over 40 measures in place across at least 10 countries. Obviously in the work that we do we are extremely connected to the key players, both steelmakers and the large aluminium makers—or extruders, if you want to call them that; the shapers—and my view is they are quite supportive of the reforms that have been put in place, and they would of course like us to maintain that and go further.

**Senator KIM CARR:** Your administrative arrangements go to the procedures. My reading of what they are proposing is that additional temporary measures are necessary within these two industries. Do you think there is room for additional measures?

**Mr Seymour:** It is difficult to see how some of those additional measures could be taken on face value in relation to the World Trade Organisation obligations. We would have to take an extremely close look at that—and I am speaking hypothetically in this sense; there is no proposal to do any of this. My view as commissioner is that we have a very strong system already. I think that is reflected in the measures that are in place. I obviously have to have an open mind operationally to the needs of stakeholders who come to me with suggestions for further reform.

**Senator KIM CARR:** Which they say are consistent with the WTO?

**Mr Seymour:** I am aware of the claim. I would need to take my own advice about that—

**Senator KIM CARR:** Yes, of course. Have you looked at it? That is the question I am putting to you. Have you looked at that, or have you had discussions with the government about the necessity of taking further action?

**Mr Seymour:** I am not aware of the outcome of that submission in relation to the committee.

**Senator KIM CARR:** It is a public submission to another committee, but it will be published formally.

**Mr Seymour:** I am happy to have a look at it operationally.

**Senator KIM CARR:** I recommend that. In February last year, the Productivity Commission had at least a research paper looking at anti-dumping measures. It proposed that there be a national interest test in terms of the provision which, if adopted, would fundamentally undermine the bipartisanship of your operations, I would suggest. Has there been any discussion with the Productivity Commission about this matter?

**Mr Seymour:** The report you are referring to, as I recall it, recommended a bounded public interest test, which was a test that would be applied in very specific circumstances. I see that as somewhat different to what a national interest test would be—I am making sure I am very precise in my language here. A public interest test in the Canadian jurisdiction and the European jurisdiction—although it is referred to as a community interest test—has similar attributes to the one that was proposed by the Productivity Commission. The process that I currently follow does not require me to separately and specifically apply a public interest test, and so I don't. I argue that under the current system the application of the lesser duty rule is a de facto public interest test and that has been in the legislation for some time, although by itself it is very targeted and specific in relation to what the minister may or may not choose to

do. The rest of the conversation about the Productivity Commission's recommendations is really a matter for the government and not for me.

**Senator KIM CARR:** Where do they stand, Minister? Are you able to advise the committee on that?

**Senator Sinodinos:** I will take that—

**Mr Lawson:** That was a Productivity Commission research report. That is not a report to government. There is no requirement—

**Senator KIM CARR:** It has no standing.

**Mr Lawson:** It has no standing in the sense of a commission report that the government would then respond to. As my colleague said, the lesser duty rule has many of the attributes of the public interest test. That is about making sure that you work out the minimum duty that is required to stop the damage, in layperson's terms.

**Senator KIM CARR:** Minister, do you have anything to add to that?

**Senator Sinodinos:** The only point I would make is that we have gone a certain way with these changes to dumping rules and all the rest of it, but you also have to look in the current political context at what you could or could not get through the Senate as well on some of these things. So I think we have to be very careful about how we open that Pandora's box.

**CHAIR:** My question is a little long and so I will put it on notice. It is about the International Trade Remedies Forum and the three subcommittees under that forum—the SME access subcommittee, the compliance and anticircumvention subcommittee and the subsidies subcommittee. I would like to know the purpose of each of those subcommittees; when each subcommittee was established; the names of the members of each subcommittee; details of when they have met; and the agenda items for those meetings. If you could take that on notice, it would be terrific.

**Mr Seymour:** I am more than happy to do so.

**CHAIR:** I thank the Anti-Dumping Commission. You are free to go. The committee will now call on the Commonwealth Scientific and Industrial Research Organisation.

#### **Commonwealth Scientific and Industrial Research Organisation**

[15:17]

**CHAIR:** I welcome officers of CSIRO. Dr Marshall, do you have an opening statement?

**Dr Marshall:** No, thank you, Chair.

**CHAIR:** There is a veritable queue of senators lining up to ask you questions. I would ask senators to keep their questions brief and CSIRO to keep their answers as brief as possible so we can get through the agenda. We will start with Senator Ludlam.

**Senator LUDLAM:** I have a letter here from the CSIRO Staff Association; it was sent to my colleague Senator Whish-Wilson the day before yesterday. When was the last time that any of you at the table met with your staff association?

**Dr Marshall:** I believe that was very recent.

**Mr Roy:** Are you talking in particular about us at the table or CSIRO more generally?

**Senator LUDLAM:** You three will do to begin with.

**Mr Roy:** My last phone call with the secretary of the staff association would have been in the last month.

**Ms Bennett:** My last contact with the staff association was approximately 10 days ago, regarding Black Mountain child care.

**Senator LUDLAM:** Some of the matters detailed in the letter are obviously on the public record. There is an extraordinary brain drain in public science occurring at CSIRO at the moment. You are shedding talented scientists by the day. Firstly, what is your view of that? Do you even agree with that contention? How many scientists have taken redundancies and gone elsewhere?

**Dr Marshall:** It is true we have had some adjustments to our science priorities.

**Senator LUDLAM:** Should I call it adjustments rather than a brain drain?

**Dr Marshall:** It is more to do with the data around the contention that the number of people in CSIRO is decreasing. I will let Mr Roy walk you through what is actually going on and then you can be the judge of the veracity of your own statement.

**Senator LUDLAM:** Is there some sort of quantum effect happening where they are leaving and, at the same time, not leaving?

**Mr Roy:** On 30 June 2016, if we are talking about research scientists, who are PhD qualified scientists, 1,466 was the headcount. At 31 December 2016 it was 1,476. So it is much the same number if not a slight increase. There have been some redundancies over that period and there have been some recruitments over that period.

**Senator LUDLAM:** How many redundancies?

**Mr Roy:** In terms of research scientists over that period and research engineers there are 83.

**Senator LUDLAM:** That is 83 redundancies in total. Why do you think it is that so many people are leaving?

**Mr Roy:** In fact, if we look at our last 10 years of our voluntary separation rate, our voluntary separation rate is in the range of what it has been, between four and five per cent, for the last decade. We are sitting at around 4.6 per cent, at the moment, for the voluntary separation rate.

**Senator LUDLAM:** Is that an approximately normal long-term trend?

**Mr Roy:** Yes. If I look across the last decade it is, generally, between four and five per cent. It was much higher ahead of the GFC. We were up around five to six per cent ahead of that period.

**Senator LUDLAM:** What has been the impact of the failure to complete enterprise agreement negotiations and, effectively, a pay freeze for three years?

**Mr Roy:** It has definitely had an impact on the morale of staff. Staff are talking about it more. But the message I would like to leave you and staff with is we are back around the negotiating table now. There have been extensive negotiations over the last fortnight. We believe we are making ground and we have the best interests of staff at heart. We believe they deserve a pay rise and they will get one as soon as we can get agreement with the unions. It takes two people to negotiate and we are both doing that, in good spirit, at the moment.

**Senator LUDLAM:** That is good to know. One of the things the secretary of the staff association put in this piece of correspondence is that since 2013 nearly 1,400 CSIRO staff have left the organisation, which is a loss of more than one-in-five jobs. Is that an accurate reflection?

**Mr Roy:** I would have to bring the numbers up for you. What was the date?

**Senator LUDLAM:** Since 2013. This is dated 1 May, so until quite recently.

**Mr Roy:** The numbers I have are, in terms of headcount, 6,477 on 30 June 2013 and we currently have 5,476 as at 31 December 2016.

**Senator LUDLAM:** It sounds like, even if the numbers you gave me for the last 12 months are moderately stable, there is a lot of churn happening. Are people coming out of particular divisions or research areas?

**Senator Sinodinos:** Excuse me, Senator. These latest numbers cover scientists and everybody else in the organisation you just quoted—

**Mr Roy:** That is correct.

**Senator Sinodinos:** which is different from the year-on-year comparison you were given before that was just about research scientists.

**Senator LUDLAM:** Yes, you did make that distinction.

**Senator Sinodinos:** As long as you understood that.

**Senator LUDLAM:** Thank you. Yes, you did make that quite clear. What are the areas where research has been cut, and where are people going instead? I gather there is significant reprioritisation occurring within the organisation, so staff with certain kinds of expertise are being washed out. You have just indicated that new research scientists are coming onboard. What is the rebalancing underway?

**Mr Roy:** This has been going for a period of time. We have had a number of changes, and each time we have delivered on them. The most recent announcements made around the changes stem from February 2016. We announced there would be a number of changes and we have played that through this particular committee through some period of time. We publicly stated that we would be making some changes to our oceans and atmosphere part of CSIRO to our land and water part of CSIRO and to part of manufacturing. Effectively, what you are seeing now is the play out of those decisions that were formed some time ago.

**Senator LUDLAM:** Is it true that you are becoming a much more commercially-driven organisation? There is a lot less pure public-interest research going on and a lot more commercially-driven revenue-driven endeavour underway.

**Dr Marshall:** There has been a lot of speculation in the media about that and thank you for the opportunity to correct that misinterpretation.

**Senator LUDLAM:** You are welcome.

**Dr Marshall:** Under CSIRO Strategy 2020 we have significantly increase the funding of pure science, blue sky science. There was less than \$4 million in 2014 and it is now over \$17 million. It will gradually ramp up, assuming our plans hold, to more than \$40 million over the strategy period. That is a really important investment.

**Senator LUDLAM:** Is that a tenfold increase?

**Dr Marshall:** Yes, from 2014, roughly.

**Senator LUDLAM:** On notice, can you provide us with the particular areas of research. Blue sky is very—

**Dr Marshall:** I was just going to mention something to you.

**Senator LUDLAM:** Go ahead.

**Dr Marshall:** We also created a health group. By 'health' I do not mean 'medical'; I mean keeping people healthy. Our analysis has shown that there is significant economic benefit in keeping people out of hospital and preventing them from getting sick. So that is a significant investment in public good and pure, blue sky science. You may not be aware of this, but CSIRO also designed, built and manages five of Australia's seven landmark national research infrastructures. That consumes a very significant portion of our appropriation. Given the nature of that—it is made available collaboratively to everyone on a basis of merit—it also is a public good. So there is a lot of investment that goes into public good that has not really changed. Some has increased. We have also restored funding to education, health, pure science and national infrastructure. Depending on your definition of 'public good', you could argue that half of what we do qualifies under that definition. Probably a better definition is national benefit. CSIRO has a mandatory test that we apply to all of our investments to ensure that they are going to deliver a national benefit. That dates all the way back to the 1916 and Billy Hughes. If we do not believe it is going to benefit the nation then we do not do it.

**Senator LUDLAM:** You can take this on notice because I am keen to move on and I know the clock is ticking. Can you provide us with your expectations—by category, if you can—of what you would do with that tenfold increase in research that you were describing to us just before. I will pick up on one particular example and shine a spotlight on our maybe differing interpretations of public good. You will have seen media reports in recent days disputing the claim that coal seam gas is any cleaner than coal once you include the total leakage from wells, pipes and other equipment. Tim Forcey from the Melbourne Energy Institute at the Uni of Melbourne has been using a forward-looking infrared or FLIR video recorder to directly observe methane leaking out of wells. Are you familiar with that the report, firstly?

**Dr Marshall:** I am somewhat, but I have an expert here who can speak very specifically to that, Dr Peter Mayfield who runs our energy group.

**Senator LUDLAM:** That is great. Dr Mayfield, are you familiar with that report?

**Dr Mayfield:** I am familiar with the ABC news report from the other day, yes.

**Senator LUDLAM:** Great. Does CSIRO or GISERA use that same imaging technology that allows you to directly observe methane leakage?

**Dr Mayfield:** No, we use a different form of technology. It uses infrared as a detection device, but we use a different form of detection. We have two ways of doing it. One is with a tower system where we try to measure fluxes as opposed to just concentrations. The other one is a mobile device using an infrared detector.

**Senator LUDLAM:** Was anything in the report a surprise to you or were you more or less aware of the issues that were raised there?

**Dr Mayfield:** The detection of methane in those locations was not a surprise.

**Senator LUDLAM:** What about the volume and the magnitude of the emissions?

**Dr Mayfield:** My understanding from the report is that they were measuring concentrations. I did not see any volumes or fluxes being measured.

**Senator LUDLAM:** So there were no real surprises? There was nothing there that caused you to pick up the phone and wake someone up in the middle of the night, saying, 'Oh, my God'?

**Dr Mayfield:** No. We are undertaking measurement of fugitive emissions as part of the GISERA program, and we believe that there is appropriate work being done.

**Senator LUDLAM:** Are you proposing to change the course or the direction or any of the techniques that the teams in your employ are using to do that detection work?

**Dr Mayfield:** My understanding is there is no such intention at this point in time.

**Senator LUDLAM:** Can you provide a quick update for us on the Department of the Environment and Energy funded CSIRO research into fugitive emissions, which I think was intended to help us assess the true climate impact of CSG. I do not know whether this would be your bag or not.

**Dr Mayfield:** I would have to you take that on notice.

**Senator LUDLAM:** I just wanted to know how much money is left in the pot. My understanding was that—and, again, correct me if this is incorrect—it was \$190,000 two years ago. Is any of that left in the tin?

**Dr Mayfield:** I am not familiar with that, so I will have to take it on notice.

**Senator LUDLAM:** Let us know as well whether—and this is one that is fairly close to my heart because we do not have coal seam gas in WA but we have a lot of shale and tight gas—the scope of phase 2 of your research would include shale or tight gas fracking?

**Dr Mayfield:** At this point in time, I believe it is all focused around coal seam gas.

**Senator LUDLAM:** Why is that? You are talking to a Western Australian, so choose your words carefully.

**Dr Mayfield:** At this point in time, coal seam gas is the area that we are working in. We are looking at expanding the GISERA interactions.

**Senator LUDLAM:** Are you aware of the size of some of the gas fields in the west?

**Dr Mayfield:** Yes. We are looking at expanding the GISERA interactions to a national level and that will then, in time, take into account shale gas as well.

**Senator LUDLAM:** Does your work look at water treatment infrastructure?

**Dr Mayfield:** I would have to take that on notice. I know there is water related research going on, but I will have to check on the actual facts there.

**Senator LUDLAM:** Emissions—like, environmental fugitive emissions—are the focus of the rest of my comments. If you are trying to look at life-cycle emissions of the whole infrastructure and the whole supply chain, I would have thought water treatment infrastructure would be part of the work.

**Dr Mayfield:** It would be part of it in looking at the emissions from a wellhead.

**Senator LUDLAM:** And water treatment infrastructure.

**Dr Mayfield:** Yes.

**Senator LUDLAM:** If you do not have all of this at the table, feel free to take any of these on notice. What about decommissioned wells or old wells?

**Dr Mayfield:** That would also be part of the scope. I do not believe that there are many wells at this point in time that have been decommissioned but, certainly over time, you would want to monitor that.

**Senator LUDLAM:** What is the sample size of phase 2? How much are you able to directly observe before you start your process of extrapolation?

**Dr Mayfield:** I probably would have to take the question on notice. I am not sure that I understand the question.

**Senator LUDLAM:** The infrastructure in Queensland at least, and elsewhere on the east coast, is extensive. It is a big industry; it was growing very rapidly for a period of time until it started to hit the wall. How many of these installations can you directly observe before your PhDs start extrapolating the total estimated impact?

**Dr Mayfield:** I do not know the specific answer to that question but I do know that the original study looked at 43 wells to date and there is ongoing work.

**Senator LUDLAM:** That is phase 1, yes?

**Dr Mayfield:** Yes.

**Senator LUDLAM:** Any idea what that is as a percentage of the total number of active or decommissioned wells?

**Dr Mayfield:** No, I do not know.

**Senator LUDLAM:** How many decimal places is that going to run to?

**Dr Mayfield:** I do not know that as a percentage but, again, I can take that on notice.

**Senator LUDLAM:** I appreciate it. When is the phase 2 report scheduled to be completed?

**Dr Mayfield:** There is a piece of work that is currently in the final stages of review.

**Senator LUDLAM:** Review with the minister, or is it still in your office?

**Dr Mayfield:** This is inside GISERA.

**Senator LUDLAM:** When are you estimating it goes to the minister and then on to publication?

**Dr Mayfield:** I would have to consult with the director of GISERA to get that time line.

**Senator LUDLAM:** Have you discussed with the department of environment whether you would get funding for a phase 3?

**Dr Mayfield:** In terms of a phase 3, I do not understand it in that context, but we are looking to continue the work of GISERA—that is both expanding its reach in the states that are participating and also the scope of works happening there. We do not view it as a phase 3, as such.

**Senator LUDLAM:** At some point your funding for phase 2 must run out. I do not mind how you characterise it but, presumably, you are already looking to your forward program of work and hoping that it is funded?

**Dr Mayfield:** Yes. We are continuing our work in Queensland, we are starting our work in New South Wales and we are looking at work in the Northern Territory in the coming period.

**Senator LUDLAM:** I am not sure if I understood your evidence clearly, so be as precise as you are able. My understanding is that the areas of CSG production that have not yet been studied for fugitive emissions under the CSIRO banner and the extended coalition that you are working with includes water gathering and treatment infrastructure and decommission wells. The reason I raise it is: phase 1, your 2014 study, noted a very large fugitive emissions leak from water infrastructure and treatment plants, which was out of scope for that study. That is why I am harping on about this a little bit. Is that in scope or out of scope?

**Dr Mayfield:** I would have to consult with the GISERA director to confirm that.

**Senator LUDLAM:** As long as you are clear about where I am coming from.

**CHAIR:** Senator Ludlam, you have had 15 minutes. Have you got one more question?

**Senator LUDLAM:** Another 15 minutes?

**CHAIR:** No, you have had 15 minutes.

**Senator Sinodinos:** That was a good try!

**Senator LUDLAM:** It's always worth trying, isn't it?

**Dr Marshall:** Since you are from Western Australia, our ARRC centre in Kensington is where a lot of our capability is for, for example, methane measurement detection. A lot of the water expertise in CSIRO is there, and we would be happy to host you if you would like to learn more about this area.

**Senator LUDLAM:** Thank you for that invitation; I will take that up—I have not visited that office. For my final one, how confident are you—and anybody at the table who wants to can take this question—that you have an accurate handle on the total fugitive greenhouse gas emissions from the coal seam gas industry? We will leave shale and tight gas aside for the moment. The contention of those who put the ABC study together was that we are, at the moment, dramatically underestimating the total greenhouse gas impact. The industry says they are cleaner than coal. Conclusions drawn by that ABC piece would be that, in fact, that that is simply not true. How confident are you, from a scientific perspective, that we have the numbers right?

**Dr Mayfield:** In terms of the work that has been undertaken, obviously there has been a phase 1, which is screening. It is ongoing work. The results of the original report did not detect any major emissions in that regard. But the work is ongoing, and I guess we are looking to investigate that across the whole industry.

**Senator LUDLAM:** Given that it is industry partly funding your research and directing its priorities, how do you deal—not with the appearance of conflict of interest—with the reality that industry probably does not want the work that it is funding to conclude that industry is, in fact, dirtier than coal. What do you do when your findings are inconvenient to the people who are funding the work?

**Dr Mayfield:** CSIRO is employed to do the science on the work. We report the science facts that we measure and identify. There is no impediment to that. There are very rigorous



governance arrangements around the GISERA work, and I am very confident that those arrangements are very robust.

**Senator LUDLAM:** We are out of time. If you could then, on notice, provide us with what those governance arrangements are, if they are not already in the public domain.

**Dr Mayfield:** We would be happy to.

**Senator KIM CARR:** Dr Marshall, I have been pursuing the question of executive remuneration in a number of committees. The secretary has been good enough to provide the information in regard to ANSTO, and I would ask the same question in regard to the CEO of the CSIRO. What is your current remuneration package?

**Dr Marshall:** Are you asking me?

**Senator KIM CARR:** I think the secretary may wish to intervene at this point, so I am—

**Ms Beauchamp:** As I said previously, these positions are covered under the Remuneration Tribunal framework as Principal Executive Offices. I should say that the head of CSIRO it is actually part of the Principal Executive Office class E. I will just get it right, seeing as I gave you incorrect advice earlier. Dr Marshall's remuneration—the advice was sought from the board of the Remuneration Tribunal in terms of what that should be. Under that class E, total remuneration for the CEO of CSIRO is \$673,712.

**Senator KIM CARR:** Sorry, \$600—

**Ms Beauchamp:** \$673,712.

**Senator KIM CARR:** Well, that is interesting, because the last time this was published in the annual report, Dr Marshall's predecessor was being paid a lot more than that.

**Senator Sinodinos:** A lot more?

**Senator KIM CARR:** Yes, a lot more than that. I am surprised that you say it is \$673,000, because schedule E of the Remuneration Tribunal, from memory, has a number of categories of offices contained in it—I will just find that—including the head of Australia Post, the Governor of the Reserve Bank, the Deputy Governor of the Reserve Bank and the head of the ABC. They are not being paid \$673,000.

**Ms Beauchamp:** These offices are in a different category under the Remuneration Tribunal framework. As I mentioned, they are categorised as Principal Executive Offices, and that table of those positions that applies to this range of positions is identified on the Remuneration Tribunal website.

**Senator KIM CARR:** Is that the total package, or his salary?

**Ms Beauchamp:** It is the total remuneration.

**Senator KIM CARR:** It is the total package?

**Ms Beauchamp:** Yes.

**Senator KIM CARR:** \$673,000.

**Ms Beauchamp:** Yes, with a component at risk, which is determined by the board.

**Senator KIM CARR:** So, what component is determined by the board? Is that on top of the \$673,000?

**Ms Beauchamp:** That is correct—based on performance.

**Senator KIM CARR:** So, what is that sort of performance bonus?

**Ms Beauchamp:** I think that is in the order of 30 per cent.

**Senator KIM CARR:** Thirty per cent on top of this?

**Ms Beauchamp:** Yes.

**Senator KIM CARR:** So, what is the total package—which is the question I asked.

**Ms Beauchamp:** The total package is as I have indicated. There is an at-risk component based on performance.

**Senator KIM CARR:** What was it last year?

**Senator Sinodinos:** You mean the total package plus bonus?

**Senator KIM CARR:** That is the total package. That is what the word 'total' usually means. Is it the case that it is 30 per cent on top of 673?

**Ms Beauchamp:** That is correct.

**Senator KIM CARR:** How much is that?

**Dr Marshall:** Maybe I can clear this up.

**Senator KIM CARR:** I did ask to begin with you. What is the total package? That is what I am interested in.

**Dr Marshall:** There are two things: in the banding information of my predecessor, you would find mine is something like two or three per cent more than that. That is the \$673,000-odd that the secretary mentioned, but there is also an at-risk component of up to 30 per cent of the base amount, so up to 30 per cent of the 673. That figure is also mandated by the Rem Tribunal, but whether I get that 30 per cent or what fraction of it I get is up to the board.

**Senator KIM CARR:** That is why I asked. What was the package last year?

**Dr Marshall:** I believe last year I would have got roughly 85 per cent of that 30 per cent.

**Senator KIM CARR:** Can you give me a total number so I do not get confused?

**Dr Marshall:** I would have to go do the sum. I can give it to you on notice if you like.

**Senator KIM CARR:** I was interested in getting it now if I could. That is still below what Dr Clark was declared at.

**Dr Marshall:** Why don't we look it up?

**Senator KIM CARR:** That would be very good. There was actually a figure published in the annual report. Will it be published in future annual reports?

**Dr Marshall:** Yes. The executive team discussed this a couple weeks ago and decided that it was a good idea to return to the 2013 practice of publishing the bands, and that will appear in the next annual report.

**Senator KIM CARR:** The question of the bands goes a bit further than that. If it is short 30 per cent or 85 per cent of 30 per cent, it is considerably less than the minimum salary position that the secretary just—

**Mr Roy:** To clarify: the previous reporting from the 2013-14 report also included any eligibility for performance payment, so that would be—

**Senator KIM CARR:** Yes. What was the figure? Have you got it there?

**Mr Roy:** Yes, we have the one for the previous chief executive.

**Senator KIM CARR:** What was that? Correct my memory.

**Mr Roy:** I am reading out of the annual report now. It was \$167,000.

**Senator KIM CARR:** That was the bonus. What was the total amount?

**Mr Roy:** This is the highest number in the annual report: \$822,000.

**Senator KIM CARR:** Thank you very much. I know it takes a long time to get here, but I wanted to know what the figure was.

You have indicated in your annual report that there has been a change in the number of executives. In 2015-16 there were 20 executives reported on 121 of the report. In 2012-13 there were 33 members. That is correct?

**Ms Bennett:** Correct.

**Senator KIM CARR:** Can you account for the change in the numbers?

**Ms Bennett:** Yes. In the 2013-14 year, under the definitions that were required, which is leaders who essentially have influence in management control over the organisation, CSIRO included the executive, the personnel who were formerly known as flagship directors and the personnel formerly known as chiefs of divisions, whereas in the last annual report, in 2015-16, we determined that an equivalent of that definition would have been the executive and the business unit directors of the science business units. Hence the difference.

**Senator KIM CARR:** So you have changed the definition?

**Ms Bennett:** We have not changed the definition. We believe that we are being true to the definition of those who control. As you know, we do not have flagships and chiefs of staff anymore. We have integrated those. Hence the difference.

**Senator KIM CARR:** Thank you. So is it fair to say, like with like, that the number of executives has changed?

**Ms Bennett:** Like for like, we have a smaller number with broader responsibilities.

**Senator KIM CARR:** What is the difference? You say, like for like, there are fewer. How many fewer?

**Ms Bennett:** The executive team has moved down by four, and therefore the balance of the 13 would be nine, which is essentially the amalgamation of the flagship director and the chief of division roles into now the business unit director roles.

**Senator KIM CARR:** Of that group that have actually declined in number—that is, left the organisation—how many—

**Ms Bennett:** Senator, if I may: many of the chiefs of divisions did not leave the organisation. The roles were amalgamated and—

**Senator KIM CARR:** Dr Wonhas did though, didn't he?

**Ms Bennett:** A few may have done, but the roles of what were then the chiefs have now become, in many instances, the deputy of the business unit and they, in particular, take up a role in deep science.

**Senator KIM CARR:** Can you give me a number for who actually left?

**Ms Bennett:** I would not be able to say which chiefs—

**Mr Roy:** Just to clarify, over what period of time?

**Senator KIM CARR:** Over the past two years.

**Mr Roy:** We would have to take that on notice.

**Senator KIM CARR:** Can you tell me how many of those executives were offered a new contract or an extension on their existing contract?

**Mr Roy:** I am just trying to follow the question, Senator.

**Senator KIM CARR:** How many people notified you that they wanted to go and then were offered an extension on their contract or a new contract, but still chose to leave?

**Ms Bennett:** Of this executive management group?

**Mr Roy:** I do not recall cases of that nature, but we will look—

**Senator KIM CARR:** So it did not happen?

**Mr Roy:** I am saying I do not recall cases of that nature.

**Senator KIM CARR:** Would you like to take that on notice?

**Mr Roy:** We will take it on notice.

**Senator KIM CARR:** If you could check the records for that, that would be appreciated.

**Mr Roy:** We will.

**Senator KIM CARR:** When are performance bonuses paid?

**Mr Roy:** They are considered by the board once the fiscal year is finished, and then the board—this is members of the executive team—will make a determination based on the recommendation of the chief executive. So they are generally paid in about September following the August board meeting for the prior year.

**Senator KIM CARR:** I see. And what is the criteria for payment?

**Mr Roy:** There are three general criteria used. In our corporate plan you will find the targets for CSIRO over the course of the year. The board will assess CSIRO's whole-of-organisation performance against those targets. That accounts for 50 per cent. Individual performance agreements that we have with our line manager—in my case the chief executive—makes up 35 per cent. And the leadership behaviours and leadership presences and how you conduct yourself as a leader in health and safety and diversity and inclusion and the like, that makes up the remaining 15 per cent.

**Senator KIM CARR:** And who does the calculation as to what the entitlement is?

**Mr Roy:** The calculation for the enterprise average is done by the board. They will assess that. In terms of the calculation for members of the executive team, the chief executive will form a view and then provide a recommendation to the board people, the health and safety committee, and they will consider whether or not to ratify that recommendation.

**Senator KIM CARR:** So ultimately it is the board's decision, is it?

**Mr Roy:** It is the chief executive who makes the recommendation to the board.

**Senator KIM CARR:** But the board has to sign off on it—is that correct?

**Dr Marshall:** The board has the power to override any determination that I make. But as a practical matter, there will be a discussion and they will want to understand why—

**Senator KIM CARR:** Sure, but that would not have happened, would it? There has been no overriding of recommendations?

**Dr Marshall:** The board do not always have the same view.

**Senator KIM CARR:** No, but you would know in the two years that—

**Dr Marshall:** Yes, but what I am saying is that there has never been a case of the board saying, 'No, you're wrong and we'll change it.' It has been more a discussion, 'Do you really think this or that?'

**Senator KIM CARR:** I see. Have there been any recommendations altered after discussion with the board in your time?

**Dr Marshall:** Yes.

**Senator KIM CARR:** How many?

**Dr Marshall:** A small number and a small tweak to the numbers—

**Senator KIM CARR:** Can you take that on notice please? What the small number is. It should not be hard to work out if it is a small number.

**Dr Marshall:** Sure.

**Senator KIM CARR:** Did every one of the executive team get a bonus?

**Dr Marshall:** Yes, although I do not tend to look at it as a bonus; I tend to look at it as a portion of compensation that is at risk.

**Senator KIM CARR:** However you tend to look at it, were there additional payments paid to the executive?

**Dr Marshall:** Above base? Yes.

**Senator KIM CARR:** Every one of them?

**Dr Marshall:** Yes.

**Senator KIM CARR:** So despite the couple of years you have had, every one of the executives got a bonus?

**Dr Marshall:** I would say—

**Senator KIM CARR:** What I call a bonus, but you call—what is your definition?

**Dr Marshall:** Portion of the salary is at risk.

**Senator KIM CARR:** I see. They all got extra money? In the last two years, all the executives have got extra money?

**Dr Marshall:** All of the executives have received a portion of the at-risk component of their salary; none of them have received all of it.

**Senator KIM CARR:** I see, so no-one has got 100 per cent of the at-risk portion?

**Dr Marshall:** I do not believe so.

**Senator KIM CARR:** So what is the range?

**Dr Marshall:** I would have to take that on notice.

**Senator KIM CARR:** If yours was 85 per cent, did the rest of the team come in at 85 per cent each?

**Dr Marshall:** As Mr Roy indicated, there is a component of individual KRAs, but we also base about half of the rating on the overall enterprise performance KRAs. So even if an executive got a higher rank here, if the organisational performance was not the same that would pull that score down.

**Senator KIM CARR:** I like to think this is a pretty straightforward matter. Most people would regard these as performance bonuses. What I am interested to know is what was the percentage that each of the executives received in regard to performance bonuses?

**Dr Marshall:** I would have to take that on notice.

**Senator KIM CARR:** If you cannot provide me with individuals, the percentages in a range would be satisfactory. Do you intend to publish the executive salaries in the future, not just for the CEO but for all the executives?

**Dr Marshall:** In the manner that we did in 2013 and prior to that—the number of executives within a certain band.

**Senator KIM CARR:** I might turn to the question of the Landing Pads that had considerable press attention. There was a press release put out on 29 January by CSIRO regarding Silicon Valley.

**Dr Marshall:** I am aware of the federal government's Landing Pads.

**Senator KIM CARR:** I do not want to get confused here. I am going to ask the department about the specifics in regard to the Tel Aviv operation and a few others. I am specifically now asking you about the facilities that you have in the United States that were highlighted in media reports on 29 January—in particular, the operations in the Silicon Valley. When was that office established?

**Dr Marshall:** The actual office is not yet established. We have announced the start of that process. We have two sites identified and we are negotiating both of them to determine the best value for money.

**Senator KIM CARR:** Before we get to that, can you refresh my memory? CSIRO had personnel posted overseas in regard to Chile and Boeing. There were some people, I remember, in Germany as well.

**Mr Roy:** There are a small number of others, as well, in southern France. We used to be in Fraunhofer and Indonesia. There are a small number of places where we have officers overseas.

**Senator KIM CARR:** So that is your overseas postings. This is on top of that?

**Mr Roy:** Yes.

**Senator KIM CARR:** How many people do you have posted overseas in total?

**Mr Roy:** We would need to take that on notice.

**Senator KIM CARR:** This proposal for Silicon Valley certainly was reported in those terms, but is that the actual intent? Or is this a whole-of-United-States operation?

**Dr Marshall:** The only physical office that we are looking to establish is in Silicon Valley, roughly halfway between Silicon Valley and San Francisco. It turns out that that has the best rent and is therefore the best location. But, as you mentioned, we have a person located in Boeing in Seattle. We are planning to put a person in the embassy in Washington

DC, a person in Chicago and a person in Houston. We also signed an MOU with Austrade, and we are basically leveraging the existing Austrade network across the United States to help us get a better sense of where the opportunities might be in that country.

**Senator KIM CARR:** So what is the total number of staff?

**Dr Marshall:** It will be less than 10. It will probably be three to start with in the Silicon Valley office. If you add the others in the total would be less than 10.

**Senator KIM CARR:** What is the budget?

**Dr Marshall:** Around \$3 million. I will let Mr Roy give you the details.

**Mr Roy:** For 2016-17 it is \$3.1 million.

**Senator KIM CARR:** And over the forward estimates?

**Mr Roy:** It is around the same each year going out. It is \$3.4 million in 2017-18. I do not have beyond that with me at the moment.

**Senator KIM CARR:** Do you expect it to be an ongoing program?

**Mr Roy:** Absolutely.

**Senator KIM CARR:** Are you utilising the existing counsellor network that the department has?

**Dr Marshall:** Yes. We are using the Austrade network—

**Senator KIM CARR:** I mean in this department. Do you still have a network? Perhaps I should ask that question?

**Ms Beauchamp:** We do have a counsellor there. Yes, they will be working closely, as they do—

**Senator KIM CARR:** Is there a science counsellor in Washington still?

**Ms Beauchamp:** That is correct. It is more of a departmental counsellor covering a range of issues, including innovation and science.

**Senator KIM CARR:** What is their title? I thought it was science and innovation, that covered the whole portfolio—

**Ms Beauchamp:** Yes.

**Senator KIM CARR:** but they were science specific, attached to the embassy?

**Ms Beauchamp:** They are attached to the embassy.

**Senator KIM CARR:** Are they still there?

**Ms Beauchamp:** They are one of our employees.

**Senator KIM CARR:** What is the relationship between CSIRO and that officer, who I understood used to do this sort of work?

**Ms Beauchamp:** Our counsellor maintains contact with key government organisations and government-to-government relationships. Dr Marshall is talking about opening up science and science collaborations more broadly with CSIRO.

**Senator Sinodinos:** From a CSIRO perspective.

**Senator KIM CARR:** That is fine, but the counsellor network was supposed to undertake work for all the agencies—ANSTO, everyone. Is that no longer the case?

**Ms Beauchamp:** There are still very close links, but in terms of the collaboration and creating partnerships, what CSIRO is doing under Dr Marshall's leadership is looking at furthering those science collaborations for CSIRO, whereas our counsellor is looking more broadly at the arrangements we have right across the department and from a government-to-government point of view.

**Senator KIM CARR:** They used to do the auto industry. They did all this other work. I am wondering why it is necessary to duplicate this?

**Ms Beauchamp:** There is no duplication.

**Senator KIM CARR:** So they do not do CSIRO work?

**Ms Beauchamp:** CSIRO are having a presence there. The CSIRO office will do CSIRO work specifically.

**Senator KIM CARR:** What is the relationship between your operations in the Silicon Valley and the government's Landing Pad in San Francisco?

**Dr Marshall:** We are familiar with the Landing Pad. As I understand it, the purpose of that is for Australian start-ups to have a place to land with a co-working space in Silicon Valley. It is not so much about the science in that case. In our case the United States is our biggest science collaborator, so there is a lot of draw there from that existing relationship. We felt that it would be advantageous to have people permanently on the ground to strengthen those connections.

**Senator KIM CARR:** And you do not think this is duplication?

**Dr Marshall:** The Landing Pad has a completely—

**Senator Sinodinos:** The Landing Pads are administered by Austrade. Their purpose is to facilitate Aussie start-ups going over there to immerse themselves—

**Senator KIM CARR:** What does the department of innovation do, other than facilitate start-ups? I would have thought that is what the department of innovation does. Not Austrade necessarily, not exclusively, but that is what the counsellor network does, and that is what, I presume, these Landing Pads are supposed to do; and now we have CSIRO doing it.

**Senator Sinodinos:** CSIRO is doing CSIRO work, exclusively for CSIRO, in terms of collaborations on science, potential ideas where they can collaborate with people and commercialisation of their ideas and all the rest of it. It is an extension of what they do here. I do not think we should be afraid to take on the world. The world is our oyster. We have among the best jobs creation in the world.

**Senator KIM CARR:** The question then arises about the work of other activities like the G'day USA activities. Have you sponsored an award there? CSIRO sponsored an individual award presented—

**Senator Sinodinos:** That was earlier this year. Do you mean this year?

**Senator KIM CARR:** Is that true or not? Did I get that right or have I been misinformed?

**Dr Marshall:** I do not think we sponsored an award.

**Senator KIM CARR:** So you did not sponsor an award?

**Dr Marshall:** I do not believe so.

**Senator KIM CARR:** So you certainly had no-one at the G'Day USA awards this year?



**Senator Sinodinos:** You mean at the big flashy function—

**Senator KIM CARR:** It was a very flashy function.

**Dr Marshall:** In Los Angeles?

**Senator KIM CARR:** I thought it was this year. Did you have someone there?

**Dr Marshall:** We made an announcement on the Saturday of the launch of the office, and I was at the dinner on Saturday night.

**Senator KIM CARR:** How many from CSIRO attended the dinner?

**Dr Marshall:** I believe there were two of us.

**Senator KIM CARR:** And you had no awards?

**Dr Marshall:** No. I left the dinner at 9 o'clock to fly home for my son's birthday, so I missed most of it.

**Senator KIM CARR:** I am very pleased about that, and I am sure your son will be.

**Dr Marshall:** He is 14. He does not appreciate much, unfortunately.

**Senator KIM CARR:** Did you sponsor an award?

**Dr Marshall:** I will take it on notice, but I do not think we did.

**Senator KIM CARR:** I will put some other questions on notice, because it is a threshold issue—did you or did you not?

**CHAIR:** I think they have given their answer pretty clearly. They do not know.

**Senator KIM CARR:** There are actually surprises that flow from it. Do we have some advice on that matter?

**Mr Roy:** We will have to provide more information for you on notice. It appears that we may have sponsored an award for the event, but I do not have the information with me.

**Senator ROBERTS:** Thank you all for being here. Before I lead into my first question for Dr Marshall, I would like to invite you and CSIRO academics and scientists to a presentation here in Parliament House on Wednesday 29 March 2017. We are going to be showing access to more than 280 datasets worldwide. The evening is entitled 'The climate data—come check for yourself.' We would like to do that. Would you like to attend?

**Dr Marshall:** I would have to check my schedule. If I can, I will.

**Senator ROBERTS:** The man who will be showing the data accessed from all around the world has developed a remarkable software that you might be interested in commercialising. Dr Marshall, I visited Peter Spencer in the Federal Court on his appeal for the stealing of his property rights by the Howard government back in 2007, I think it was. That has devastated thousands of farmers across rural and regional communities. They have been devastated because they have lost their property rights, and that has a flow-on effect through communities. There are communities devastated in Queensland. We have spent about \$10 billion on desal plants and most of them have never turned on at all. We have energy prices, security, reliability, stability all being destroyed, and costs to businesses. That was the number one issue when I visited south-western Queensland just last week. South Australia is being destroyed. All of this, with no cost-benefit analysis. Until I arrived, Senator Macdonald said

last year there has been no debate on the science of climate in this parliament, ever. I have a lot of questions.

**Senator Sinodinos:** Who said this—Senator Macdonald?

**Senator ROBERTS:** Yes, on the last Monday before we rose before Christmas. I got your presentation from CSIRO on your claim that we are affecting the climate through our carbon dioxide. I gave you a response, and you sent an email acknowledging the response—

**CHAIR:** Senator Roberts, you have to ask a question.

**Senator ROBERTS:** I am going to.

**Senator Sinodinos:** When it comes it will be a whopper.

**Senator ROBERTS:** It will be a very short question. You gave me an acknowledgement that you had received my response and that it has been shared with people, but you have not said anything about the report yet. Will you be responding to my report?

**Dr Marshall:** I was not planning to.

**Senator ROBERTS:** I am going to provide questions in detail on notice, because I would like to know why you are not going to respond. Do you have any idea why you are not going to respond?

**Dr Marshall:** I was not aware that you were looking for a response. I thought it was just provided for our information, so I scanned it and passed it on to my—

**Senator Sinodinos:** What is the information you have provided to CSIRO, exactly?

**Senator ROBERTS:** It questions their presentation to me. CSIRO has not got any empirical evidence that we, through our carbon dioxide, are affecting the climate.

**Senator Sinodinos:** And was your expectation in providing that material that CSIRO would evaluate that and provide some responses?

**Senator ROBERTS:** I assume they would, because they have no empirical evidence proving human causation of global warming or variability.

**Senator Sinodinos:** From my point of view, I am happy for CSIRO to provide commentary on your material. I do not see that there is a problem in doing that.

**Senator ROBERTS:** Thank you. I will not go through the details, then. I may put questions on notice, but I do not need to go through them now. I look forward to your response. When do you think we could get that response by?

**Dr Marshall:** It would be unfair of me to pick a time. I would have to confer with the team who have to do the work.

**Senator ROBERTS:** Would it be months? Years? Weeks?

**Senator Sinodinos:** It will be in a reasonable time frame which reflects good faith on our part.

**Senator ROBERTS:** Thank you. I just have one more question related to that. Actually, it is related to a journalist who asked a question of CSIRO recently. One of the things that stunned me about CSIRO—well, it actually did not surprise me—was when I asked the question, 'What in particular is there in the climate record of the last 2,000 years that indicates we are facing any danger now?' I was immediately told by your scientist there, whom I will

not name, 'I've said nothing about danger.' And then I said, 'Yes, but there's obviously danger in this, otherwise we wouldn't be destroying industry,' and I think it was his boss who then said, 'We don't comment on "danger", because it's an emotional word. We leave that to the politicians to use.' So, having been told that there is no danger in the climate record, I would like to know what it is that CSIRO is actually telling the government. Could you comment on that as well, because that is an important part? It is the second point in the executive summary of my response to you.

**Dr Marshall:** There is a wide range of advice, but primarily CSIRO has two fundamental datasets: one around the temperature of the ocean and how those temperatures have changed, and the other around the CO2 content of the atmosphere. In that area we also have an isotopic analysis of the type of CO2. The isotopes have shown that that is uniquely linked to the burning of fossil fuels. It is true that the vast amount of temperature data—for example, the temperature of the air, the temperature of the land—comes from other sources such as NASA and BOM, the Bureau of Meteorology. But even in regard to the BOM data, 40-odd years ago CSIRO built a lot of the capability—a lot of the equipment that enabled those measurements—particularly, for example, at Cape Grim. We also created the weather models, and I have got to say that when I was a kid the one-day forecast was not very accurate but today the seven-day forecast it probably more accurate than the one-day was when I was a kid. It is amazing to me that the technology is able to model that today, and CSIRO built most of that infrastructure.

**Senator ROBERTS:** To me, the CSIRO report has got no explanation of any causation by our carbon dioxide, so I would look forward to seeing that in particular, because I have detailed why that does not show that. We also have an assessment from a person who formerly looked after a weather station for the Bureau of Meteorology, and he has done an analysis of the bureau's forecasts over just days in advance and they are not very positive. They are very questionable.

**CHAIR:** Is there a question there, Senator?

**Senator ROBERTS:** I would like to know why CSIRO has not done due diligence on the Bureau of Meteorology data, and I would also like to know why CSIRO relies upon the NASA Goddard Institute for Space Studies, because I have been communicating with NASA Goddard Institute for Space Studies director, Gavin Schmidt. He was very quick to respond to my first letter. In his response he admitted that the NASA Goddard Institute for Space Studies temperature data is the same as the NOAA data, and what we have known for a while but no-one has admitted is that there have been four datasets which are claimed to be independent but they are all the same dataset at heart. So CSIRO has not done any due diligence on that, we were told, yet they rely on it. We want to know why.

**Dr Marshall:** I am happy to take that on notice. We have a 50-year relationship with NASA, so it should not be hard to tackle.

**Senator ROBERTS:** Their database is severely compromised and questioned, and now we have just learned that a bill has been passed in the US Congress to remove—

**CHAIR:** Senator Roberts, you have got to ask a question.

**Senator ROBERTS:** Are you aware that the US Congress has passed a bill to remove NASA Goddard Institute for Space Studies from studying climate and get it back to science?

**Dr Marshall:** I was aware of that.

**Senator ROBERTS:** I would like to know if you are going to do any more due diligence or if you are actually going to start doing due diligence on the records that you use as the basis for your claims.

**Dr Marshall:** I am happy to take that on notice.

**Senator ROBERTS:** The other thing—I am sorry, I got distracted—is the journalist whom we both love and adore. You have had your issues with him. We are now having issues with him. Apparently—

**Senator Sinodinos:** Who is this? Which journo is this?

**Senator ROBERTS:** Peter Hannam.

**Senator KIM CARR:** You do not like him, is that the problem?

**Senator ROBERTS:** We have just had problems with him. I love him!

**CHAIR:** Can we just concentrate on our questions for CSIRO.

**Senator ROBERTS:** Sure. Apparently he contacted CSIRO for a response to my statement where I said that CSIRO had never advised on climate. CSIRO, apparently, gave him a partial copy of a transcript. CSIRO asked us not to release that transcript, and we said that we would not because we wanted you to go ahead with the presentation. We said that we would not release that transcript—you asked us not to—and we would not release the recording either. But I know that our transcript of the recording is accurate because I have checked every word. What CSIRO released to the journalist is wrong. I would like to know how we can compare the accuracy of that transcript, so I would like to come to your office and sort that out.

**Dr Marshall:** Did you want to go to the detail—

**Senator ROBERTS:** I am happy to go to CSIRO or for someone from CSIRO to come to me and go through that transcript—we have the recording and the transcript—because CSIRO has either made an error or that journalist is lying.

**Dr Mayfield:** I am aware of the meeting and the recordings that came from that, so we do have a transcript. I am also aware that there was an arrangement that that would be for internal purposes at the time so that people understood the information well. At this point in time, if you wish to compare the transcripts—

**Senator ROBERTS:** I do.

**Dr Mayfield:** we would be happy to do that.

**Senator ROBERTS:** Page 37. How are we going to check it?

**Dr Mayfield:** We have a number of options, but I am happy to arrange a meeting—

**Senator Sinodinos:** Yes, you get your people to call his people or vice versa.

**Senator ROBERTS:** We will do that. Thank you very much. We will check with each other in the break because we have to get that sorted out. This journalist has to be held to account.

**Senator BUSHBY:** There are just a couple of questions from me. Firstly, what is the current rate of scientific output from the CSIRO in terms of scientific publications?

**Senator Sinodinos:** That is a big question!

**Dr Marshall:** No, it is a great question. Dr Steele just completed our science excellence report, and he can give you everything you need to know.

**Dr Steele:** Your question was about the output of CSIRO's publications. The science health and excellence report 2015-16 is a report in a series that we do annually. It shows that, for example, in the preceding year we had put out 3,385 scientific publications. I am going to give you context for that in a moment. I should also make the point that the output we put out is not only scientific applications but also patents and many other reports et cetera, so that gives you a starting point.

To put that into context, that is about 5.5 per cent of the scientific publication output from Australia. To put that into context, we did around about 4.1 per cent of the Australian public sector research output. That is quite a significant amount. It is also useful to think about what that means in the context of Australian output in terms of where we concentrate in our science. CSIRO concentrates in a number of research fields in its science. One example of that is environment and ecology, and that is around about 14 per cent of our output. Another is geoscience, and that is around about 14 per cent of the output. They are closely related research fields. Plant and animal science is around about 17 per cent of our output and agricultural science is around about 10 per cent of our output. Once again, they are closely related fields. Space science is around about six per cent of our output, and we concentrate quite a bit on space science as compared to the global average, for example. Around about eight per cent of our output is in the field of chemistry and around about four per cent is in the field of physics. It is probably worthwhile just mentioning those because, although they are not a large portion of our output, they are quite central in the STEM area that is relevant to the industrial development of Australia. I am more than happy to talk further about exactly where our science is.

**Senator BUSHBY:** Well, my next question was going to be: can you break that down by research area? You have done that. How does the output of the CSIRO in this area compare with other research organisations and universities?

**Dr Steele:** The way in which we measure the quality of the output of our science—the way it is done in the scientific community—is by looking at the recognition of our publications in the sense of it being cited by other scientists in their own scientific publications. So, CSIRO's publications are right up there on an equivalent standing, through the bibliometric analysis, with the output of the leading Australian institutions, especially the Go8 universities.

A lot of our work, though, is collaborative. Around about 64 per cent of our publications' evidence is in collaboration with Group of Eight universities. Around about 55 per cent of our publications is in collaboration with overseas institutions, and the standard that CSIRO is putting out is of an equivalent level of those institutions.

**Senator BUSHBY:** I guess the current rate of scientific output is indicative of the overall scientific output and contribution that CSIRO makes. How does CSIRO's general, broad scientific output contribute to the industry growth centre priorities and science and research priorities?

**Dr Steele:** We have compared how our output compares to the scientific areas that are relevant to the industry growth centres. And, by the way, we have also done that for the science priority areas. If we look at the scientific areas that are relevant to the industry growth centres of food and agribusiness, our output is around about 16 per cent of the Australian output that is relevant to that field, so we are a very big player in that area. If we go to the mining equipment, technology and services area—the METS area—CSIRO's output is around about 14 per cent of the Australian total in that area. I just remind you that the benchmark figure here is that we are about four per cent of the Australian research field.

If we look at oil and gas, similarly it is around about 13 per cent. If we look at the advanced manufacturing area, we are around about 10 per cent. That is just looking at one thing. That is volume. If we think about the recognition of those areas scientifically, overall CSIRO's papers are 52 per cent more cited than the global average, if you look at the slice of papers from 2011 to 2015—and, by the way, that looks like that is actually getting better over the years—so it is highly recognised in the scientific community and it is a very large slice of the Australian output and the knowledge development through Australian published scientific research relevant to those industry growth centre activities.

**Senator BUSHBY:** You noted that the citation compared to the industry average is increasing. What about the percentage of papers in those areas that are the focus? Are you getting a greater level or maintaining a similar level of engagement in those areas?

**Dr Steele:** These figures do represent a concentration in areas that, if you think about those areas, actually reflect the longstanding importance of those areas to CSIRO. CSIRO is a little bit distinct, as compared with, for example, the Go8 universities, because we do not conduct anywhere near the same level of medical research as many of the universities do. But we are also distinctive in the sense that we do quite large lumps of work, if I can put it as untechnically as that. So we are quite focused in these areas of both strategic priorities and also research areas that are relevant to the industry growth centres.

**Senator BUSHBY:** On a different subject, I have a parochial question as a senator for Tasmania. The new CSIRO Climate Science Centre is being developed in Hobart. What are the aims of that centre, and how will it boost CSIRO's commitment to excellence in this area?

**Dr Marshall:** I am really pleased to give our newest leader, Dr Helen Cleugh, who heads the climate centre, a chance to speak here.

**Dr Cleugh:** The objective of the centre, which was formed in August last year, is to ensure that we provide the products, the knowledge, the services and the information that are needed to ensure that Australia's policy and decision-making will ensure that Australia can meet the challenges of a varying and changing climate. The centre does not just do climate; we also do work on oceans and air quality. It is providing the science, the knowledge, the products, the information and the services that help equip Australia to manage the challenges of a varying and changing environment and climate.

**Senator BUSHBY:** That centre is now up and running?

**Dr Cleugh:** Yes. As I said, it was formed in August last year.

**Senator BUSHBY:** It was announced last year—I was just making sure it was all up and running and everything is going well. How many full-time equivalent staff?

**Dr Cleugh:** As of now, I think—and I will just check—it is 114 equivalent full-time staff, yes.

**Senator BUSHBY:** Is that where it will end up, or you are still recruiting? Just the way you said 'at the moment', it sounded like there was something—

**Dr Cleugh:** I was just checking, because the number that I had in my head was over 100 and I was just confirming that it was 114 at the moment. As in any business unit, there is an ebb and flow of staff. Staff leave and staff are recruited—

**Senator BUSHBY:** I understand there is a turnover, but that is roughly around where you are aiming to be?

**Dr Cleugh:** Yes, but there is one thing that I did want to point out: one of the new and exciting initiatives that the centre is kicking off, as of January this year, is a new initiative to see if we can develop a decadal climate forecasting ability and that will require us to do some targeted recruitment to build the skills that we need to do that.

**Senator BUSHBY:** I am not going to ask too much more about that but, in a broader sense, how many full-time equivalent staff are there now based out of Hobart?

**Dr Cleugh:** Out of the Hobart—

**Mr Roy:** Just while I am there: the number before provided by Dr Cleugh was 114 headcount—the number of staff expecting to grow to. I just want to clarify the headcount of the FTEs. We do not have FTEs with us at the moment.

**Dr Marshall:** In a broader sense, a lot of the strength of CSIRO is its interconnectedness with every university in the country. A great example of that is the recent success we had in partnership with Deakin: we created Australia's first-ever capability to produce carbon fibre from raw material—from scratch—and to do it at scale. Very few places in the world have achieved that, and that is a first for Australia. It is a great example of taking a raw material, a commodity, and turning it into something really unique and of high value. Part of our strategy going forward is to try and do that with other commodities. We do that, for example, with titanium mineral sands. We turn them into ink for 3D printing that can produce robust metal parts, some of which have been used to save lives by replacing bones and cartilage in people who otherwise would have died.

**Mr Roy:** So we have 330 staff and, in addition, we have 17 casual staff—so 347 in total.

**Senator BUSHBY:** So roughly, a third are involved in the climate change centre?

**Mr Roy:** Yes.

**Dr Cleugh:** Just to be clear: the Climate Science Centre has a substantive component in Hobart, but we also have staff in Melbourne and a few staff here in Canberra, because we are bringing together all of our work in climate modelling, climate projections, ocean and atmosphere observations—

**Senator BUSHBY:** So the 115 are in the centre, not in Hobart?

**Dr Cleugh:** In the centre, and a large proportion of those are in Hobart.

**Senator BUSHBY:** How many—

**Dr Cleugh:** So, roughly, I think 40 per cent of them are in Hobart.

**Dr Mayfield:** It is 42 staff based in Hobart who are related to the Climate Science Centre.

**Senator BUSHBY:** So the 330 that are in Tasmania—it is not a third who are involved in climate science; it is other fields.

**Senator BUSHBY:** I will leave it at that; thank you.

**Senator McALLISTER:** I just have a few quick questions around the low-emissions technology road map.

**Dr Mayfield:** I can answer those questions.

**Senator McALLISTER:** Terrific. I really just want to understand a little bit about where this is up to. Is there an end point for its completion?

**Dr Mayfield:** There has been work done since last May. It is close to completion and in final discussions with the department.

**Senator McALLISTER:** Just the budget for that work—was that something that came out of the core funding or was that a contract with one of the agencies?

**Dr Mayfield:** There was a contract for work, but I would have to check on the amount.

**Senator McALLISTER:** So that was signed back in May or thereabouts last year when the work began?

**Dr Mayfield:** Yes.

**Senator McALLISTER:** Who is the agency that you are partnered with to deliver the work?

**Dr Mayfield:** We are working with the Department of Environment and Energy, but there is some interest from the Department of Industry, Innovation and Science as well.

**Senator McALLISTER:** But the contract is with the department of environment?

**Dr Mayfield:** Yes.

**Senator McALLISTER:** The contract has been published in the ordinary way—do you know the contract number?

**Dr Mayfield:** I would assume so, yes.

**Senator McALLISTER:** That is all I really wanted to know; thank you.

**Senator KIM CARR:** CSIRO, is Mr Scott Wilkie known to the organisation?

**Dr Marshall:** Yes.

**Senator KIM CARR:** Who is he?

**Dr Marshall:** I believe he is a gentleman who is helping Data61.

**Senator KIM CARR:** When you say 'helping', what do you mean? In what capacity is he helping Data61?

**Dr Marshall:** I think he is an industry expert in cyber. I can get Dr Williams to give you detail on that.

**Dr Williams:** Mr Scott Wilkie is a consultant, an ex-VC person, and he has been involved a little with Data61 on cyberwork for some of the development there.

**Senator KIM CARR:** Did you say he was a consultant?



**Dr Williams:** Yes. He has been a consultant in our information technology group, advising on some of the computer security. But at the moment he is not employed in any form by either of them.

**Senator KIM CARR:** Is he not employed or is he still a consultant?

**Dr Williams:** He is not a consultant in any form.

**Senator KIM CARR:** When was the last time he was acting as a consultant?

**Dr Williams:** I would have to take the exact date on notice.

**Senator KIM CARR:** Was it a year ago?

**Dr Williams:** No, it was not a year ago, but it was a while ago.

**Senator KIM CARR:** More or less than a year ago?

**Dr Williams:** Less.

**Senator KIM CARR:** So it was in the last 12 months?

**Dr Williams:** Yes.

**Senator KIM CARR:** Can you be more specific as to what his duties were for Data61?

**Dr Williams:** The specific duties we will give you in detail, but in Data61 he actually helped in defining some of the work around cyber and he helped in defining some of the work around the computing needs.

**Senator KIM CARR:** What was the value of his contract?

**Dr Williams:** I do not know that.

**Senator KIM CARR:** Could you provide that? The total package is what I am interested in.

**Dr Williams:** Yes.

**Senator KIM CARR:** Did he have any role in investigating the processes of the transformation of the agency—any part of the CSIRO—along the lines that have occurred in the United Kingdom with regard to QinetiQ?

**Dr Williams:** Sorry?

**Senator KIM CARR:** Did Mr Wilkie have any role in investigating the processes that saw the transformation of the UK Defence Evaluation and Research Agency into the company QinetiQ? Has he had any role?

**Dr Williams:** I have no idea. I think we would have to ask Scott Wilkie for that detail.

**Senator KIM CARR:** Dr Marshall, did he have any contact with you with regard to those matters?

**Dr Marshall:** I believe he did have knowledge of the company QinetiQ.

**Senator KIM CARR:** Did he have any conversations with you about following a similar pattern here?

**Dr Marshall:** It is difficult to remember. I know he was involved in the transformation of the UK's data centres to cloud—that is going from behind the firewall to the cloud for managing data.

**Senator KIM CARR:** Was there any effort to organise a meeting between yourself and the director of QinetiQ, Sir John Chisholm?

**Dr Marshall:** I have met the CEO of QinetiQ many years ago—several years ago.

**Senator KIM CARR:** But not in your relationship now?

**Dr Marshall:** No.

**Senator KIM CARR:** Was it a part of Mr Wilkie's duties to examine the privatisation process?

**Dr Marshall:** Of QinetiQ?

**Senator KIM CARR:** Yes, in relation to applications for Australia.

**Dr Williams:** To my knowledge, no. I have had discussions with him in his current position in Australia about a direction that he wants to take computing in. We made it very clear that we are happy to have discussions but, when we do things, we do them by open tender.

**Senator KIM CARR:** I hope that is true. The question I am going to is: were his duties in any way to examine the process of privatisation of any part of the CSIRO, including Data61?

**Dr Williams:** Certainly not with Data61, and to my knowledge nothing else.

**Senator KIM CARR:** Dr Marshall?

**Dr Marshall:** Not to my knowledge, no.

**Ms Bennett:** I met with Scott Wilkie at the same time as Dr Williams, and privatisation was never on the agenda.

**Senator KIM CARR:** It is not a part of his duties?

**Ms Bennett:** I do not know the contracts that he has been fulfilling, but I can say that in terms of broader discussions, as Dr Williams has indicated, it was about the transition, if you like, from hard machines into the cloud.

**Senator KIM CARR:** Is it possible to get the detail of his contract?

**Dr Williams:** The ones he has had with CSIRO?

**Senator KIM CARR:** Yes. This is after the amalgamation. Data61 is a division of CSIRO now.

**Dr Williams:** Perhaps we can provide information on the task he was asked to undertake.

**Senator KIM CARR:** Thank you. That would be appreciated. Finally, Mr Roy, I am sure you will correct me if I am mistaken on this. Dr Clark's package, I am led to believe, was \$822,400 in 2014. I think Dr Marshall indicated that he was receiving three per cent on top of that. I am just wondering how that fits with the information that you have given us of 822—almost the same amount for Dr Marshall.

**Mr Roy:** I think when I was testifying before we were referring to the tables in the annual report from, I think, 2013-14, around what the performance payment was of Dr Clark—

**Senator KIM CARR:** We are getting into some confusion here, because we were discussing Dr Marshall's package. What is Dr Marshall's package?

**Mr Roy:** What it is is the number that was read out by Dr Marshall before. I can go back to what that was.

**Senator KIM CARR:** I want to know the package.

**Senator Sinodinos:** Including the—

**Senator KIM CARR:** I want to know about the performance one. I want to know how much our CEO gets in total.

**Senator Sinodinos:** You're calling him 'our CEO'.

**Senator KIM CARR:** That is what it is; he is for the Commonwealth of Australia.

**Senator Sinodinos:** Absolutely.

**Mr Roy:** We have pulled the trusty calculator out, Senator, and we will multiply this number. If Dr Marshall were to receive 100 per cent of his 30 per cent then a total maximum reward would be \$875,000.

**Senator KIM CARR:** Sorry. Would you repeat that figure?

**Mr Roy:** \$875,000.

**Senator KIM CARR:** So the figure of 822 that I was given before related to Dr Clark.

**Mr Roy:** Yes, and it was also factored. I have no idea what Dr Clark received as part of—

**Senator KIM CARR:** I am going off the annual report. The whole point is that these are all published.

**Ms Bennett:** The band range was published.

**Senator KIM CARR:** I asked you before about that, because—

**Ms Bennett:** There was specific information given as one person.

**Senator KIM CARR:** That is right. It does make it very specific, doesn't it? There is one person. So that clarifies that. Thank you very much. That concludes my questions.

**Senator SMITH:** My questions go to a number of articles that appeared in *The Sydney Morning Herald* in recent times concerning the CSIRO scientific work relating to Aboriginal rock art on the Burrup Peninsula in Western Australia. Can someone help me with that?

**Dr Mayfield:** I can answer that.

**Senator SMITH:** Dr Mayfield, are you familiar with the two articles, one on 13 February and the other on 19 February?

**Dr Mayfield:** Yes, I am aware of the articles.

**Senator SMITH:** Would you like to make a general comment about the accuracy or otherwise?

**Dr Mayfield:** We believe that we have done the appropriate sites that have been delivered to the contractor that was requested there, and we stand by the science that has been done.

**Senator SMITH:** Why should people trust your assertion that the CSIRO can stand by the scientific work that you have undertaken? I do, but I am interested in convincing others.

**Dr Mayfield:** The nature of the work that was undertaken was to a scope of work with the Western Australian government on protecting the Burrup rock art. We delivered to those contracts. The methodologies that were applied were peer reviewed by an independent group, and we have applied those with internal peer review as well. So we have applied peer review process.

**Senator SMITH:** So an internal peer review process and an external peer review process?

**Dr Mayfield:** There is external peer review from the working group that was both on methodologies and on review of results published. We always do an internal review process as part of our work, anyway.

**Senator SMITH:** Is it appropriate for you to make available on notice who conducted it or the individuals who were involved in that peer review process, internal and external?

**Dr Mayfield:** Yes, we could provide that on notice.

**Senator SMITH:** So the suggestion in the story that the organisation's scientific work is flawed and could be putting the rock art at risk is wrong, in your opinion?

**Dr Mayfield:** To my understanding, yes. The work we have done is the best in terms of state of the art in that sort of space. It is not an area with a lot of scientific literature, but we applied the best methodology known at the time.

**Senator SMITH:** The best methodology internationally known or domestically known?

**Dr Mayfield:** Internationally. I guess we are always open to new information and new ideas—it is part of the scientific process—but at this point in time we are very comfortable with the work we have done.

**Senator SMITH:** There has been some commentary around the Swedish scientist whose name I will not be able to pronounce from the Stockholm Environment Institute. What difference does it make if his work is included or not included in your work?

**Dr Mayfield:** There were three objectives to the work we did. One of them was air monitoring to measure the air pollution dust deposition loads. The second part was around monitoring of the petroglyphs in the field with colour monitoring. The third part was around accelerated ageing tests. The work of—I will call him Dr K to make it easy—

**Senator SMITH:** I will steal that from you; it is a good way of approaching it.

**Dr Mayfield:** That work related to acid loads. The work was referenced purely in the context that that was the only available reference framework that was out there, but it was not in the context we wished to use it. We actually just made absolute measurements as well.

**Senator SMITH:** Professor John Black has been very vocal on this issue. I understand he was formerly employed by the CSIRO. What position did he have?

**Dr Mayfield:** My understanding is he was a deputy chief in the animal husbandry area.

**Senator SMITH:** That was my second question. What was his area of expertise at CSIRO?

**Dr Mayfield:** To my understanding, I think veterinary science and animal husbandry is his field.

**Senator SMITH:** You can take that on notice as well. So he was not a rock art expert at CSIRO?

**Dr Mayfield:** No.

**Senator SMITH:** In the article the former leader of the Australian Greens accuses the CSIRO as being 'a gun for hire'. She made the comment with regard to the Burrup rock art issue, but I am sure she probably makes it more broadly. Why is she wrong in this case? You

have mentioned that the WA government hired the service of the CSIRO. In your defence, how do you say to Christine Milne that that accusation is wrong, Dr Mayfield or Dr Marshall?

**Dr Mayfield:** CSIRO's job is to provide science output, and part of that is to make sure that it has been independently reviewed and of the highest quality, and that is how we approach all of our jobs. There was a tendering process around the scope of works the Western Australian government wished to undertake and we believed we had related expertise to address that. We have applied our normal scientific processes through doing that work, so to me it is a normal project.

**Senator SMITH:** So in short, the CSIRO stands by the work it has done to date around the rock art issue in the Burrup Peninsula, and there is no other information that you have that suggests you need to step away from standing behind that scientific work?

**Dr Mayfield:** Yes. At our current understanding there is no new information, although there was some information that was raised in the recent Senate inquiry. We are always open to taking that on board. It is a longitudinal study being undertaken, so there is ongoing work and that will be factored in. But at this point we are very comfortable with the work we have done to date.

**Dr Marshall:** Just to add to that, CSIRO is science excellence. It is kind of at the heart and soul of who we are and what we do. We are in the top 0.1 per cent of the world in our four core areas, of which environment is one. So it is really a matter of tremendous importance to us to have rigour in all of our science, which is why we have an incredibly rigorous process of internal peer review and external peer review before we publish anything. We take this issue very seriously and our scientists have reached out to the scientist mentioned in the article to better understand their perspective. We are always ready to admit when we have made a mistake; that is part of the learning process.

**Senator SMITH:** That is not being suggested here.

**Dr Marshall:** I understand, Senator.

**Senator SMITH:** Thanks very much.

**CHAIR:** Thank you very much to the officers of CSIRO, you are free to go for the afternoon. Thank you very much for attending today. This committee will suspend for 15 minutes, when we will return with the Office of Innovation and Science Australia.

#### **Proceedings suspended from 16:40 to 16:56**

**CHAIR:** I welcome to the committee the Office of Innovation and Science Australia. Dr Day, do you have an opening statement?

**Dr Day:** No, I do not.

**Senator KIM CARR:** Time has run away from us today and I will put a number of questions on notice, but I do not want you to infer from the brevity of my remarks that there is a lack of interest. The Office of Innovation and Science Australia is a new agency and this is the first time you have appeared at Senate estimates. I am interested in the role that you play within government as a new agency, and, in particular, the role that you are playing with regard to the development of the National Innovation and Science Agenda, or NISA2.

**Dr Day:** I will start by saying that the Office of Innovation and Science Australia exists to support the board, Innovation and Science Australia. The role of Innovation and Science

Australia, the board, is to provide whole-of-government advice on matters relating to the innovation, science and research system and also to oversee a number of legislative programs that the board has oversight responsibility for. In addition to that, the board has set itself the goal of fostering a national conversation about the Australian innovation system with a goal of driving improvement in the functioning of that system and a greater recognition of the importance of innovation to the national system. On the board, we have 15 highly qualified individuals who are very familiar with various aspects of the system. On a fairly regular basis, we interact with the department and the minister, who periodically seek our advice. When we are asked for it, we provide it.

**Senator KIM CARR:** You are not part of the ongoing work? There is what I understand is known in the trade as a NISA2 IDC—interdepartmental committee. Are you part of that?

**Ms Beauchamp:** That is a government process that is managed by the department. The Office of Innovation and Science Australia and the board are providing input into what the government might want to do in the next stages of the announcement that was made in December 2015. The next stage of the National Innovation and Science Agenda, if there is going to be a next stage, is a government process that we are assisting the minister to manage on a whole-of-government basis.

**Senator KIM CARR:** Perhaps we should clarify that, because you said 'if there is going to be'. Minister, is there going to be NISA2?

**Senator Sinodinos:** There will be a series of initiatives, whether you want to call them NISA2 and then NISA3. There will be a NISA2, but when I met with the interdepartmental committee I said I was keen that, across government, not all innovation initiatives need to be swept up in a NISA2 in order to be put out there and progressed.

In other words, it is a bit like a ripple effect from the first NISA, so, yes, there would be specific measures coming up, I am hoping, in the near future building on the foundations from NISA 1. But in the meantime, I am also encouraging other departments which are coming up with innovative ideas, with new ways of doing things to get out there to show that this whole-of-government approach to innovation and science, which ISA exemplifies, is being picked up across government.

**Senator KIM CARR:** When can we expect an announcement on NISA 2?

**Senator Sinodinos:** I am working on proposals now. I would hope by budget time but do not hold me to that—I have got processes to go through internally.

**Senator KIM CARR:** Perhaps I should ask the departments here about the interdepartmental working group. Is the innovation office part of that formal process or are you just asked your opinions from time to time?

**Dr Day:** Our opinion is sought on particular matters from time to time.

**Senator KIM CARR:** By the members of it?

**Dr Day:** Yes.

**Senator KIM CARR:** Is there a strategic plan for the organisation?

**Dr Day:** For the Office of Innovation?

**Senator KIM CARR:** Yes, yours.

**Dr Day:** There is a business plan, yes, which has been reviewed by the board. One of our major pieces of work is to develop a strategic plan for the whole innovation system, which is obviously a much broader piece of work.

**Senator KIM CARR:** So you have got a business plan for you but you are looking at a strategic plan for the whole innovation system. Is that the nub of it?

**Dr Day:** That is exactly right.

**Senator KIM CARR:** Are you engaging consultants on the project?

**Dr Day:** Yes, we are.

**Senator KIM CARR:** What is the value of the contract?

**Dr Day:** We engaged Howard Partners in partnership with Technopolis Group in December 2016. The contract is worth \$425,000.

**Senator KIM CARR:** Was that a limited tender or was it an open process?

**Dr Day:** It was an open process.

**Senator KIM CARR:** Have the specifications for the work actually changed since the original RFT?

**Dr Day:** I apologise, I would need to seek advice as I was not part of the process when it occurred. The scope of work was to support the development of the strategy and that has been reflected in the contract as signed.

**Senator KIM CARR:** So the contract goes to the development of the strategic plan for the innovation system. Does it include NISA 2?

**Dr Day:** I do not think that at the time that we either struck the tender or issued the contract, NISA 2 as a concept was something we were thinking about. I think that the goal has always been to deliver a strategy for the National Innovation System in 2030. Our plan was always to deliver that in the fourth quarter of this year. The consultancy runs until the end of September this year, and we expect that that strategic plan would set the framework for future initiatives.

**Senator KIM CARR:** Is there any money allocated for a communication strategy for the strategic plan?

**Dr Day:** The business plan for Innovation and Science Australia does have a small allocation for communications generally, which uses staff as part of our team. We do not have an explicit extra allocation for the communications plan.

**Senator KIM CARR:** How much is your communications budget?

**Dr Day:** Can I say less than \$10,000 because the line item—

**Senator KIM CARR:** That is for mail, is it, and various other things?

**Dr Day:** Sorry?

**Senator KIM CARR:** What is it for?

**Dr Day:** It is for publications, flyers, printed materials and the like.

**Senator KIM CARR:** Less than \$10,000 is not get a great deal.

**Dr Day:** It is not a great deal.

**Senator KIM CARR:** The rest of my questions, I will put on notice, if I might.

**CHAIR:** I want to first ask about the performance review of the Australian Innovation, Science and Research System 2016 that you undertook. Perhaps you could walk the committee through the key findings of that report.

**Dr Day:** The work of the office during most of 2016 was associated with developing the performance review of the national innovation, science and research system, and that was published in early February this year. The key findings of the report, if I can characterise them briefly, were that Australia is strong in knowledge creation but has shortcomings in translation and application of that knowledge. To give you a sense: we have very highly ranked researchers and a very good record in publications of highly cited research, but, whilst our small to medium businesses are undertaking some innovation, it is not new-to-the-world innovation, so it is not really breakthrough innovation. I think we found much to be pleased about in that knowledge generation end of the system but work that needs to be done at the later stages of the innovation process. As part of the 2030 Strategic Plan, we will be putting a big focus on those later stages and trying to identify initiatives and activities that the government can undertake to help the system function better in that regard.

**CHAIR:** That 2030 plan will obviously need to be completed in unison with all levels of government. How does ISA go about developing its relationships with our state based counterparts?

**Dr Day:** Yes, indeed. One of the first things we did this year, in January, was to travel around and visit all of the states and territories—actually, we did one or two by teleconference, but we visited most of the states and territories in person—to consult with them precisely on that topic to understand what their own strategic agendas were at a state level and how we could ensure that we reflect those in the work that we do at a national level. We expect that we will have ongoing involvement and ongoing consultation with those state government agencies as well as participating in the COAG process to ensure alignment between the states and the federal government.

**CHAIR:** Excellent. Thank you, Mr Day. I am really looking forward to hearing an update from your organisation.

**Dr Day:** I am looking forward to giving it to you.

**CHAIR:** I have no further questions, although I know that Senator Roberts has a question for the minister.

**Senator ROBERTS:** These questions are in regard to the Chief Scientist, Minister. Just to fill in my understanding: what position did you hold in John Howard's staff?

**Senator Sinodinos:** Me?

**Senator ROBERTS:** Yes.

**Senator Sinodinos:** I was chief of staff for a period—about nine years.

**Senator ROBERTS:** Up until 2007?

**Senator Sinodinos:** The end of 2006. But I do not know how that is relevant.

**Senator ROBERTS:** I will get to that.

**Senator Sinodinos:** Thanks!



**Senator ROBERTS:** Are you aware that John Howard has said that he is now agnostic on climate change?

**Senator Sinodinos:** Yes, I am.

**Senator ROBERTS:** At the last Senate estimates you were not minister. I asked the Chief Scientist for the empirical evidence that shows that carbon dioxide from human activity affects global climate and needs to be cut down. In his response, he has provided no empirical evidence showing causation and raises serious questions about his understanding of science. I have responded to the Chief Scientist. He is not here today—I understand he is travelling overseas. That is no problem; I am not going to ask for a doctor's certificate! But I would like to see if I could arrange a meeting with the Chief Scientist and you to go through his response to me. By the way, I have made a response to his response, so I am happy to—

**Senator Sinodinos:** I am happy to have the meeting.

**Senator ROBERTS:** We just contact you?

**Senator Sinodinos:** We love talking about science.

**Senator ROBERTS:** Great.

**Senator KIM CARR:** You may not love this meeting, I suspect!

**CHAIR:** Thank you very much to the office of Innovation and Science Australia. You are free to go for the evening. Thank you for waiting for us.

#### **Department of Industry, Innovation and Science**

[17:08]

**CHAIR:** I now call upon the Department of Industry, Innovation and Science. Thank you very much for joining us, Ms Weston. Do you have an opening statement for us, or does Ms Beauchamp?

**Ms Weston:** My boss is sitting to my left, so you might want to ask her!

**Ms Beauchamp:** I do not.

**CHAIR:** You haven't got an opening statement? Thank you very much. We might start questions with Senator Carr.

**Senator KIM CARR:** Thank you very much. We have agreed that we will try to finish this by the break. I am hoping to be able to finish this in about an hour or so, if that is possible.

**CHAIR:** You are not allowed the whole hour, Senator Carr!

**Senator KIM CARR:** Oh, that might mean we are a little longer! I will post a number of questions on notice with regard to the automotive program and the growth centres. Madam Secretary, I understand there has been a special group established in Treasury, a new structural reform group, which has responsibility for competition and industry policy. Are you familiar with that group?

**Ms Beauchamp:** Yes, I am.

**Senator KIM CARR:** Does the department have any representation on that?

**Ms Beauchamp:** It is a Treasury responsibility—

**Senator KIM CARR:** Yes, I understand it is a Treasury group.

**Ms Beauchamp:** It is part of the Treasury. Yes, we do work closely with Treasury on a range of things and, indeed, on industry policy generally.

**Senator KIM CARR:** Previously, Mr Lawson has worked with the Prime Minister's department. Is this a new group outside of what was established with the Prime Minister's department?

**Ms Beauchamp:** The arrangements are for particular projects that the government might see as high priority; taskforces, IDCs and the like are applied. Mr Lawson has worked in PM&C on a secondment basis on a number of projects, yes.

**Senator KIM CARR:** Is this a new group on top of the—

**Ms Beauchamp:** No, this is part of the structure of the Treasury, just like—

**Senator KIM CARR:** Is there a Prime Minister and Cabinet group as well or is this just the Department of the Treasury? The Secretary of the Treasury said that he is establishing a new group. Is this in addition to the work that is already undertaken in Prime Minister and Cabinet?

**Ms Beauchamp:** Mr Fraser and Ms Quinn answered the questions yesterday, but it is part of the structure of the Treasury in terms of its focus. I understand that it did have that sort of area some time ago, and—

**Senator Sinodinos:** You are talking about an industry policy group?

**Senator KIM CARR:** Yes.

**Ms Weston:** I understand that it is a new division within the Treasury.

**Senator KIM CARR:** A new division?

**Ms Weston:** Or group, yes, whatever they call them.

**Senator Sinodinos:** Over the years—this is going back decades—departments like Treasury and, indeed, Finance would have had areas such as structural policy divisions or industry policy divisions and they often had the job of shadowing what other departments were doing because they advise their ministers on policy issues in those areas. There is nothing, in that sense, strange. Indeed, PM&C over the years, over the decades, has had similar divisions—

**Senator KIM CARR:** I am just wondering if it is a matter that has become so serious now that you have two shadows—one in Prime Minister and Cabinet and one in Treasury.

**Senator Sinodinos:** Maybe it shows how much importance we place on industry policy.

**Senator KIM CARR:** Or maybe it is so important that they want to stop the development of policy.

**Senator Sinodinos:** But that does not supplant the central role of this department in advising the government on industry policy.

**Senator KIM CARR:** That is where I am going here. Mr Fraser said that the new group will have a mandate to think and work differently—this will be fascinating to watch. What did he have in mind, do you think? Do you have any advice for us, Mr Lawson, on this matter?

**Ms Beauchamp:** You would really have to ask Mr Fraser.

**Senator KIM CARR:** Yes, of course I would. But I am just wondering if there have been any communications with your department.

**Ms Beauchamp:** We have a range of communications with the Treasury on an ongoing basis and we do work closely together.

**Senator KIM CARR:** Who is going to be responsible for the development of the new NISA arrangement? Is it this group or is it you?

**Senator Sinodinos:** It will be this department.

**Senator KIM CARR:** There is no change in the administrative orders?

**Senator Sinodinos:** The way the Prime Minister works is that his ministers are his principal advisers on their areas of responsibility.

**Senator KIM CARR:** Let us take the R&D tax review, since Mr Fraser is one of the authors of the report. Will this group now have responsibility for that?

**Senator Sinodinos:** The Treasury group?

**Senator KIM CARR:** Yes.

**Senator Sinodinos:** No; because it involves taxation it is a joint matter between my portfolio and the Treasury portfolio.

**Senator KIM CARR:** So who will have responsibility for the implementation of the review?

**Ms Beauchamp:** It will be a government review, and we will work closely with the Treasury and, indeed, other agencies to advise the government in terms of a response.

**Senator KIM CARR:** Will you have officers actually seconded to the unit?

**Ms Beauchamp:** I have not looked at it yet, but I think it would be a great idea if we could have secondments both ways between the Treasury and us. And we have done that in a couple of areas in the past.

**Senator KIM CARR:** Could you take that on notice.

**Ms Beauchamp:** Yes.

**Senator KIM CARR:** I take it you have not given the matter a lot of thought. Is the matter about secondments under consideration now?

**Ms Beauchamp:** I do look for opportunities where our officers can get a range of different experiences across different organisations.

**Senator KIM CARR:** I think Mr Lawson is anxious to tell me something about this.

**Mr Lawson:** The Treasury is rearranging the structure of their department, not setting up a task force to do our work. The Prime Minister announced that he was asking the minister, the previous minister, and he is now the chair of the taskforce IDC that is developing the NISA. The minister chairs that, and it involves all the secretaries of relevant departments. Then, there is a working-level IDC that I chair across departments, which is responsible for the development of the NISA.

**Senator KIM CARR:** And you will maintain that role?

**Mr Lawson:** Absolutely.

**Senator KIM CARR:** I want to turn to the landing pads. Am I correct the you have said before that these are the responsibility of DFAT?

**Ms Beauchamp:** I think the minister mentioned Austrade.

**Senator KIM CARR:** Yes. Austrade is what I meant.

**Ms Beauchamp:** They administer the program, even though it was developed from a whole of government perspective under the National Innovation and Science Agenda. They are responsible for the delivery of those landing pads.

**Senator KIM CARR:** So you are not responsible for the operations of the landing pads?

**Ms Beauchamp:** No.

**Senator KIM CARR:** Can you tell me what is actually happening in any of these?

**Mr Lawson:** I can tell you that all five landing pads are operational.

**Senator KIM CARR:** I was recently in Tel Aviv, and I visited the centre, and it was a very interesting experience. It was a bit of a cupboard, though, I might say. It was very small, I am just wondering how many companies have participated in the program?

**Ms Urquhart:** I am sorry, but I am not in a position to tell you.

**Senator KIM CARR:** You cannot tell me that sort of detail?

**Ms Urquhart:** I am afraid not. It is Austrade administering the landing pads.

**Senator KIM CARR:** So I have to put questions to Austrade. Or is there somebody else here ready to help me?

**Mr D Wilson:** I have some limited information, and Austrade can provide further. The Tel Aviv landing pad has hosted eight fintech start-ups as part of its first—

**Senator KIM CARR:** This is eight at the Tel Aviv office?

**Mr D Wilson:** Correct.

**Senator KIM CARR:** What you mean by hosted? Does it mean they have used the telephone? What does it mean?

**Mr D Wilson:** The landing pad provides a collaborative space for start-ups.

**Senator KIM CARR:** There would not be room for eight people, I can tell you. They were not all there at the same time, were they?

**Mr D Wilson:** In terms of how the landing pads work, the individual start-ups cover their own travel and accommodation space. In terms of access to the landing pad facility itself, that is where they get their access to advice and expertise in the marketplace.

**Senator Sinodinos:** Can I just say two things. If you have detailed questions on this, it is probably best if we take them on notice and work with Austrade. My second point is that it is bit early to evaluate their effectiveness. They have been implemented in pretty good time, given when—

**Senator KIM CARR:** How long have they been operational?

**Ms Urquhart:** There are differing dates in each landing pad case.

**Senator KIM CARR:** I am asking about the Tel Aviv one.

**Ms Urquhart:** Each one is also tailored to the innovation environment concerned. Again, I would support the minister's comments.

**Senator Sinodinos:** It is a bit early to evaluate how effective they are going to be.

**Senator KIM CARR:** I can accept that line of argument. I am saying to you that I was surprised at how small this centre was. Who actually services it? How many people?

**Ms Urquhart:** That sort of detail could be provided by Austrade.

**Senator KIM CARR:** I did not see any Commonwealth employees there, did I? Were there any Commonwealth of Australia personnel involved with this?

**Mr D Wilson:** I could not answer that.

**Ms Beauchamp:** We will take those on notice because we will need to talk to Austrade.

**Senator KIM CARR:** And how long has it been established for?

**Mr D Wilson:** They have all been operational. It was originally announced on 8 December 2015.

**Senator Sinodinos:** As part of the NISA—

**Senator KIM CARR:** I understand that. It was announced in '15. When was it actually set up?

**Ms Urquhart:** Again, for that sort of detail, we would have to confirm with Austrade because—

**Senator KIM CARR:** But it has been over a year, hasn't it?

**Ms Urquhart:** No doubt there is a nuance to the detail of operation. We could be talking about procurement of the property; we could be talking about the start-ups arriving at the landing pad. It would be preferable if we could consult with Austrade to bring you accuracy in these answers.

**Senator KIM CARR:** I put it to you that I was there and I was led to believe it had been operating for over a year, and there were eight companies in a year. How much are we spending on this place?

**Ms Urquhart:** I think we would be misrepresenting the situation if we were to respond to that. I really believe we should be consulting with Austrade.

**Senator KIM CARR:** The total funding envelope is \$11 million. Is that correct?

**Mr D Wilson:** That is correct—\$11.3 million.

**Senator Sinodinos:** Over what period, though?

**Mr D Wilson:** I would need to check that.

**Mr Lawson:** As it was announced in NISA—and we will correct this if it is wrong—it would have been over the forward estimates. It is also important that the announcement was on the Landing Pads program, not the particular landing pads. Their locations were selected subsequently. I have visited the one in San Francisco with a minister. I think that was the first one that was set up.

**Ms Weston:** That was launched in February 2016.

**Mr Lawson:** That one is currently running through its second cohort.

**Senator KIM CARR:** How many people have been through?

**Mr Lawson:** I would have to take it on notice, but I remember around a dozen start-ups there. I was actually very surprised about how—

**Senator Sinodinos:** It sounded quite busy to me.

**Mr Lawson:** They were extremely—

**Senator KIM CARR:** In a little room with a dozen people.

**Mr Lawson:** No, it was not a tiny little room; they were modest facilities. It was not an expensive start-up, but they were a very excited group of people who were making a great—

**Senator KIM CARR:** Invariably that is the case.

**Mr Lawson:** Indeed, but they were learning from each other, they were showing products and they had learnt from the previous incarnation.

**Senator KIM CARR:** I will put some questions on notice. What I saw in Tel Aviv was that very few people had been through the centre. The biggest thing in the place was the Australian flag. I just wondered how many officers you have had—

**Senator Sinodinos:** There is no shame in having a big Australian flag.

**Senator KIM CARR:** There would not be much room for much else. Have we had any departmental officers visit the site?

**Mr D Wilson:** I do not have the answer to that.

**Senator KIM CARR:** Mr Lawson, it might be a good idea if someone could have a look at it. It is a cupboard. A big cupboard. That is what it is.

**Ms Urquhart:** Just to follow up on the \$11 million, it is over four years. In total, the Global Innovation Strategy was appropriated \$36 million over four years and some \$25 million of that came to this portfolio, leaving around \$11 million towards the—

**Senator KIM CARR:** It is \$11 million, there are five centres, so that is about \$2 million apiece. I want to know what we are getting for \$2 million.

**Ms Urquhart:** Austrade will—

**Ms Beauchamp:** We will get the facts for you so we do not mislead you and will ensure we address the issues that you have raised.

**Senator KIM CARR:** I will put these questions on notice, but I am interested to know if there is any foreign government participation in this or is it just the Australian government?

**Ms Urquhart:** Austrade would be able to inform you about local partnering arrangements.

**Senator KIM CARR:** I will put that on notice. Thank you very much. I appreciate it. I turn to staffing levels. What is the current staffing level in the department?

**Ms Beauchamp:** We have an ASL that is 2,568.

**Senator KIM CARR:** Does that include non-APS employees—contractors, consultants and service providers?

**Ms Beauchamp:** No. Those that ASL numbers. Our headcount at 31 October, which I think we provided on notice—

**Senator KIM CARR:** Yes, you did. I am going to come to this in a minute. There were 2,493—

**Ms Beauchamp:** That is correct.

**Senator KIM CARR:** on question on notice S1-130. Has that changed?

**Ms Beauchamp:** On the headcount as at the end of January, we had 2,331 full-time employees and 163 part-time.

**Senator KIM CARR:** What struck me about the tale you provided me about that number was that the corporate network was the largest group, at 444 employees. Can you assist me: why do we have more people in the corporate network than we do in the business and industry services?

**Ms Beauchamp:** In the last questions on notice that have been tabled, we provided in detail what the corporate network and those corporate functions cover. There is a list of the sorts of functions that are covered by the corporate network: parliamentary services, budget policy, budget advice, putting together the financial statements. There are a range of services that are spelt out. I do not have the question on notice with me, but we have documented that at length.

**Senator KIM CARR:** But in the science division, in the national innovation and science agenda, there is one person. Have I read that correctly?

**Ms Beauchamp:** Can I ask what you are referring to?

**Senator KIM CARR:** I am referring to your answer on question No. 130. The table I have in front of me is the same table that tells me there are 444 in the corporate division, whereas there is one in the national innovation and science division. Is that correct?

**Mr Lawson:** It might help if I say that the Innovation and Science Agenda is not run out of the science division—

**Senator KIM CARR:** That is obvious. With one person, they would be running very little, wouldn't they? You have managed to get 444 in corporate and, according to this table, in national innovation and science agenda, one person.

**Ms Beauchamp:** The unit that was set up to deliver the national innovation and science agenda that was announced in December 2015 consists of a number of our own staff and a number of secondments from other agencies, including Prime Minister and Cabinet. I think that is why there would be only one, because there is one departmental officer and a range of officers seconded into that unit.

**Senator KIM CARR:** That one person is obviously very busy. What do they actually do?

**Ms Beauchamp:** As I have mentioned, there is a delivery units around the implementation of the national innovation and science agenda. Our role is to coordinate and lead progress on the delivery of the 24 measures of the national innovation and science agenda. So, yes, the people are very busy monitoring progress against that.

**Mr Hazlehurst:** I can slightly expand on the secretary's comments. When we moved into the implementation phase for the agenda, we set up a small team, which was effectively a project management team, supporting the governance of the implementation. There was a team initially of about seven or eight staff, some of whom, as the secretary mentioned, were secondees. As we have got further through the process of the implementation of those measures that team has wound down, and there are really only perhaps two or three people in that team at the moment, but that is because their primary function is not to do the actual implementation; it is around the coordination of the project management.

**Senator KIM CARR:** So there are two or three in the team, not one.

**Mr Hazlehurst:** Yes. But I think the other two are either secondees or contractors.

**Senator KIM CARR:** I see, they are contractors.

**Mr Hazlehurst:** There might be one contractor.

**Senator KIM CARR:** What is the one contractor? This gets better all the time. Who is that?

**Mr Hazlehurst:** I forget the person's name. I am happy to take that on notice. It is simply someone who is helping with project management.

**Senator KIM CARR:** Why do we need a contractor?

**Mr Hazlehurst:** It is someone providing some assistance around the project management of the project.

**Senator KIM CARR:** Project management: what, you get a contract in to contract manage?

**Mr Hazlehurst:** There are times when we bring in outside assistance for project management.

**Senator KIM CARR:** Yes, I can see that. But why do you need a contract manager to manage the contracts?

**Mr Hazlehurst:** It is not a contract; it is a project manager.

**Senator KIM CARR:** What is the project they are managing?

**Mr Hazlehurst:** The implementation of the agenda.

**Senator KIM CARR:** You just told me that they have all been disbursed, because they are not implementing it.

**Mr Hazlehurst:** There is a residual group—much smaller now, because many of the measures have now been implemented.

**Senator KIM CARR:** I am having a bit of trouble following this. How much do you pay this external consultant?

**Mr Hazlehurst:** It is not a consultant.

**Senator KIM CARR:** What is the external contractor?

**Mr Hazlehurst:** It is someone on a short-term contract.

**Senator KIM CARR:** How much is the contract?

**Mr Hazlehurst:** I will need to take that on notice.

**Senator KIM CARR:** You said there were three people. What is the other one? You have one—I presume the one in the list—that is an APS person, is it?

**Mr Hazlehurst:** Yes.

**Senator KIM CARR:** One is a contractor. What is the other one?

**Mr Hazlehurst:** I do not have the details in front of me. I will need to take that on notice. But the explanation for why there is one ASL referred to is that that team started quite large and it is smaller now.



**Senator KIM CARR:** We've got that. There are now three people doing that work, although it is listed as only one.

**Mr Hazlehurst:** I believe the figures you have in front of you relate to ASL, is that correct?

**Senator KIM CARR:** If I wanted to include the full figure, given that there are these addends, what would the number be?

**Ms Beauchamp:** That varies from time to time, depending on what the workload is. We have a pretty flexible workforce. It is not unusual to have a range of part-time people and contractors on our books. What we do is look at making sure that we have the right people in the right place at the right time.

**Senator KIM CARR:** Can you add further information to answer 130, please: the number of contractors and the areas in which they are working. Is that possible?

**Ms Beauchamp:** We could probably do it as at a particular date, yes.

**Senator KIM CARR:** Let's do it as of today. Would that be all right? You have indicated in previous answer SI24 that the amount of money listed for contracts associated with the NISA campaign was \$25.8 million. Is that figure still correct?

**Mr Hazlehurst:** Could I get that question again, please?

**Senator KIM CARR:** SI24, you provided an attachment that lists the contracts associated with the NISA campaign. The attachment to question on notice SI24 shows that the total value of the contract for the NISA campaign equalled \$25.8 million. Have I understood that correctly?

**Ms Dove:** The total contracted amount of contracts for NISA is, yes, GST included, \$25,842,093.

**Senator KIM CARR:** That is the one. Is that figure still accurate?

**Ms Dove:** That is correct.

**Senator KIM CARR:** You are spending the better part of \$26 million on an advertising question. Is that correct?

**Ms Dove:** Correct, and that campaign has now concluded.

**Senator KIM CARR:** Yes, it has. That is \$26 million, which is more than the amount of money spent on the automotive diversification program. Minister, how do we justify \$26 million for an advertising campaign when we are spending less money on the automotive supplier program?

**Senator Sinodinos:** We are not just spending money on the automotive supplier program. We have had a whole growth fund. We have had a number of funds targeted at particular communities affected by the change in the auto industry, so I do not think we are comparing like with like. But in respect of the communications campaign, it is justified when governments come up with major policies, which are then implemented, to communicate those policies to the public.

**Senator KIM CARR:** How much was the NISA campaign, all up?

**Ms Beauchamp:** The budget for the campaign which was announced was \$28 million.

**Senator KIM CARR:** And the amount of money spent on NISA itself, how much was that?

**Ms Beauchamp:** Sorry, Senator?

**Senator KIM CARR:** How much is being spent on NISA altogether?

**Ms Beauchamp:** On the campaign?

**Senator KIM CARR:** No. You have told me \$28 million.

**Mr Lawson:** NISA was \$1.1 billion over the forward estimates. I think to call it an advertising campaign understates it. It was a deliberate part of NISA that there should be a change in the culture of Australia and innovation.

**Senator KIM CARR:** In the run-up to the election there should be a change in the culture.

**Mr Lawson:** It has been long said that Australian industry, Australian society, needs to change the culture of innovation, that we do very well on science but not so well on translating. This campaign was more than advertising the particular programs—it was about changing culture, which my colleagues can tell you more about.

**Senator KIM CARR:** Given the election result, was there any evaluation of the change of culture—the effectiveness that occurred for this \$28 million?

**Ms Dove:** Yes, there has been an evaluation of the campaign.

**Senator KIM CARR:** Do you have a copy of the report?

**Ms Dove:** I will have to take it on notice.

**Senator KIM CARR:** No doubt it said it was very effective.

**Ms Dove:** The campaign reach and awareness grew gradually over the course of the campaign.

**Senator Sinodinos:** Mr Lawson was making a point about the change of culture. That does take time, and you have to build on it. What we are seeking to do is build on the pillars of that first NISA package to broaden and deepen the changes in Australian society—more risk-taking, more entrepreneurialism, an innovation mindset across the economy, more of a global outlook. That does take time.

**Senator KIM CARR:** When was the last time an ad was run?

**Ms Dove:** The advertising finished in May 2016.

**Senator KIM CARR:** Just before the caretaker period?

**Senator Sinodinos:** I think we were observing caretaker conventions.

**Senator KIM CARR:** Just before the caretaker period—that was it, wasn't it?

**Ms Dove:** It finished as a result of the caretaker conventions.

**Senator KIM CARR:** Of course it did, but it was designed for election purposes, not for information purposes, wasn't it?

**Senator Sinodinos:** No, it was designed for culture change purposes.

**Ms Dove:** The campaign actually started late last year, as soon as the announcement was made about the innovation and science agenda, so it was well before.

**Ms Weston:** Senator, we do need to clarify something on those numbers.

**Mr Medland:** The initial budget for the campaign was \$28 million but that was scaled back to \$22.1 million, and then as a result of the election being called around \$18.8 million of that budget was committed—that is GST exclusive; when you gross it up it comes to approximately \$20.7 million.

**Senator KIM CARR:** What happened to the remainder?

**Mr Medland:** The remaining amount went back to consolidated revenue.

**Senator KIM CARR:** In question No. S126 I asked about the number of programs that have been discontinued since the change of government. You indicated 27 programs. Did that include programs like Enterprise Connect, Commercialisation Australia and Researchers in Business?

**Ms Weston:** Yes.

**Senator KIM CARR:** Because there are rebadged programs that are often related to the original intent, does that affect the numbers at all?

**Ms Weston:** We will need to take that on notice, but obviously there were new programs that commenced as well. The question asked specifically for those that had closed. So I do not think that is a net figure

**Senator KIM CARR:** I just wanted to know whether any of those had been rebadged.

**Ms Weston:** The new programs are not rebadged old programs necessarily.

**CHAIR:** Senator Carr, I am just reminding you that you have had half an hour of questioning this group.

**Senator KIM CARR:** I have questions on SKA and CRCs, and I have one on the growth centres.

**Ms Weston:** Chair, I can confirm that we do have the SKA people here now.

#### **IP Australia**

[17:39]

**Senator KIM CARR:** In previous updates to questions you have stated that construction of the SKA could potentially commence in 2018. Is that still the case?

**Ms Kelly:** I am Director General, IP Australia, and also voting director for Australia on the SKA board. Yes, there are two streams of activity going on under the SKA at the moment. One is that negotiations are underway to finalise a treaty, to set up a treaty organisation, to govern the construction and operation of the SKA. The second stream is that there is work on the preconstruction process to have a designed, construction-ready project ready to go. At the moment, both of those processes are on track, we think, to be finished towards the end of 2018 or the beginning of 2019. So the timetable would have us arriving at that point with a construction-ready project and an intergovernmental organisation in place to govern it.

**Senator KIM CARR:** I am wondering about the treaty negotiations. They have been finalised?

**Ms Kelly:** There have been four meetings of the 10 participant countries, and the main text has been finalised. There are, I think, two or three residual issues that are the subject of bilateral or trilateral discussion, and pending the resolution of those we are expecting to be in

a position to initial text of a treaty in the next two or three months, and then there would be a hiatus of about three or four months while people got their governments' permission to sign, and we would hope to have a signing ceremony in quarter 3 of this calendar year.

**Senator KIM CARR:** Thank you. What are the issues that are outstanding?

**Ms Kelly:** There are issues around the technical annex that actually describes in detail what is to be built. There are some issues around to what extent policies on procurement need to be finalised before the treaty itself can be signed. So procurement is the subject of a separate policy and it is not in the treaty, but there are some issues that countries want clarity on before they sign a treaty.

**Senator KIM CARR:** I want to go to the procurement question, because it has always been a contentious issue. You will recall some of the conversations that we had regarding contracts, where some international players were seeking assurances on tendering arrangements. Historically, that is certainly my recollection. Let's deal first of all with the supercomputing facilities. They are an integral part of the project, are they not?

**Ms Kelly:** Yes, very much so. The project will, as you know, produce huge quantities of data, so the computing facilities are very central.

**Senator KIM CARR:** I am told that there is a push to just have one administrative centre, in Manchester. Is that correct?

**Ms Kelly:** On supercomputing, no. There will need to be computing closer to both of the telescopes, so we are still expecting that the main computing facilities will be in Australia and South Africa.

**Senator KIM CARR:** I see. So on other areas, on IT, there will be a range, but is there a proposal to actually have administrative concentration or centralisation in Manchester for the rest of the project?

**Ms Kelly:** Manchester will be the head office of the project. There is still active discussion about to what extent things will be centred in Manchester and to what extent they will be centred in other places. This will be set out in the operations policy for the project, which is not yet completed but is expected to be completed by the end of 2018. So that is a subject of active discussion.

**Senator KIM CARR:** I am concerned about whether or not there has been a change in the scope of the project with the change from the original intent, which was, of course, not to focus everything in Manchester.

**Ms Kelly:** As I say, there is still active discussion about this, but certainly I think both Australia and South Africa are arguing that there are things that it makes sense to centre close to the actual telescope.

**Senator KIM CARR:** All right. Has the overall budget changed? Is it still 650 million euros?

**Ms Kelly:** It has been indexed so that the target budget for construction is 674 million euros. Delays in the project recently have been around the fact that the design has been coming in at significantly above that amount. I am pleased to say that, over the last three or four months, there has been a very serious—and looking quite successful—cost reduction exercise. We are having a board meeting in Perth at the end of this month to consider the

revised, cost reduced project, and it is looking very likely that we will have a construction budget under 700 million euros. So we are feeling much more confident.

**Senator KIM CARR:** Under 700 million. So we have gone from 650 million euros to 700 million, even with a cost reduction exercise.

**Ms Kelly:** As I said, under 700 million euros. We are hopeful of bringing it in for the 674 million euros, and we are feeling much more confident about that because of recent work which has been quite effective in cost-reduction strategies.

**Senator KIM CARR:** What is Australia's role in that program?

**Ms Kelly:** We have been leading the work on the cost-reduction strategy for the low-frequency telescope, the one to be built at the MRO—the Murchison Radio-astronomy Observatory.

**Senator KIM CARR:** Exactly how much do you need to cut from the budget to get it down to the estimated 674 million euros?

**Ms Kelly:** I do not have the precise figure in my head, but the budget was well over 800 million euros—

**Senator KIM CARR:** Eight hundred!

**Ms Kelly:** when the board charged the office and a range of other people with, as I said, a serious cost-reduction strategy.

**Senator KIM CARR:** Eight hundred! How did it get anywhere near 800?

**Ms Kelly:** As you know, design is a very distributed exercise. There are international consortia, each of them developing work packages that together make up the design. In that process various costs have blown out. We were concerned that we were designing a telescope that we could not afford to build, so we have taken the necessary action to bring it within the cost target.

**Senator KIM CARR:** There are a couple of issues there. The original budget was 650 million euros. You are saying that with indexation it has reached 674 million euros. But the other partners are proposing 800 million euros and the Australian representatives have said they are not going to have that, that we are going to bring that back to—

**Ms Kelly:** No, sorry, not the other partners. The SKA organisation, headquartered in Manchester, was coordinating the design. The design they brought to the board was of the order of well over 800 million—

**Senator KIM CARR:** So the British proposed an 800-million-euro budget?

**Ms Kelly:** It is an international organisation. Basically, the board said, 'No, we can't afford to build this and we need to reduce the cost.'

**Senator KIM CARR:** Absolutely!

**Ms Kelly:** As I said, we are having significant success in that exercise.

**Senator KIM CARR:** Can you explain to me what the 800-million-euro proposal involved? Where were the escalations?

**Ms Kelly:** I would have to take the detail of that on notice.

**Senator KIM CARR:** Would you? Thank you. And what were the proposed escalations? It is extraordinary! In terms of the Australian contribution to this project, what does that stand at?

**Ms Kelly:** The figure that has been put aside in the NISA announcement of late 2015 is \$293.7 million over 10 years. That is to cover Australia's contribution to construction and operational costs until 2025-26.

**Senator KIM CARR:** Has Australia been able to secure its investment in the project?

**Ms Kelly:** I am not sure exactly what you mean, Senator?

**Senator KIM CARR:** Well, what do we get for that?

**Ms Kelly:** We get the low-frequency telescope, the low-frequency half of the SKA telescope built, and what—

**Senator KIM CARR:** Yes. You know, there is an argument about that deal, but nonetheless, do we get the whole scope of it as originally determined?

**Ms Kelly:** When I mentioned that the technical annex was one of the outstanding issues with the treaty, the technical annex is what sets out what will be built. And so—

**Senator KIM CARR:** And so that is outstanding?

**Ms Kelly:** This is one of the issues we are finalising.

**Senator KIM CARR:** Ah, so one of the major questions about the investment that the Commonwealth of Australia puts to this project is yet to be resolved?

**Ms Kelly:** We do have a clear understanding about what our investment will be based on, which is a low-frequency telescope with about 130,000 low-frequency antennas. So we do understand what that—

**Senator KIM CARR:** That is that the Australian officials understand what they are getting. Do the rest of the board understand that as well?

**Ms Kelly:** That is what the draft technical annex currently says.

**Senator KIM CARR:** And that is not resolved?

**Ms Kelly:** It is not resolved as yet.

**Senator KIM CARR:** Who is disputing it?

**Ms Kelly:** The problem with it is that if we put it in the treaty it will be set in concrete and there will need to be a treaty amendment process to change it. So the argument is really a technical one about how we can have something that is possible to be changed but which still gives us the protection of a treaty agreement. So it is kind of a technical problem that we are trying to solve.

**Senator KIM CARR:** But there is also a political question here about what the Australian Commonwealth has agreed to pay and what it pays for. If this money is being channelled into Manchester, I think we are entitled to know that.

**Ms Kelly:** Can I just correct one thing? We have not agreed to pay anything at this point. We have put money aside, based on our understanding of what will come to Australia and what our proportion of the project would be. We will not formally agree to pay anything until

we sign-up to the treaty and the funding schedule that will be attached to the treaty. By that stage we will be very clear about what we will get for our money.

**Senator KIM CARR:** Okay. Now, is it fair to say that the Commonwealth of Australia has committed money to this project—budgeted and committed?

**Ms Kelly:** Yes.

**Senator KIM CARR:** It is a bipartisan position. Have there been any shortfalls or delays in the commitment of funds from any of the other countries?

**Ms Kelly:** The only two countries that have formally set money aside in their budgets at the moment are Australia and the United Kingdom. There is also a very strong commitment from South Africa, although it is not yet budgeted. Between us, the three host countries are expected to pay between 40 and 45 per cent of the total cost. The other seven countries have not made formal commitments yet, although they have informally indicated in some cases what they expect to be able to contribute.

**Senator KIM CARR:** Is this part of why we have had an escalation in cost?

**Ms Kelly:** No.

**Senator KIM CARR:** It is nothing to do with the fact that they have not actually put any money on the table?

**Ms Kelly:** No. The escalation in cost has been more to do with the design and the scientific ambition of some of the design elements.

**Senator KIM CARR:** If you could you take on notice how we account for this escalation in costs, I would appreciate it.

**Ms Kelly:** Sure.

**Senator KIM CARR:** Is it possible to determine whether or not the Australian government will get a return on the investment itself for the project?

**Ms Kelly:** There will clearly be scientific returns. We have also looked at what other returns there will be. It will not be possible to be absolutely explicit on what returns we will get until we can be explicit about what the design is and exactly what will be built in Australia. So everything at the moment is an estimate, based on what we understand.

**Senator KIM CARR:** Thank you very much.

**CHAIR:** Senator Carr, can I just jump in with a particular issue? I can come back to you.

**Senator KIM CARR:** Sure.

**CHAIR:** The National Business Simplification Initiative: is that this program? Is that for under this program?

**Ms Beauchamp:** It is probably best to do that after the CRCs.

**CHAIR:** All right. We will get onto the CRCs first.

**Senator KIM CARR:** Are there any plans to actually expand the program, Minister—the CRC Program?

**Senator Sinodinos:** Expand? What do you mean?

**Senator KIM CARR:** The CRC Program.

**Senator Sinodinos:** We are about to announce the latest successful CRC applicants, and there will be further rounds. We also have the CRC-P program which, from what I have seen of it, is good in terms of getting quick runs on the board for very industry-specific solutions, using the CRC type of model. But I am not quite sure what you are getting at?

**Senator KIM CARR:** Well, there have been significant reductions to the program from the 2014 budget. Does any proposal actually restore any of that money?

**Senator Sinodinos:** I have not seen any plans to cut the program or, indeed to—

**Senator KIM CARR:** To reduce it further. In regard to the CRC-Ps, I understand that, effectively, the applications have been way in excess of the amount of money available. Is that the case?

**Mr Stirling:** In terms of the applicants for CRC-P round 2, the success rate increased between round 1 and round 2. The success rate of applicants in round 1 was around 14 per cent and the success rate of applicants in round 2 was at 30 per cent.

**Senator KIM CARR:** People have given up, have they? The application numbers have increased.

**Mr Stirling:** There were 92 applications for round 1. For round 2 there were 62 applications.

**Senator KIM CARR:** That is what I am saying. There has been a significant reduction in the number of applications. That is why you get—

**Senator Sinodinos:** There is a third round on the project. It opened on 17 February. Applications close on 22 March.

**Senator KIM CARR:** We can only go on what has been announced so far. I am arguing there has been an oversubscription here. Is that the case? I would suggest to you that a success rate of 14 per cent is an oversubscription. Mr Stirling has been kind enough to point out that there is improvement in the success rate because the number of applicants has been reduced by a third. That is correct, isn't it?

**Senator Sinodinos:** There is another round to come.

**Senator KIM CARR:** We will have a look at that round in due course.

**Senator Sinodinos:** That is right.

**Senator KIM CARR:** How many applications have you received on that, since they are not closing—

**Senator Sinodinos:** Applications close on 22 March.

**Senator KIM CARR:** What is the trendline there?

**Mr Stirling:** Applications come in, generally, in the last few days, so I have no indication—

**Senator KIM CARR:** The 18th round for the CRC program was delayed, wasn't it?

**Mr Stirling:** The minister just mentioned that an announcement in relation to the outcomes of round 18 is imminent.

**Senator KIM CARR:** Yes, but the whole process has been delayed, has it not?

**Mr Hazlehurst:** Do you mean the commencement of the process?



**Senator KIM CARR:** Yes.

**Mr D Wilson:** That was the Miles review, undertaken at the end of 2014-15, provided to the government. Subsequent to that was when guidelines were developed, based on the outcomes of that, and then round 18 opened.

**Mr Stirling:** That is correct. In terms of the detail, applications for around 18 opened on 1 February 2016 and subsequently closed on 31 March 2016. You will recall—I think we have talked at previous estimates—that there were 15 applications received at round 1 or stage 1 of the application process. Of those, 14 were eligible and compliant.

As you know, funding is awarded through a competitive merit based selection process and the applications are assessed in two stages, on merit and against all other applications. Stage 1 involves the online proposal that provides a statement against the selection criteria, while stage 2 requires applicants to pull together a more detailed business case and, subsequently, present that business case at interview.

Stage 1 outcomes were announced on 30 August 2016 and a total of seven applicants were invited through to stage 2. Stage 2 of the 18th selection round subsequently opened to give those shortlisted applicants the time required to do their detailed business case and to prepare for interview. That closed on 21 October 2016. Interviews were held with the CRC advisory committee and the applicants on 29 and 30 November 2016. The final outcomes from the round are about to be announced.

**Senator KIM CARR:** At the last round, the applications for the CRC program had a few IT problems, did they not?

**Mr Stirling:** That is correct. There were some challenges experienced by some applicants—

**Senator KIM CARR:** Challenges?

**Mr Stirling:** in submitting their applications. As a result of those issues we extended the closing time by 24 hours to provide those applicants—

**Senator KIM CARR:** Why don't you talk me through these challenges. Bear in mind I have been briefed on it, so I would be very interested to hear your version of events.

**Senator Sinodinos:** You have been briefed by whom?

**Senator KIM CARR:** By people who were affected. So tell me, what actually happened?

**Mr Stirling:** I guess this is the best way to describe what happened. The applications are through an online form and it require a series of validations to ensure that what has been entered into the form is accurate and to total up different parts of the form. It also confirms that all parts of the form are complete prior to facilitating the submission process or lodging the application. There were some issues with our IT system in the week of the closure that meant that that process was operating slowly for some applicants. As a result of that, we extended the opening time by 24 hours and provided some specific advice to applicants in relation to how to streamline and get through that process.

**Senator KIM CARR:** I see. Secretary, can you confirm that you received a complaint from the cybersecurity bid chair?

**Ms Beauchamp:** Yes, I can confirm that.

**Senator KIM CARR:** Thank you. Can you confirm that a formal apology was issued?

**Ms Beauchamp:** I can confirm that we went through a process of review to address the complaint and the applicant has been advised.

**Senator KIM CARR:** What were the review findings?

**Ms Beauchamp:** It confirmed what Mr Stirling said.

**Senator KIM CARR:** That you had a problem with the IT system. Was there anyone actually available in the office to receive the applications? Was that part of the problem—that everyone had gone home?

**Mr Stirling:** I am not aware that that was the case.

**Senator Sinodinos:** Is that what is being alleged by the people you spoke to—

**Senator KIM CARR:** There was only one formal complaint but there were others affected. How many bidders were affected?

**Mr Stirling:** I would have to you take that on notice to provide you with an accurate—

**Senator KIM CARR:** Was it more than one?

**Mr Stirling:** It was more than one.

**Senator KIM CARR:** Was it five? How many was it, roughly? I accept you are going to take it on notice to give me a formal answer, but several bidders were affected by this.

**Mr Stirling:** From memory, it was two or three.

**Senator KIM CARR:** And you are saying it was not because there was no-one there to actually answer the phone?

**Mr Stirling:** The telephone contact details that are on our application form are for the department's contact centre, which is an outsourced service provider. That organisation answers the phone from 8 am to 8 pm nationally—so it can be 10 pm or 11 pm, depending on the time difference—every day of the week.

**Senator KIM CARR:** So there were no officers available? It is an outsourced call centre?

**Mr Stirling:** There is absolutely an escalation process. I am not saying there were no departmental officers available. There is an escalation process from our contact centre to a range of departmental officers, depending on the issue that is—

**Senator KIM CARR:** Did that happen? Was there an escalation process that actually got someone on the phone?

**Mr Stirling:** I am not sure at what point in time you are referring to.

**Senator KIM CARR:** When it was discovered that people could not make a bid within the time line. That was why you extended it, wasn't it?

**Mr Stirling:** To facilitate getting applications in in a timely manner we extended the closing time to provide more opportunity for people to complete the application form.

**Senator KIM CARR:** At the registered close, people were not able to submit; isn't that the case?

**Ms Beauchamp:** It was fixed within the 24 hours, so people did end up submitting an application.

**Senator KIM CARR:** How often have you had to make a formal apology to a bidder in the CRC program? The program has been running since when? 1990?

**Ms Beauchamp:** Yes.

**Senator KIM CARR:** Is this the first time you have had an ICT problem where people could not submit in the appropriate time? You are saying three bidders—

**Mr Stirling:** I said I would take on notice the details.

**Senator KIM CARR:** But you think maybe three. I am not holding you to that precise number. You are not misleading the Senate. I am just saying that there were about three. They were significant bidders, weren't they? How much money was involved in each bid, roughly?

**Mr Stirling:** I would need to take that on notice.

**Senator KIM CARR:** But it was a lot of money.

**Mr Stirling:** Correct.

**Senator KIM CARR:** For these bidders, it was incredibly important and they could not get someone on the phone to fix the problem at the close of the application process.

**Mr Stirling:** I do not accept that that is accurate.

**Ms Beauchamp:** But we did facilitate them being able to do that, and not only that—

**Senator KIM CARR:** That is right; you had to reopen them when you got a complaint.

**Ms Beauchamp:** because it does—

**Mr Hazlehurst:** No, Senator. Sorry, that is not what happened.

**Senator KIM CARR:** Well, what happened?

**Mr Hazlehurst:** There was not a complaint at that point.

**Mr Stirling:** That is correct.

**Mr Hazlehurst:** We were aware that there were difficulties for them, and we—

**Senator KIM CARR:** So how did you find out, if there was not a complaint?

**Mr Hazlehurst:** Because they contacted us.

**Senator KIM CARR:** I see. And what did they say?

**Mr Hazlehurst:** So we facilitated them making—

**Senator KIM CARR:** Was it, 'I am not complaining; I just cannot get my bid in'?

**Mr Hazlehurst:** We facilitated them actually lodging those applications.

**Senator KIM CARR:** You do not think this is a botched administrative process?

**Mr Hazlehurst:** We are looking into fixing the issues that were related to the system, and in fact we are building a completely new system for all applications.

**Senator KIM CARR:** I would call that a botched administrative process, wouldn't you? You had to rebuild the system.

**Mr Hazlehurst:** No, no. We are not rebuilding the system because of that. We are rebuilding the system anyway.

**Senator KIM CARR:** This is a new ICT system, is it?

**Mr Hazlehurst:** Which one?

**Senator KIM CARR:** The one there now that has led to this glitch.

**Mr Hazlehurst:** No. No. It is a system that has worked very effectively for many years.

**Senator KIM CARR:** That is the point, isn't it—that it has worked very effectively for a long time, and it did not work this time? And I am asking you again: why?

**Mr Hazlehurst:** Occasionally, systems have glitches, and on this occasion this system had a glitch.

**Senator KIM CARR:** It was nothing to do with the instructions you issued?

**Mr Hazlehurst:** I beg your pardon?

**Senator KIM CARR:** The instructions that you issued to applicants—were they anything to do with the failure of the computer system to receive these applications?

**Mr Stirling:** No.

**Senator KIM CARR:** What was it down to? Where was the failure in the system?

**Mr Stirling:** I will have to take on notice the exact details so that I do not mislead you in terms of providing that.

**Senator KIM CARR:** I know you will not want to do that but—

**Mr Stirling:** And I will need to consult with my colleagues from our IT area to describe it accurately for you.

**Senator KIM CARR:** So, when did you find out that you had a problem?

**Mr Stirling:** During the week of the submissions—sorry, during the week that the submissions were due.

**Ms Butler:** Just jumping in, Senator, we actually do have one of our technical, ICT colleagues with us, and I am sure he will be able to provide you with a bit of advice.

**Senator KIM CARR:** I am pleased to hear that.

**Ms Butler:** But I would also like to point out that, when the particular issue was raised, there were considerable escalation procedures, and, in the week prior to that, we were issuing instructions. We were aware that there were CRC applicants who were having issues with the system, and we worked very, very hard with those applicants.

**Senator KIM CARR:** When did you know that there was a problem, Ms Butler?

**Ms Butler:** There were issues around some of our customers understanding how to access some of the services, so our CRC staff spent a lot of time contacting a lot of CRC applicants to talk them through any issues that they were identifying as they started to complete the application.

**Senator KIM CARR:** How many days before the close of applications was that?

**Mr Stirling:** It was in the week—

**Ms Butler:** It was in the week.

**Mr Stirling:** when applications were due. I think, from memory, the applications were initially due—and I will have to confirm the date for you—on the Thursday at 5 pm. We extended the closing time to the Friday at 5 pm.

**Ms Butler:** Correct.

**Mr Stirling:** In terms of the advice that we have provided, we provided significant levels of advice to applicants during that week, and encouraged applicants not to leave the submission of their application to the very last minute.

**Senator KIM CARR:** And is it not the custom and practice in this program for applications to come in at the end of the program?

**Mr Stirling:** I do not think that is unique to this program.

**Senator KIM CARR:** No, that is not unique to this program. But it is the case. It is a characteristic. You just indicated that before, in regard to the application numbers. You are not unfamiliar with this practice. The difference here was that, when they went to put in their applications, they would not be received. Is that the case or not? Have I understood that correctly?

**Mr Rossiter:** Yes, for a small number of users. They were unable to actually submit the form.

**Senator KIM CARR:** That is right. How many is this 'small number'? We have heard 'two or three'. Is that correct?

**Mr Rossiter:** On the figures I have here, it was four.

**Senator KIM CARR:** Four. How big were their applications?

**Mr Rossiter:** 'Big' in what sense?

**Senator KIM CARR:** For instance, cybersecurity. Is that a significant application?

**Mr Rossiter:** Dollarwise?

**Senator KIM CARR:** Yes.

**Mr Rossiter:** That would be a question for my business colleagues.

**Senator KIM CARR:** Can you tell me that?

**Mr Stirling:** I will have to take that on notice.

**Senator KIM CARR:** Now, this will not happen again, will it, Madam Secretary? It has now been sorted out, has it?

**Ms Beauchamp:** As Mr Hazlehurst said, I think we are looking at making sure we have got improvements to the system.

**Senator KIM CARR:** Finally, Mr Rossiter, can you confirm that this is the only time that this has happened?

**Mr Rossiter:** In the history of the CRC Program?

**Senator KIM CARR:** Yes.

**Mr Rossiter:** To the best of my knowledge, but I have not been involved for the entire history of the CRC.

**Senator Sinodinos:** It is a pretty good record if that is the case.

**Senator KIM CARR:** And that is the point. It actually points to the failure. Is it a problem with the capabilities of the department, Madam Secretary, that this has happened?

**Ms Beauchamp:** I can tell you what was the cause of the problem. I think we need to better understand what the system issue was. We have taken corrective action to fix it.

**Senator KIM CARR:** Will you take that on notice?

**Ms Beauchamp:** We received all the applications within the 24-hour period after that.

**Senator KIM CARR:** Thank you. If you could take that on notice—

**Mr Stirling:** It is important to note that the CRC-P part of the program uses the same system, that applications for CRC-P round 2 came in after the closure of the 18th round and that the lodgement in that space was seamless.

**Senator KIM CARR:** Thank you. We are keen to resolve these matters.

**Ms Beauchamp:** Senator, have you finished with the CRC Program?

**Senator KIM CARR:** I do not have any further questions on the CRC Program. If there are any others, I will put them on notice. I had planned to put on notice a few questions about the growth centres but there are some matters that interest me directly. Do you have the remuneration package for the growth centre chairs?

**Mr Lawrence:** What do you mean?

**Senator KIM CARR:** They get paid to chair these growth centres.

**Mr Lawrence:** Yes.

**Senator KIM CARR:** How much do they get paid?

**Mr Lawrence:** That is determined by their boards. The amount that they are remunerated is determined by their own boards.

**Senator KIM CARR:** So you do not have a figure for me?

**Mr Lawrence:** I would have to take that on notice. They are remunerated by their boards and that is determined by—

**Senator KIM CARR:** Yes, okay. Could I get the package for each growth centre chair and CEO, if you would not mind. I presume you would have to take that on notice as well.

**Mr Lawrence:** Yes.

**Senator KIM CARR:** Are there travel costs and administrative costs?

**Mr Lawrence:** That is all taken out of the operational costs.

**Senator KIM CARR:** If you could provide me with advice on those matters.

**Mr Lawrence:** I think we need to understand that the department provides operational funding to the growth centres and they determine how they—

**Senator KIM CARR:** Sure, but it is still public money, Mr Lawrence, isn't it? You will have an acquittal process for that so you will be able to tell me.

**Mr Lawrence:** We will have to check with each of the growth centres and go through their budgets.

**Senator KIM CARR:** It would not take you that long, would it?

**Mr Lawrence:** It should not.

**Senator KIM CARR:** Thank you. I am told that the Advanced Manufacturing Growth Centre was actually asking larger firms to pay a membership fee of \$100,000 and universities to pay \$50,000. Are you familiar with that?

**Mr Lawrence:** Yes. Since then they have changed their strategy.

**Senator KIM CARR:** They have changed their strategy because they could not get anyone to participate, could they, at that rate?

**Mr Lawrence:** They had established a membership model, which they thought would be a way forward, but since then they have changed—

**Senator KIM CARR:** Can you give me the figures on the membership costs for each of the growth centres please?

**Mr Lawrence:** The Advanced Manufacturing Growth Centre is the only one that has a membership model and they are now charging \$1,000 per member.

**Senator KIM CARR:** I heard some of them were charging \$10. Is that right?

**Mr Lawrence:** Not to my knowledge.

**Senator KIM CARR:** Minister, I asked you a question in the chamber about the Australian Industry Participation plans.

**Senator Sinodinos:** In fact, it is more complex than I think the suggestion made at the time.

**Senator KIM CARR:** I have the figures in front of me. They say it was nil in 2016. Perhaps you could tell me why there were none in 2016 and there were 68 in 2010.

**Senator Sinodinos:** They are updated figures and there is an explanation.

**Mr Power:** There are a couple of things to note about that question. The answer to the question where it says nil in 2016 was in relation to Commonwealth procurements—AIP plans relate to Commonwealth procurements. We do have an update since that time. In the last 12 months we now have 13 AIP plans related to Commonwealth expenditure in the last 12 months—February 2016 to February 2017.

**Senator KIM CARR:** I am pleased to hear that.

**Mr Power:** Three of them are in relation to procurements, which is what the question on notice was related to, two are related to grants and eight are in relation to CEFC loans, so in total we now have 13. There are a couple of other elements that go to how the process, generally, has been streamlined over time such that, when you look at the figures straight on the face of them, they explain why, for example, there has been a reduction. One of the reasons is that in the past all tenderers for Commonwealth procurements, regardless whether they were successful, were required to put in place an AIP plan and that resulted in a lot of red tape for business in working with government who did not bring red tape—

**Senator KIM CARR:** So this is a red tape reduction exercise, is it?

**Mr Power:** Now the situation is that those entities who win contracts need to prepare an AIP plan explaining how there has been a change in how the application system has occurred over time.

**Senator KIM CARR:** However, the proposal, as I understood it, was that it was for Commonwealth procurement projects over \$20 million.

**Mr Power:** That is right.

**Senator KIM CARR:** And you are saying that in 2016 there were no projects over \$20 million?

**Mr Power:** I am saying that there were not any AIP plans approved in 2016; that was the answer to the question on notice.

**Senator KIM CARR:** Yes, but why?

**Mr Power:** The answer to your question was in relation to procurements. Procurements are not the only things that require AIP plans. There are grants and loans, so they were in relation to grants and loans. If we look at Commonwealth procurements in 2016, it was an odd year in the sense that there were not many, but I mentioned some of the—

**Senator KIM CARR:** None is not many; that is certainly true.

**Senator Sinodinos:** It was nil from the start of 2016 to 31 October 2016. What Mr Power has done is update the figure to take out the 12 months to February 2017, and then he has also added grants and loans. The thing that is missing—

**Senator KIM CARR:** That is not what the question was—

**Senator Sinodinos:** No, but hang on, Senator. The other thing is that this does not involve Defence procurement. We are only talking about—

**Senator KIM CARR:** I am going off the answer that you signed off on.

**Senator Sinodinos:** And I am saying that that answer has been updated, and so it is a misrepresentation to suggest—

**Senator KIM CARR:** No, it is not. It is a direct quote.

**Senator Sinodinos:** that from 2016 there were nil.

**Senator KIM CARR:** It is a direct quote from the answer you gave me. And furthermore, when we go through them, in 2010 there were 68, 60 in 2011, 97 in 2012, 28 in 2013, 17—

**Senator Sinodinos:** Can we come to the 97 in 2012? They were mostly speculative plans, because at that stage, as the officer was suggesting, there was a requirement that everybody prepare an AIP plan as part of their tender, but that was discontinued. If a tender is successful now, an AIP plan will be prepared and implemented post-tender, so it is easy to inflate the figures if you include those speculative plans.

**Senator KIM CARR:** No, it is not. It is a straight-up answer to the question. You have given ne—

**Senator Sinodinos:** And I am saying that you are not comparing like with like, because there was a change of policy in 2015.

**Senator KIM CARR:** It certainly was a change in policy. How many people are in your unit now?

**Mr Power:** I run a division, so there are just over 100 people.

**Senator KIM CARR:** How many handle the Australian Industry Participation plans?

**Mr Power:** We have a flexible workforce, so we can move resources to plan to the team as required. My current estimate would be 10 people dealing with the current load, but I will work with—

**Senator KIM CARR:** And there is an authority inside the agency that deals with this, is there not?

**Mr Power:** That is correct.



**Senator KIM CARR:** How many people are in the authority?

**Mr Power:** There is an authority. The team which supports the authority, as I said, currently is about 10, but we will move that in and out.

**Senator KIM CARR:** How many are in the authority?

**Mr Lawson:** The authority is a statutory position which I hold.

**Senator KIM CARR:** You are it?

**Mr Lawson:** Yes.

**Senator KIM CARR:** As well as all the other things you do?

**Mr Lawson:** My role is delegated to the manager within the division on the authority role.

**Senator KIM CARR:** One person?

**Mr Lawson:** The authority was always, in legislation, an authority of one person supported by the department. As the minister has said, in the early days of the program when people were applying even for panels, to be on a panel for possible procurement—

**Senator KIM CARR:** Exactly.

**Mr Lawson:** let alone an actual bid for a process, we were requiring people to do AIP plans, which were in essence nugatory, because there was no actual contract.

**Senator KIM CARR:** Thank you very much. I will put the rest of my questions on notice.

**CHAIR:** I have some questions on the National Business Simplification Initiative. Last year the government announced the National Business Simplification Initiative. Can the department outline to the Senate committee what the intent of the initiative is?

**Mr Hazlehurst:** As we discussed at last estimates, the government announced the initiative in two parts, the first part being in relation to better regulation, looking at ways in which regulation can be streamlined or improved or administered differently in order to reduce costs and time for businesses in complying with that regulation, and the second part being better services, facilitating speedier interactions between businesses and government, making the processes both more integrated, so businesses do not have to go to different parts of government to get particular transactions completed, and similarly just making that process simpler and easier when they are interacting with government. I am pleased to say that that has been going well, and I am happy to provide some more information about the development since last estimates.

**CHAIR:** If you have got some examples of some of the projects, that would be terrific. I would really like to know how you are working to simplify businesses' experience between levels of government.

**Mr Hazlehurst:** I might make some overarching comments and then I will pass to my colleague Ms Talbot to expand on a couple of those specific projects. After the last hearing, on 17 November last year, then-Minister Hunt, in our portfolio, and Minister Laundry met with representatives of the states and territories—ministers and officials—and worked through the overall intent but also worked through specific examples that they may wish to work on together.

Since that time, there have been further discussions, both exchanges of letters and actual workshops, between our department and particularly the officials, and the commencement of

a number of projects. Perhaps the most significant of those projects, which Minister Laundry has brokered and led with his counterpart in the New South Wales government, Minister Dominello, has been work that we are doing to facilitate the starting of businesses across jurisdictions. That has been in a very fortunate circumstance, in that work that was occurring at the Commonwealth level and work that was occurring through Service New South Wales, in the New South Wales government, was able to be brought together.

Very briefly, but to illustrate the point: Service New South Wales had embarked on a process of streamlining the processes of obtaining all of the licences and permits that you need to obtain within New South Wales and had focused initially—quite sensibly, because it is a very big task—on one local government area, Parramatta, and one sector: restaurants, cafes and bars. They have brought together all of the processes for applying for all the permits and licences that you need into one single application process. They have also done a lot of work on the behind-the-scenes processes for speeding up the approvals. We said, 'That's very interesting, because at the Commonwealth level we have a process that we are close to finalising, which has been led by Minister O'Dwyer but this department is providing the front end of this service, which is a service which brings together all of the registrations that you need at the Commonwealth level—registering for an ABN, for GST, for ASIC et cetera.' So what will happen—and Minister Laundry made this announcement along with Minister Dominello—is that we expect that this will be able to go live in late March, early April.

**CHAIR:** That is very soon.

**Mr Hazlehurst:** It is very soon. You will, as a new business starting a restaurant, cafe or bar in Parramatta, be able to do your Commonwealth-level registrations, and that will then flow through in one seamless experience to then do all of your permits and licences at the New South Wales and the local government levels—all in one seamless experience. And of course, the idea then is, based on that pilot, we will be able to spread that to other local government areas in New South Wales, other sectors within New South Wales and, not surprisingly, I think without exception, every other state and territory government is very keen to also participate in that service. The way this will work is that we are building the front end of it. We are, effectively, hanging a cable out the back of what we are building and the state or territory government can just connect up to it and provide their end of the service. The other exciting part about what we are doing is that the services at our end will be available through what are commonly referred to as APIs—application program interfaces—

**CHAIR:** I love your good acronym.

**Mr Hazlehurst:** and what that means is that we can let our part of it—the registration for the Commonwealth-level services—actually be available on the Service NSW website, so you will not even have to come to the Commonwealth website to perform those transactions. They will be available on their website.

**CHAIR:** Terrific.

**Mr Hazlehurst:** So that is an example with New South Wales, and one that, potentially, will be available across all of the jurisdictions over time. I might—

**CHAIR:** Can I ask about a specific program?

**Mr Hazlehurst:** Yes, please do.

**CHAIR:** My colleague here is from Tasmania and he was talking to me about something that you were doing with ecotourism in Tasmania. Does that sound right?

**Mr Hazlehurst:** Yes; Ms Talbot can provide some details around that.

**Ms Talbot:** As of today, we have just commenced a project with Tasmania that has been in development for some time on simplifying starting and running a nature-based tourism business in Tasmania. That is a joint project between the Tasmanian government and the Commonwealth government. We are working collaboratively on that. That is a 90-day project, which has just commenced now. We would be looking to be able to report findings back to government in around three months time on that project. That will be informed very heavily by business consultation around what their actual regulatory barriers are.

**CHAIR:** Excellent—I am from Victoria; I am not aware of any of these projects that are in place in Victoria. Do you have anything on the agenda for Victoria?

**Ms Talbot:** We have been in discussions with Victoria. We do not currently have a live project collaboratively working with Victoria, but they are very interested in picking up some of the things that Mr Hazlehurst spoke about in terms of simplifying starting a business. We have also been talking to them about, potentially, another regulatory project that they have some work going on already, but we can help by adding in the Commonwealth side of it, on small retailers in Victoria.

**Mr Hazlehurst:** Just to add, they have conducted their own quite substantial consultation process, particularly in small business retail. We have waited for them to complete their process and for that to provide its findings, and then we stand ready to work with them on the Commonwealth dimensions of any regulatory streamlining that has been presented by it.

**CHAIR:** How many people in the department work on this particular project—on this particular initiative?

**Mr Hazlehurst:** It depends how you count them—

**CHAIR:** On my fingers.

**Mr Hazlehurst:** because this relates to activity that, potentially, runs right across the department, there is actually quite a large number spread across the department. There is a core team, particularly on the better regulation side in Louise's branch, which is 10 to 12 people. But, for example, there would be at least that many working on related things in the digital strategy and operations division, particularly on those services I talked about: registrations, permits and licences. There are other parts of the agenda, for example, much of the work that Minister Laundy is leading around building ministers he is also seeing as part of the process of the national business simplification work. Indeed, he also has ideas that he is progressing in relation to the Australian Industry Participation Plan. So you can see that it actually touches a range of different parts of the department.

**CHAIR:** That is excellent. Are the benefits of each of the individual projects evaluated? Is there a dollar value put on the benefits for each project?

**Mr Hazlehurst:** We will be doing that, project by project, as the specifics of what we are actually going to deliver get firmed up. What we are doing with each of these projects is that we are not necessarily going in overly confident and thinking we know the answer, and therefore we will not initially know quite what the benefits will be, either. So, rather than, if

you like, dreaming up the answer in Canberra, we are engaging directly with businesses affected to work out, 'What are your real pain points?' rather than assuming we know what they are, and, from that, as you suggest, working out what the benefits will be if we fix those.

**CHAIR:** That is terrific. I am really looking forward to an update on these particular projects at the next estimates and throughout the rest of the year, and next year too, hopefully.

**Mr Hazlehurst:** Certainly, Chair.

**CHAIR:** Thank you very much. Senator Roberts, do you have any questions?

**Senator ROBERTS:** Yes, please. Thank you for coming. Can you please confirm that 7,864 pieces of legislation have been cumulatively passed federally in Australia from 1970 to 2016, which is an increase of 6,092 per cent?

**Ms Beauchamp:** That might be a question best put to the Attorney-General's Department. That is not something necessarily for us, unless it is specific to this portfolio?

**Senator ROBERTS:** Well, perhaps we will see where it ends up. So you say the Attorney-General?

**Ms Beauchamp:** I am just offering advice, really.

**Senator ROBERTS:** Can you please confirm that 16,337 pieces of regulation have been cumulatively passed federally in Australia from 1970 to 2016, which is an increase of 7,463 per cent.

**CHAIR:** Senator Roberts, I think this line of questioning is probably a little unfair on the witnesses here.

**Senator ROBERTS:** Okay.

**Ms Beauchamp:** Again, I would suggest you ask the Attorney-General's Department.

**Senator ROBERTS:** Does anyone know the economic cost per household of the accumulation of legislation? I note that in the US it is about \$15,000 per household per year. So the cost of regulation is enormous.

**Mr Hazlehurst:** Obviously I understand the question you are asking, and it particularly relates to the overall burden of regulation across government. What I can say, in answer to your question, is that reducing regulatory burden has been a priority for the government as a whole. That has been led, actually, out of PM&C. Since the commencement of that work by the government, a total of \$4.8 billion in red tape savings has been achieved and reported, and the proportion of that which rests with this portfolio is around \$370 million. So the way in which those are calculated is to actually look at the impacts of particular regulation, to think about changes, or in fact to simply get rid of the regulation, and then to come up with estimates of the time saved by the businesses affected by those regulations and to put a dollar figure on the regulatory burden that is relieved.

**Senator ROBERTS:** I take it—this is just for clarification—that that \$4.8 billion is in removing some legislation or changing it but does not include the additional regulation that occurred at the same time?

**Mr Hazlehurst:** I would suggest that, for the details behind that number, you would be best to talk to Prime Minister and Cabinet—unless my colleague Ms Talbot has anything to add?

**Ms Talbot:** No. I think that is a question for PM&C to answer.

**Senator ROBERTS:** I am aware of an author who said that in the 1840s in England there were 18,000 pieces of legislation on the books, and some dated back to Henry VIII.

**Mr Hazlehurst:** Yes.

**Senator ROBERTS:** And, under the Whigs, who were the predecessors of the Liberal Party in Australia, as I understand it—

**CHAIR:** I think that is pushing it a bit.

**Senator ROBERTS:** they removed about 14,000 pieces of legislation, and in 50 years little England became Great Britain. Do you see what I am getting at? This ties back to innovation. Isn't government-centric innovation an oxymoron?

**CHAIR:** I think that is asking for an opinion.

**Senator ROBERTS:** Senator Sinodinos, is government-centric innovation—

**Senator Sinodinos:** I do not think it is. Part of the reason that the first National Innovation and Science Agenda had a pillar called 'Government as an exemplar' was precisely because we wanted to instil more of an innovation mindset into the public sector. The first place for doing that was obviously in the Defence sector, using government procurement to drive spin-offs from that investment to benefit the broader community. That is getting people in Defence to think about the capabilities we have as a country, how we build on those capabilities and create an export platform and all the rest of it based on the IP that comes from that process. We are also trying to make it easier for small- and medium-sized enterprises to get access to government contracts as a way of encouraging more start-ups, and that in itself will encourage more innovation because of the role that SMEs play in the innovation space.

Through the Digital Transformation Agency we are driving a process across government through digitalisation, and this relates to what Mr Hazlehurst has been talking about with the business implication initiatives—finding ways to use digitalisation to drive better services for consumers, better engagement for consumers with business and all the rest of it.

The challenge you are raising is: the context in which you operate and the incentives you face will influence your behaviour. So in the case of research institutions, for example, we are putting a greater emphasis on collaboration with industry and outside bodies to encourage them to think more about not just knowledge creation but about how to translate that knowledge more directly into economic and social outcomes. The mindset has to change.

In the case of the Public Service, governments have to be prepared to take a punt and say, 'If you take a risk in doing X or Y, you won't be hauled up in front of an estimates committee and told that you have wasted X million government dollars. This is very bad.' Yes, we look for value for money but we also have to be prepared to let people innovate, back them when they do that and learn from the failure. One of the lessons we took from Israel, where the chief scientist disperses all sorts of moneys to back enterprises and so on, is that they do not actually see the failure of an enterprise as a failure per se. They hope people will learn from that and do better the second, third or fourth time around. I do not think it is an oxymoron, but it is a challenge because of the context in which people operate. I think that is something you would understand.

**Senator ROBERTS:** I am mindful of travelling around South-West Queensland last week and seeing community after community being hurt. They have a lot of federal government money but they are controlled in what they spend and how they spend it. Many towns are simply shutting down and unemployment is increasing. The cost to the government is increasing because of that. Changes due to the Murray-Darling Basin are driving some of the towns down. What I was getting at was: innovation since the Industrial Revolution has been almost exclusively driven by free-market entrepreneurs—from James Watts' steam engine to Steve Jobs' iPhone. I can't think of too many innovations that have been driven by government.

**Senator Sinodinos:** The only wrinkle on that, without wanting to extend too much, is: if you look at the evolution of things like Silicon Valley, where there have been big spin-offs because of defence investment in the US, or the NASA space program, which led to all sorts of spin-offs. These were not things that were necessarily envisaged when that spending first got underway—the way the internet originated, how some defence processes. I am not saying government is necessarily the greatest engine of innovation, but governments have played a role in the process. If you are saying that risk-taking and entrepreneurship are central to what you might broadly describe as the innovation process or the competitive process in a community, I certainly agree with that.

**Senator ROBERTS:** Are people aware of Hayek's view of innovation? He focuses on the limited knowledge and capabilities of economic players, to use his terms. He views innovation as a matter of trial and error and seeks to maximise the number of firms to have the opportunity to try and solve any given problem. Doesn't that mean reforming tax and freeing up business and people rather than having a few people, no matter how talented, who can't guess what will happen in the future?

**Senator Sinodinos:** That is why we are trying to cut regulation; that is why we are trying to get corporate tax cuts through the Senate; that is why we are doing a whole series of things to free the place up—the National Competition Policy and trying to get the states to agree to that. I agree with you: it is the whole environment in which business operates.

**Senator ROBERTS:** Right. It is industrial relations, employment rules and regulations that are choking—farmers will not employ people now because it is too risky. The tax system is essentially rooted in the 1940s—

**CHAIR:** Senator Roberts, we are all in vehement agreement—

**Senator ROBERTS:** I am saying we need a comprehensive view—

**Senator Sinodinos:** Particularly on Friedrich Hayek.

**Senator BUSHBY:** I am glad Senator Carr is not here.

**Senator ROBERTS:** I am not taking over from him.

**Senator Sinodinos:** I am glad he is not here. He would be standing up for North Korea.

**Senator BUSHBY:** Everybody agrees.

**CHAIR:** We have some very hungry and tired people on the panel. Thank you very much to the department. We will resume with Geoscience Australia.

**Proceedings suspended from 18:42 to 19:30**

**Geoscience Australia**

**CHAIR:** I welcome Geoscience Australia to the table. Dr Johnson, do you have an opening statement for us?

**Dr Johnson:** No opening statement.

**CHAIR:** And good evening Minister Canavan.

**Senator KETTER:** Has Geoscience Australia been approached to provide advice or information to the energy committee of cabinet?

**Dr Johnson:** Yes.

**Senator KETTER:** Can you tell us the nature of that advice? Was it regarding exploration, for example?

**Ms Beauchamp:** It is not protocol or standard practice to go through advice in relation to cabinet processes.

**Senator KETTER:** Not the actual content of the advice; the general nature of the advice.

**Ms Beauchamp:** It is around a range of energy issues, where Geoscience Australia can provide technical advice.

**Senator Canavan:** I suppose it is fair to say we are seeking to use the expertise of Geoscience Australia to advise the government on these matters, as we do from time to time, of course, in any case. But they have particular expertise in assessing resources around Australia. They are a very well-credentialed organisation. I will take this opportunity to say that I find them a fantastic agency. Welcome to Geoscience Australia.

**Senator KETTER:** I take it that you are not able to provide that advice or information?

**Ms Beauchamp:** It is not as standard practice to go into detail of what we provide to cabinet deliberations.

**Senator KETTER:** I was more seeking information about the nature of the advice. One can assume what areas Geoscience Australia might be providing advice about.

**Senator Canavan:** I am not going to go to cabinet deliberations. Geoscience Australia regularly update the assessment of Australia's resources—mineral and energy. Obviously, the government are very focused on ensuring reliable, affordable, environmentally sustainable energy for Australians. We would be doing it anyway of course; maintaining our lines of communication with Geoscience Australia and making sure we have up-to-date information from them. Clearly, they have a very important role to play in any discussion around the energy resources of this country given the expertise that is housed in Geoscience Australia.

**Senator KETTER:** I am not sure I completely understand the sensitivity, but can you tell me whether it is about coal or gas?

**Senator Canavan:** As the secretary has outlined, we do not disclose the cabinet discussions be they sensitive or otherwise. It is not the practice and we will not be changing that tonight.

**Senator KETTER:** That is all I have. Thank you.

**Senator XENOPHON:** Sadly, I have a geoscience nerd in my office! I am not saying you are nerds.

**Senator Canavan:** Thank you.

**Senator XENOPHON:** I think his regret is that he is slumming it working with me rather than Geoscience Australia. That is what he has told me. Dr Johnson, can you tell me what you know about the reserves of gas in the Bass Strait—what is possible and probable et cetera?

**Dr Johnson:** 'Reserves' is a term that is often incorrectly used and it is—

**Senator XENOPHON:** So what should I ask for?

**Dr Johnson:** You should be asking about resources. There are formal terms that actually go to reporting on the ASX and how you can legitimately report numbers. I will speak in terms of identified resources, which I think qualitatively—

**Senator XENOPHON:** Okay. What can you tell me about identified resources in the Bass Strait?

**Dr Johnson:** In Bass Strait, the identified gas resources are of the order of 10,000 petajoules. To put that into context, the identified resources Australia wide are around 279,000 petajoules. So it is a significant amount but, in the national context, relatively minor.

**Senator XENOPHON:** What do 10,000 petajoules translate to? How much does industry use? How much does a power station use, for instance, on an annual basis?

**Dr Johnson:** Annual production in Australia is around 3,000 petajoules and that will include the amounts that are consumed domestically and the export amounts.

**Senator XENOPHON:** What is domestic? What would the domestic amount be? Most of it is exported—is that right?

**Dr Johnson:** To give you an accurate answer, I would need to take that on notice. Broadly speaking, 50 per cent is consumed domestically at the moment and 50 per cent exported. That ratio will change because of course we are on an expanding export trajectory.

**Senator XENOPHON:** Sure. In terms of domestic use, it would be enough for about six years of domestic use, in very rough terms—and you may want to qualify.

**Dr Johnson:** In rough terms, yes.

**Senator XENOPHON:** Does Geoscience Australia hold bathymetric and geophysical data—that is, seismic and drilling result data?

**Dr Johnson:** Yes, we do.

**Senator XENOPHON:** Across what area and at what quality and resolution that would be sufficient to make decisions about the commercial viability of developing a gas field?

**Dr Johnson:** In a moment, I will let my colleagues speak to the bathymetric data. On seismic and drilling, we maintain the data from, basically, the entire industry of Australia's offshore hydrocarbon exploration—so back to the 1960s. That means that the extent is certainly in all of the producing offshore production areas—hydrocarbon fields—as well as some that are not yet in production. The quality will be highly variable, depending on the age of data acquisition and processing techniques at the time. As I said, we are going back to the 1960s.

**Senator XENOPHON:** Can you update processing techniques or are you stuck with the data that you received at the time?



**Dr Johnson:** No, you can update processing techniques. It is done on an as-needs basis. If we are particularly interested in a given area, we will do that. Part of your question is around the data holdings applicable for commercial decision making. Part of our role is to support the annual offshore acreage release and when areas are known to be of interest to offshore acreage release, we will compile the data and in some cases remodel—

**Senator XENOPHON:** Sorry. I am a bit deaf from an Elvis Costello concert I went to 40 years ago. Did you say offshore acreage release?

**Dr Johnson:** Yes.

**Senator Canavan:** That is the process the government goes through to ask for bids to take certain areas—

**Senator XENOPHON:** Sure. Presumably there would be oil exploration companies that would have their own data as well?

**Dr Johnson:** Yes, that is right.

**Senator XENOPHON:** Do you have access to that?

**Dr Johnson:** Yes. There is a process that is administrated by NOPTA—

**Senator XENOPHON:** We are calling them later tonight.

**Dr Johnson:** We are the data and core repository or one arm of the data and core repository for NOPTA. They administer the process by which data is made available. In general terms, all data acquired by companies must be submitted and there will be a confidentiality period before it is made publicly available.

**Senator XENOPHON:** Which is?

**Dr Johnson:** That is variable, depending on the type of data, and that is a question best put to NOPTA. The principle, however, is that all exploration companies over time should be able to stand on the shoulders—utilise the knowledge, in other words—of previous explorers.

**Senator XENOPHON:** They do not know at the moment, I think because of the rules and the time limits. Some companies cannot make that decision; that is a matter for NOPTA. The source of the data would be government surveying, commercial surveying and drilling data—is that right?

**Dr Johnson:** That is correct.

**Senator XENOPHON:** Any other source of data?

**Dr Johnson:** No, it is really government and private.

**Senator XENOPHON:** I think you have already alluded to the restrictions that Geoscience Australia have in sharing that data with commercial entities.

**Dr Johnson:** When it is open file, it is available to anyone who chooses to access it. What and when becomes open file—which datasets and when it becomes open file—is dictated by NOPTA. We will not release data until we get their say-so.

**Senator XENOPHON:** Whilst it is more appropriate to direct these issues to NOPTA, does Geoscience Australia have a role to determine the framework of what data is released? Do you give advice to NOPTA as to the rule setting? Presumably there is an administrative regime that applies to that.

**Dr Johnson:** No, we do not input into how the rules are formulated. We implement the regulations.

**Senator XENOPHON:** Presumably you do give advice as to the quality of the data and the usefulness of the data?

**Dr Johnson:** Sorry, you are quite right. There is a component which is quality assurance when data is submitted, and so we do play a role in assessing whether the companies need to actually improve what they are submitting.

**Senator XENOPHON:** Thank you. You have been very helpful and I think it will help me with my questions to NOPTA later on.

**Senator BUSHBY:** I have a couple of questions along the lines of Senator Xenophon's questions about resources, and what is proven and also a bit about prospectivity. How much gas is proven to be available in eastern Australia, including Victoria?

**Dr Johnson:** In eastern Australia, in the broad, there would be a little over 100,000 petajoules. That is Queensland, New South Wales and Victoria, onshore and offshore. And that is in the identified resources category, which is essentially reserves which are commercially viable today, and the category of contingent resources, which are geologically proven up—they have been proven up by the drill—but require some other contingency to make them economic.

**Senator BUSHBY:** So they are proven to a much higher level than what you might think is there by declaring an area prospective?

**Dr Johnson:** Yes, they are—a higher level of geological confidence than what we would categorise as prospective resources.

**Senator BUSHBY:** So that is 100,000, and it was 279,000 you said of proven resources?

**Dr Johnson:** Of identified resources for Australia in total.

**Senator BUSHBY:** So about 100,00 of that at this stage is what we are aware of in eastern Australia. Presumably there are also prospective areas that have not yet had the work done to that standard to determine whether there are resources there?

**Dr Johnson:** That is correct—a significantly higher figure for prospective resources nationwide.

**Senator BUSHBY:** I am interested in eastern Australia—Victoria, even Tasmania to some degree.

**Dr Johnson:** I do not have a figure but I could take it on notice for eastern Australia. We have recently published some preliminary figures for Victoria in terms of prospective resources and they tally to around 29,000 petajoules.

**Senator BUSHBY:** So you have done some work on that recently, or is that just part of your normal work program? Is that something you have done specifically?

**Dr Johnson:** It is both. It has been recent but it is part of our normal work program. We are working through a range of basins around Australia to understand the prospective resource potential for gas.

**Senator BUSHBY:** When you say 'basins', is most of what you are talking about offshore or are you talking about onshore basins?

**Dr Johnson:** In this case I am referring to onshore basins.

**Senator BUSHBY:** Onshore, primarily?

**Dr Johnson:** That is the current study, yes.

**Senator BUSHBY:** Where in Victoria?

**Dr Johnson:** The Otway Basin and Gippsland Basin.

**Senator BUSHBY:** Has Dr Pigram moved on or just not here tonight?

**Senator Canavan:** Dr Pigram is retiring. I might ask the secretary to formally describe his status at the moment but he is retiring. Whether he is still on the books, I am not quite sure. I will ask the secretary to clarify. We are currently in a process to seek a replacement for Dr Pigram. Can I take the opportunity to thank him for his long service. I only knew him briefly as the minister but he was an excellent public servant and always provided timely and very up-front advice.

**Ms Beauchamp:** He finished up formally yesterday. I wrote to him yesterday.

**CHAIR:** Just in time for estimates!

**Senator BUSHBY:** Dr Johnson has been extremely helpful but I notice that he is acting, and normally we do have Dr Pigram. On that basis, given the information you have just supplied, I would like to wish him the best as well. I have sat on this side of the table with him on that side of the table at countless estimates and he has always been very informative and knowledgeable and very professional, so he will be missed. I am sure his replacement—whether it is Dr Johnson, if you choose to apply, or somebody else—will do a great job as well. Best wishes to Dr Pigram.

**Senator Canavan:** I am sure he would appreciate that.

**Senator BUSHBY:** The reason I was saying that is I have asked Dr Pigram on a number of occasions about the prospectivity of Sorell Basin and whether there has been any interest in exploring that, being a senator for Tasmania and Sorell Basin being off the west coast. I understand that it does have a degree of prospectivity that makes it suitable for exploration, but it does not seem to attract a lot of interest. I was wondering whether there had been any interest.

**Dr Johnson:** There has not been any recent work by Geoscience Australia in the Sorell Basin. We did have it as part of the acreage release package. I would have to check exactly, but it was approximately three years ago. There were no work bids such that no acreage was awarded. As to whether there have been any expressions of interest to GA, I am unaware of any but I would need to take that on notice and ask my colleagues.

**Senator BUSHBY:** As you note and as I sort of intimated, there does not seem to be much interest in actually taking up opportunities there, despite the fact that the prospectivity, as I understood it, looks as good as a lot of other places where there has been interest. Do you have any idea why that is? Are people scared of the weather or is it too deep? Do you have any idea why they might pick up some areas over others?

**Dr Johnson:** My sense is that it will be their perception of prospectivity, but really that is a question for the individuals.

**Senator Canavan:** NOPTA might have a view on that as well, given they are responsible for that acreage release. You might want to ask them later as well.

**Senator BUSHBY:** Thank you.

**Senator KETTER:** I have some follow-up questions to my rather unsuccessful line of questioning earlier. I was a bit surprised and disappointed to hear that you are not prepared to provide answers to fairly general questions about advice provided by Geoscience Australia to the Energy Committee of cabinet. I wanted to ask specifically: are you claiming public interest immunity in relation to those questions?

**Senator Canavan:** We are claiming cabinet-in-confidence there. I would make the point that Geoscience Australia are always happy to answer specific questions that you might have in this forum. The level of expertise and information they have, while available to cabinet, obviously, and to the government, is also widely publicly available. I think they have been very forthright and upfront to the line of questioning here today on resource assessment, and I am sure they are happy to answer further questions if you have them.

**Senator KETTER:** Dr Johnson was not able to answer the general questions I asked about the nature of the advice. I do not know whether the advice relates to Queensland or some other state. Are you prepared to tell us?

**Senator Canavan:** As I indicated, I am not going to go into cabinet deliberations. It is not my understanding of—

**Senator KETTER:** I am not asking for deliberations.

**Senator Canavan:** Except to say that we are of course using all the expertise that Geoscience Australia has to help inform our decisions and our considerations of these issues.

**Senator KETTER:** So you are claiming cabinet-in-confidence and you are not seeking to rely on public interest immunity?

**Senator Canavan:** As I have said, these matters go to ones before cabinet, so they are not normally disclosed in this forum.

**Ms Beauchamp:** Senator Ketter, you specifically asked about advice to cabinet.

**Senator KETTER:** I asked about the nature of the advice, yes.

**Ms Beauchamp:** Exactly. We do not provide publicly the nature of advice provided for cabinet deliberations. What Geoscience Australia can provide, though, is the sorts of advice provided to ministers and government that they have responsibility for. In a broad sense, you can look at the responsibilities of Geoscience Australia and understand what their role is.

**Senator KETTER:** I could do that, but I was specifically interested in how they are informing the Energy Committee of cabinet. I think there is a public interest in understanding what sort of advice is being provided, just in a general sense.

**Senator Canavan:** If it is in the general sense, I believe I have tried to indicate the government's objectives and commitments in terms of the development of energy policy in this country; we have pretty clear-minded objectives here, particularly to help deliver power at an affordable rate, to be reliable and to meet increasingly environmentally sustainable goals. So of course in those discussions an assessment of the energy resources that exist in this country, which can help provide and meet those goals, is very important, and Geoscience Australia have a lot of that information.

I do not think that any of that information that they make available cannot be made available to this committee or to other public fora that they provide. They regularly update a resource assessment for the public. As Dr Johnson indicated, they recently updated that in regard to the Gippsland and Otway basins. They are, in my view, a very well regarded organisation. They are an incredibly transparent one as well.

So, while they are giving the government specific advice on these matters, I am not going to go into the particular nature of them apart from saying that of course we are seeking advice from all agencies and public servants who can help us make these decisions for the benefit of our country.

**Senator KETTER:** I will leave that there.

**Senator XENOPHON:** Do you have a figure for the estimated gas resources in South Australia?

**Dr Johnson:** I would need to take that on notice because there would be some breakdown of analysis that would have to—

**Senator Canavan:** I think it is also important to note that some of these basins overlap. They do not follow state boundaries precisely. So, while we have been providing figures for Gippsland and Otway, I believe the Otway basin, at least, may straddle some of—

**Senator XENOPHON:** I suppose this is tangential to Senator Ketter's line of questioning, but you do have a very important role to play. From the feedback I get, you are a very highly regarded organisation. The quality of your work depends on having the resources to undertake those surveys and the like. What is your budget at the moment in approximate terms? Are you in any way constrained in determining the extent of resources by having to queue up what you need to assess as a result of—I would not call it budgetary constraints. But could you do things more quickly if you had more money to do that surveying?

**Dr Johnson:** Firstly, our annual appropriation budget is around \$140 million. Inevitably, with the suite of activities we undertake, we need to prioritise according to the government priorities. If we need to throw more people—reprioritising within the people resourcing that we currently have—to particular problems, then we do that.

**Senator XENOPHON:** I raise it in the context that many view gas as an important transitional fuel in order to meet the Paris Agreement targets, and it is also a base-load fuel. It gives you that energy security as well as being considerably cleaner than coal. Is it a case that, if we needed to access it, in terms of prospecting those reserves, if there were a larger budget to allow for a greater degree of surveying being done more quickly, that would help the Commonwealth and others assess what resources are where?

**Senator Canavan:** Can I just add, Senator Xenophon, first—and I am happy for Dr Johnson to contribute—

**Senator XENOPHON:** Well, you have not added; you have done it as a preamble.

**Senator Canavan:** It is adding to your line of questioning.

**Senator XENOPHON:** That is okay then.

**Senator Canavan:** The government is very mindful of the issues you have raised in that question. That is partly the reason that, in the last budget, we provided an additional \$100 million for exploratory activities for both mineral and energy resources and also groundwater

assessments. The focus of that investment was in northern Australia, where there are a lot of undeveloped areas, but you will be happy, I am sure, to note that for the purpose of this program we have included South Australia as part of northern Australia, if you like, because there are areas of undeveloped prospectivity there.

**Senator XENOPHON:** You do not forget about us, Minister.

**Senator Canavan:** I do not forget about you, Senator Xenophon; you are very important. That investment is indicative of the government's commitment to try to develop our resources. I would say, as the Minister for Resources and Northern Australia, that the priority as I see it for the Commonwealth government is to develop our resources, which are those offshore resources that Geoscience Australia do a lot of work in. A lot of their work has been integral to develop areas like the Browse Basin and the INPEX project. They did a lot of the work that then kicked off commercial development, and they have done the same in the Great Australian Bight, may I say. That is the priority, but they also have a role in working with the various state based geological surveys to do assessments onshore as well, even though those are the state resources.

**Senator XENOPHON:** The point I was making is that, given what has been happening around the country in terms of issues of energy security, the price of gas et cetera, there may be an added imperative to see where those gas resources are and to be able to use them or access them.

**Dr Johnson:** Inevitably, with greater resourcing one can do more. But, in this instance, we are spending approximately 30 per cent of the Exploring for the Future program that the minister referred to over the forward estimates on hydrocarbon-related precompetitive geoscience, and we will be stretched to our capacity and to the availability of the right expertise more broadly, not just within our walls, to achieve that work. Right now we are very well resourced for hydrocarbon precompetitive exploration.

**Senator XENOPHON:** In the past you have used the icebreaker *Aurora Australis* for collection work, is that right?

**Dr Johnson:** I would have to take that on notice.

**Senator XENOPHON:** Will the icebreaker that is currently being built in Romania be used to do that work as well? Could you take that on notice?

**Dr Johnson:** Certainly. Madam Chair, may I provide a clarification to my previous answer to Senator Xenophon specifically around the bathymetry component of his question earlier? I will pass to my colleague.

**Dr Minchin:** The answer Dr Johnson gave you was correct around the resources data, in particular the seismic and related work. However, the bathymetry is often collected for environmental assessment of the areas where the exploration is being undertaken, and we in Geoscience Australia do manage a lot of the historical bathymetry collected data and make that publicly available. However, the companies who undertake those surveys are not required to provide the environmental data to Geoscience Australia at this point in time.

**Senator XENOPHON:** You do not have that legislative authority, is that right?

**Dr Minchin:** That is correct.

**Senator XENOPHON:** If you had that additional data, would that be at all helpful to Geoscience Australia?

**Dr Minchin:** It is not really a point of whether it is helpful to us. It would, I think, help the companies in demonstrating the impact of new work in the regions in which they are prospecting.

**Senator XENOPHON:** But it would not be unreasonable for Geoscience Australia to be the collection agency for that data.

**Dr Minchin:** No, that would be—

**Senator XENOPHON:** Minister, would the government consider whether Geoscience Australia could have that extra data collection role?

**Senator Canavan:** I am happy to take advice from Geoscience Australia on those matters. It is not something before me right now, but I am always happy to consider—

**Senator XENOPHON:** Neither was it before me until—

**Senator Canavan:** I am happy to consider any changes which help develop our resources. That is the priority.

**Senator XENOPHON:** Minister, could you undertake to let the committee or me know as well once that has been considered?

**Senator Canavan:** Certainly, I am happy to do that in future committees and other opportunities where you would seek to have those discussions.

**Senator XENOPHON:** Thank you, Dr Minchin and Dr Johnson, that has been very helpful.

**CHAIR:** Senator Bushby has some follow-up questions.

**Senator BUSHBY:** It is not so much a follow-up question but a broader question. Most of the questions tonight and most of the questions generally that are directed towards Geoscience Australia relate to—and I will use a term that I think you used—hydrocarbon precompetitive exploration. They are of that nature. But Geoscience Australia has a much broader remit than that as well, does it not?

**Dr Johnson:** That is correct.

**Senator BUSHBY:** Just looking at your internet site, there is building Australia's resource wealth, which is obviously where that one would fall; ensuring Australia's community safety, which I think goes to bushfires and all those sorts of things; securing Australia's water resources; managing Australia's marine jurisdictions; providing fundamental geographic information. What I am interested in is a brief summary of what Geoscience Australia does and the contribution it makes to Australia.

**Dr Johnson:** Geoscience Australia makes a contribution across all of those sectors that you mentioned. Certainly, every time you use Google maps on your mobile phone you are reliant on Geoscience Australia for the positioning that tells you where you are. We have a contribution in partnership with the Bureau of Meteorology to the Joint Australian Tsunami Warning Centre. That is a key part under that heading you mentioned around ensuring community safety. As you accurately mentioned also, the satellite monitoring of bushfire progress is rapidly progressing towards an ability in real time to help emergency managers.

There is an enormous contribution through the value creation, the wealth creation, through our resources related work and the community resilience through not only the community safety part but aspects around securing water resources through our groundwater studies. I could talk ad infinitum on the value that Geoscience Australia provides, but I think that might be a bit self-serving—

**Senator BUSHBY:** And I have already asked for a brief summary. What proportion of the work that you do would be based on Building Australia's Resource Wealth and what proportion of your work would be based on other aspects?

**Dr Johnson:** I could take that on notice and provide you with a breakdown.

**Senator BUSHBY:** Thank you.

**CHAIR:** I thank the officers from Geoscience Australia. You are free to go. Thank you very much for being so flexible today. I realise that we shifted you around and that you have had to appear about eight hours after we had anticipated you would be appearing. Thank you for being so helpful to the committee today.

#### **Department of Industry, Innovation and Science**

[20:02]

**CHAIR:** We now move to program 2, section 2.4, Resources Division, the National Offshore Petroleum Titles Administrator.

**Senator XENOPHON:** Can you please tell me how many retention leases there are in the Bass Strait.

**Mr Waters:** In answer to your question, in the Vic-Tas offshore area in Commonwealth waters there are 12 current retention leases: four in the Tasmanian jurisdiction and eight in the Victorian jurisdiction.

**Senator XENOPHON:** So 12 in total?

**Mr Waters:** Yes. Eight of them are in the Otway-Gippsland basins and the other four are in the Commonwealth waters, offshore Tasmania.

**Senator XENOPHON:** Is it correct that a retention lease is granted only in circumstances where the licence area will be commercially viable within 15 years? Is that the general principle?

**Mr Waters:** That is the main principle. A retention lease is granted for a five-year term, and one of the conditions is that the titleholder has been able to demonstrate that the pool is likely to be commercial within 15 years.

**Senator XENOPHON:** I see. So it is a five-year term, but you need to establish the 15-year viability.

**Mr Waters:** Yes.

**Senator XENOPHON:** So how many of these five-year, presumably, rolling leases—you roll them over; is that the general principle?

**Mr Waters:** Yes, in effect. Before the expiration of the five-year term, the titleholder is entitled to come forward with an application to renew.

**Senator XENOPHON:** And what do they need to show—just the fact that they are still interested in that particular area?



**Mr Waters:** Firstly, they need to satisfy that they have completed their work program. So there is a compliance issue—that the title is in compliance. They also need to demonstrate what work they have done in furthering their understanding, removing uncertainty to bring the title into production.

**Senator XENOPHON:** Do you sometimes write back to these holders and say, 'You haven't given us enough information here. We want some further and better particulars.' Or is it pretty much an automatic thing that they just roll over?

**Mr Waters:** No, it is certainly not automatic. When the applicant comes forward it may well have been that prior to submitting the application they have met with us and described the situation. Then when the application is submitted it is sometimes the case that we will write to them to request further information and clarification.

**Senator XENOPHON:** How often would you write? I do not want specific details, but does it happen rarely, often or in a third of cases?

**Mr Waters:** I would say often. It is fair to say that some titleholders are particularly good in the quality of their application; some are less so, so we request further information.

**Senator XENOPHON:** How many of those leases in the Bass Strait are approaching the 15-year mark?

**Mr Waters:** Of the ones in the Victorian jurisdiction—the eight—three of them are in their third term and five of them are in their first term. I do have the figures on—

**Senator XENOPHON:** If you want to provide them on notice, that might be more efficient.

**Mr Waters:** This information is publicly available, so we can provide it to you.

**Senator XENOPHON:** If it is publicly available, I can dig it up.

**Senator XENOPHON:** But all similarly in the Commonwealth waters?

**Mr Waters:** Sorry, only in the Commonwealth waters.

**Senator XENOPHON:** And for the Commonwealth waters? You have covered the Victorian—the eight there. The other four—what is the story with those?

**Mr Waters:** The Tasmanian ones, I believe, are all in their second term.

**Senator XENOPHON:** How many of those leases are in place as a result of a previous retention lease expiring after that 15-year period that you referred to? In other words, can you roll it over after the 15 years?

**Mr Waters:** That happens, but it is not the case in any of the ones in the Bass Strait. Sorry, I am not entirely sure that I understood the question. What I answered was that none of the ones that I referred to in Vic-Tas have gone longer than 15 years. There have been other retention leases in other jurisdictions that have gone longer than 15 years.

**Senator XENOPHON:** But not in the Bass Strait?

**Mr Waters:** Not in the Bass Strait.

**Senator XENOPHON:** So every five years within the 15-year period a leaseholder must either develop the area or seek to retain a lease on the basis that the area is not commercially viable at that time. Is that the general principle?

**Mr Waters:** Yes. I would have described it as: should the field on the assessment of the titleholder be the view that it has become commercial, the next step would be for them to lodge an application for a production licence.

**Senator XENOPHON:** But if they say it is not commercial, it is really their opinion; it is very hard for you to look behind that, is it not?

**Mr Waters:** In terms of our assessment, it is fair to say that, during the life cycle of a retention lease, when it is first granted the majority of the uncertainties are of a technical nature—mostly geological. The titleholder is seeking to understand more fully the nature of the pool. As we go through that work program in the first five years, or possibly longer, depending on the circumstances, those uncertainties are more of a commercial infrastructure nature. So there is a change in the way that we do the assessment—purely geological and then in terms of the economics.

**Senator XENOPHON:** I do not want to be too laborious about this but I am trying to understand this because there is a significant resource there. As you know, there is a big issue about the price of gas and the accessibility of gas in this country. We heard from Geoscience Australia that there is quite a significant resource. What I am trying to understand is, when a company has a retention lease, does it provide you with the information they have obtained? In other words, are they required to provide any seismic data or any surveys that they have done in that area to you as part of your assessment as to whether they have their five-year lease rolled over?

**Mr Waters:** Yes, we are provided with information on the processing of the seismic data, the geological analysis of exploration appraisal wells and a number of other activities that they have undertaken, including things like infrastructure, availability for production and those things. Yes, that is all provided to NOPTA.

**Senator XENOPHON:** This is absolutely not a criticism of your organisation, but you have to rely on what the holder of the lease is telling you in the sense that you have to take it at face value if they say, 'It's not commercial at this stage,' or, 'The infrastructure cost will be too high.' You do not really have the resources to look behind that, do you?

**Mr Waters:** Yes, we do—

**Senator Canavan:** I look at some of these applications, or they are elevated to myself, and I have been, as a new minister, trying to look at more of them to get across them. Can I just say that I would not put that characterisation on it at all. As Mr Waters has outlined, there is, sometimes, a to and fro in communication with the titleholder. I have asked questions myself about particular elements of renewal lease applications. We have those powers, and they are used. We can certainly have a discussion about whether or not that is sufficient or if we should be doing more or less, but I would not characterise it as taking it at face value.

**Senator XENOPHON:** Is the government open to looking at whether the powers of the organisation are adequate to perhaps look more closely at some of these applications?

**Senator Canavan:** At the moment there is an ongoing review into the offshore resource management framework. That covers aspects of what we are talking about here in terms of lease renewal. NOPTA have been consulting widely with stakeholders about the effectiveness of the current arrangements. They released an interim report last year, and my understanding—Mr Waters, correct me if I am wrong—is that there was broad acceptance of

the functioning of the system as it currently stands. The report is under finalisation—that is my understanding—before it is presented to myself. I do not know if Mr Waters wants to add further to that.

**Mr Waters:** I think it might be helpful if I explain that in terms of the competent capacity inside NOPTA. In addition to our titles administration non-technical people, we also have geological and geophysical reservoir engineering and petroleum engineering experts. In terms of the analysis of the detailed application submitted by the titleholder, and indeed during the course of the retention lease, we, at least on an annual basis, are doing a close review of the progress that the titles are making, what steps are being taken and what is becoming available. We do that on a title by title basis, but we also do it more broadly from a regional perspective for things like the available infrastructure, the capacity for production and those things. We do not just accept what a titleholder may submit to us. In fact, on one contentious issue not in Vic/Tas, we thought it prudent to engage an external consultant to undertake a similar analysis as our own analysis to provide the joint authority with a thorough assessment of what was going on.

**Senator XENOPHON:** That leads to the nub of the issue for me. This is in no way a criticism of your organisation. It is a case of the current framework and the rules that I am sure that you faithfully apply. But the question is: can a third-party come in and provide some contestability? In other words, if another party says, 'XYZ company has a retention lease that they say is not commercially viable,' and another company, ABC exploration, says, 'We reckon it is,' how do you handle that contestability and how many times has that ever occurred?

**Mr Waters:** The short answer to your question is yes. At the point of renewal, a third-party submission may be received by NOPTA. In answer to the second part of your question, since NOPTA was created on 1 January 2012, that has happened on one occasion.

**Senator XENOPHON:** At the moment, if somebody wants to contest it—someone is holding onto a resource, others say, 'We think we can use it, we can do a better job'—before they could make a bid on it, they would have to have access to all of the seismic surveys, all of the technical data, wouldn't they?

**Mr Waters:** They certainly would be helpful to them, yes. In most cases, and if we are talking primarily about Bass Strait, the vast majority of the 2D and 3D seismic surveys that have been shot over that area is available for public review.

**Senator XENOPHON:** Sure, but if there is something that the original exploration company with the retention lease actually have, they are not obliged to share that with a company contesting their use of it—is that right?

**Mr Waters:** That is a commercial matter that we would not get involved in.

**Senator XENOPHON:** All right, but you can understand the disadvantage that a company may have in those circumstances?

**Senator Canavan:** I can certainly understand the point of the question. I have asked similar questions of NOPTA on those things. With your particular interest in Bass Strait, given it has been a long developed historical gas resource for Australia, there does seem to be a lot of public data available on those aspects that would assist third parties making those applications if they saw fit.

**Senator XENOPHON:** I want to put on notice: if there is to be genuine contestability, the argument could be that a company is seeking to challenge the existing leaseholder or potential leaseholder, is there an administrative process or a fair use process for them to have access to all of the data so that they can make an informed to bid before they make a decision? One scenario that has been put to me is that the holder of the retention lease may have drilling resources tiled up elsewhere in the world and it may not be a priority for them, that particular retention lease. Other potential bidders may have drilling resources available that may tip it into the commercial viability sphere. That is one scenario that has been put to me.

**Mr Waters:** Sure. With the current state of exploration and activity in the offshore global space, the availability of rigs is not an issue with the amount of drilling that has been going on.

**Senator XENOPHON:** There are lots of rigs around at the moment?

**Mr Waters:** There are lots of rigs around at the moment—globally, not necessarily in Australia.

**Senator XENOPHON:** To you, Minister, or to NOPTA: can the Commonwealth invite a third party to come and provide some contestability? Has that ever occurred?

**Mr Waters:** Yes.

**Senator Canavan:** I have asked these questions myself, and, again, the short answer is, yes, they can. I would be, I am sure, lobbied—if that is the right word—or met with to discuss these issues with the same people who would be darkening your doorstep, Senator Xenophon. For what it is worth, I always encourage such participants to put forward a case for development, if there is one, in a specific area because I want to see the resource developed. If that is the case, there are mechanisms to allow that contestability to occur.

Can I go back one step, to the general question you put about access to intellectual property. I see where you are coming from, but a lot of your question goes to policy matters. I do not think it is fair for Mr Waters to provide detailed commentary on that. There is clearly a trade-off here. We need to provide incentives for people to invest in such research and give them fair opportunity to make an investment return on such investment, while of course wanting to, at some stage and at some point, make available information freely enough to encourage development.

**Senator XENOPHON:** Thank you, Minister, but—I am nearly done.

**Senator Canavan:** You do not need to apologise; it is a very important issue. I am not at all questioning that it is very important.

**Senator XENOPHON:** If it sounds like I was apologising, I am just tired, that is all.

**Senator Canavan:** So are we all!

**Senator XENOPHON:** It is just the sheer exhaustion from the exhilaration of estimates. The concern is that there may actually be impediments to having the most robust level of contestability in access to data. If you are trying to get access to data, and that oil company that has been exploring has got all of this material, then you are not going to be able to make an informed bid. Also, can you take on notice, Minister and NOPTA: are there other regimes elsewhere in the world where there is a greater level of contestability than what we have in

Australia? In other words, is there a use-it-or-lose-it approach that is more immediate in other countries?

Again, I have absolutely no criticism of NOPTA. You are clearly working diligently through the existing framework but I am just wondering whether other parts of the world have a more contestable arrangement?

**Senator Canavan:** I am happy to do that, Senator Xenophon. I would note—I think it was at the last estimates—question SI-42, where we did provide some information in that regard on situations in other countries. Obviously that is there for you to review. There are often, what seems to be generically called, 'holding' titles in other parts of the world in the OECD. We have a renewal licence system and we can provide some further details.

**Senator XENOPHON:** I guess this all goes to the ultimate question, with a view to increasing gas supplies into the market: issues of energy security and issues of reliable thermal base load generation in this country. All of my questions have been directed at how to increase competitive tension at that five-year mark so that it is more likely that resources can be explored.

**Senator Canavan:** I share your desire to develop more gas in this country. I think it is desperately needed. Obviously the government is very concerned about some of the measures being taken at state and territory government level to narrow our options in that regard and also the various campaigns.

**Senator XENOPHON:** There is a difference between CSG and what is in the Bass Strait though.

**Senator Canavan:** But keeping in mind that in the case of the Victorian government, they are proceeding with a moratorium on conventional gas that has been safely and commonly used for centuries. That is of great concern to the federal government, as is the oppositional nonconsideration of looking at the Great Australian Bight even before the proper environmental plan process is complete. It clearly is a case of—

**Senator XENOPHON:** There is a bit of a difference between drilling for oil in the Great Australian Bight and drilling for gas in Bass Strait.

**Senator Canavan:** The information I have—and I am happy for Mr Waters to contribute to this too—is that in the Great Australian Bight we are not actually sure what hydrocarbons are there at the moment. We believe there are significant source rocks but it may be gas or it may be oil.

**Senator XENOPHON:** Is there not a significant difference between the known environmental risks to the Bass Strait in terms of the relatively minimal environmental risks to the Bass Strait for the gas reserves compared to the—

**Senator Canavan:** Your point there is not incorrect, but I am saying we should be open-minded to looking at those environmental issues through a regulatory process rather than closing our minds to them before it has had an opportunity to proceed. If I can say more generally about our acreage release program and offshore resource management framework, I do not think anyone can argue that we have not been successful as a country in attracting investment and production of gas. Notwithstanding seeing the shortages emerging in southern markets, in terms of the gas produced in this country on the eastern coast it has tripled and on

the western coast we have had major projects like Gorgon and Wheatstone come forward, and Inpex in Darwin.

**Senator XENOPHON:** And in the absence of domestic gas—

**Senator Canavan:** There are huge amounts of investment we have attracted to this country under the framework that you are providing some critique of. I am not saying, in any way, it is a perfect system, because there are a lot of trade-offs here to assess, but we have been very successful as a country in doing that. What is a little frustrating at the moment is where we need gas in the southern markets there is a narrowing of minds and a foreclosing of options which will make it more difficult to help the shortfall.

**Senator XENOPHON:** To help in the Bass Strait to see if we can access supplies more quickly.

**Senator Canavan:** That needs to be an option too.

**Senator XENOPHON:** Thank you, Chair.

**Senator BUSHBY:** How much gas is in known reserves with the 12 Victorian and Tasmanian retention leases?

**Mr Waters:** In the 12 current retention leases, the estimation on recoverable gas is in the order of one trillion cubic feet. That is a relatively small amount of gas.

**Senator BUSHBY:** I was going to ask you to give me some context of what that means.

**Mr Waters:** I know the previous speaker, Dr Johnson, spoke in terms of petajoules, and I have just thrown cubic feet at you.

**Senator Canavan:** Do not get me started, Senator Bushby!

**Mr Waters:** I will try and explain the difference. I am talking in terms of resource; the recoverable gas. Again this is an estimate as opposed to the actual gas in place. Perhaps I will put it this way: a petajoule is roughly the equivalent, based on the quality of the gas in Bass Strait, of one billion cubic feet of gas, one BCF. Of course, a trillion cubic feet is 1,000 BCF. So, in terms of the—

**Senator BUSHBY:** I might have to read this in *Hansard* and think about it. So I think you are saying 1,000 petajoules.

**CHAIR:** It is very late.

**Mr Waters:** Yes. Again, the numbers are so large it is hard to fathom, but approximately 350 billion cubic feet of gas is produced in Bass Strait each year.

**Senator BUSHBY:** How much did you just say?

**Mr Waters:** One trillion, so roughly three years worth of gas.

**Senator BUSHBY:** Three years of current gas production.

**Mr Waters:** That is across all 12.

**Senator BUSHBY:** That gives me something that I can actually—

**Mr Waters:** Yes. So that is why I say it is a modest amount in 12 separate pools—roughly three years of gas. In answer to the rest of your question, the pools of gas which are currently covered by a production licence and in production are approximately 5.5 trillion cubic feet, which is about 15 years, assuming—

**Senator BUSHBY:** That is in Bass Strait?

**Mr Waters:** In Bass Strait. That is assuming consistency in quality of gas.

**Senator BUSHBY:** So there is only roughly 20 per cent of what is currently under production untapped at this point.

**Mr Waters:** Yes.

**Senator BUSHBY:** But at a known level.

**Mr Waters:** Yes. There is also an additional two trillion cubic feet inside the production licence area not in production. Bass Strait has rather large production licence areas, which is why there are pools under production and pools not yet under production.

**Senator BUSHBY:** Just to drill down a little bit more, as a Tasmanian senator I am interested in the four Tasmanian ones. Where in Bass Strait are those?

**Mr Waters:** Sorry? Where?

**Senator BUSHBY:** Sorry. What makes them Tasmanian as opposed to Victorian?

**Mr Waters:** Sorry. When I talk about the Commonwealth waters in Bass Strait, we are talking about the Otway Basin and the Gippsland Basin.

**Senator BUSHBY:** Which are roughly—

**Mr Waters:** East and west. The Tasmanian retention leases—and, quite frankly, I really did not look at the map too closely for Tasmania, thinking this was all going to be about Bass Strait—I think are around the west coast, towards the southwest coast.

**Senator BUSHBY:** Southwest?

**Mr Waters:** Yes.

**Senator BUSHBY:** So in the Sorell Basin, or southwest of Bass Strait?

**Mr Waters:** Ah, here we go. I should have referred to the map. They are off the north coast, to the right of King Island.

**Senator BUSHBY:** So slightly east of the Otway Basin, basically.

**Mr Waters:** Yes.

**Senator BUSHBY:** My understanding is that the Otway Basin comes down to near King Island but on the west of it, and then this is on the eastern side of it.

**Mr Waters:** That is right, so the Gippsland Basin. I am happy to share the map with you.

**Senator BUSHBY:** We can table the map. Thank you.

**CHAIR:** We will table the map.

**Senator BUSHBY:** I have just a couple more question. I asked Geoscience Australia immediately before you came in, and I have asked them on a number of occasions, about the Sorell Basin. You probably do not have the map now, but it is on the west coast of Tasmania, so not in Bass Strait. If you follow the Great Australian Bight all the way round, it is south of King Island, basically, and west of Tasmania. That has apparently shown reasonable signs of prospectivity according to Geoscience Australia. A few years ago it was put out as part of the acreage release but did not attract much, if any, interest. I was just wondering, and I asked Geoscience Australia whether they knew why it did not, and they suggested that you might have some knowledge. Take that on notice, please.

**Mr Waters:** I think I would need to, because I am not familiar with it. There are a number of disparate reasons why a company may indicate interest in a particular area in the precompetitive phase of acreage release but then not actually bid for it once it is released.

**Senator BUSHBY:** I do not even know if anybody showed any interest at the precompetitive level, so can you have a look at that and let us know whether there was any interest at that point as well.

**Mr Waters:** Yes, I am happy to look at that.

**Senator BUSHBY:** Thank you.

**CHAIR:** Are there any more questions?

**Senator LUDLAM:** Not with these folks, but under 2.4, on resources generally.

**Senator Canavan:** Just to clarify, Mr Waters can be dismissed?

**CHAIR:** Yes, Mr Waters, you may go. Thank you very much for your time.

**Senator LUDLAM:** I will not ask anything in which there is relevance to trillion cubic feet! You are good to go.

**Senator Canavan:** Don't be too sure, Senator Ludlam. You will find a way to put some units in there.

**Senator LUDLAM:** I am going to ask a little bit about national radioactive waste management and what is happening in that site selection process. Welcome back, Mr Sheldrick. I am glad we will not send you home empty-handed after a long day. Can you confirm for us that the minister has formally accepted two recent additional national radioactive waste dump site nominations—

**Senator Canavan:** Can you please repeat that, Senator Ludlum.

**Senator LUDLAM:** On the mike—I beg your pardon.

**Senator Canavan:** It is not your fault. I was just communicating to another witness here.

**Senator LUDLAM:** Can you please confirm for us that the minister has formally accepted two recent additional national radioactive waste dump site nominations from the Kimba district in South Australia?

**Senator Canavan:** No, I have not accepted those proposals at this stage. I have received two formal applications—

**Senator LUDLAM:** Okay. Received not accepted.

**Senator Canavan:** from the Kimba area, but they have not been accepted yet.

**Senator LUDLAM:** It seems a bit silly to direct that to Mr Sheldrick when you are sitting right there. My apologies.

**Senator Canavan:** That is alright.

**Senator LUDLAM:** Given that a couple of previous nominations from that area were not selected and short-listed for further consideration as part of the formal site selection process that ran for 18 months or so, what is different about these two new sites that even causes you to have them on your desk?

**Senator Canavan:** Senator Ludlam, I am happy to give you the time line here, if you like—



**Senator LUDLAM:** Yes, please.

**Senator Canavan:** and pull me up if I am giving you too much information. As you would be aware, on the short-listing of the Barndioota site last year we indicated an openness or that we would welcome further voluntarily proposals from landowners.

**Senator LUDLAM:** I remember.

**Senator Canavan:** In the second half of last year, I was advised that there was some renewed interest from landowners from different properties in the Kimba region than proposed previously. On receiving that, I indicated that I was happy to meet with the applicants, as well as the local council and some other community members. Following those discussions, I obviously spoke to my department. The department felt it would be important to assess the situation on the ground in Kimba before we made any decision; so they will go to the detail. They have done that over the last few months and have provided some analysis for me that I will consider in making a determination in this case. Because the decision is before me, I will not go into all of the details, although I think the department have been very transparent with the affected community members, and they might go into what they have produced and the advice they have provided me. The difference here, if you like, that seems to have triggered the most interest in these proposals is that the neighbouring landholders are relatively supportive—at least it is my understanding—compared to the previous submission from Kimba. I have not made a final decision yet, but there has been an extensive process to try and assess what, if anything, has changed. Mr Wilson or Mr Sheldrick, do you want to add anything?

**Mr B Wilson:** I think that is a pretty good summary.

**Senator LUDLAM:** A decent summary. Alright. Thank you. Maybe on notice, if you like, as you are a bit indeterminate as to when these sites had come to your attention. Do you want to take on notice when you were actually approached?

**Senator Canavan:** Sure.

**Senator LUDLAM:** Can you confirm, or maybe Mr Wilson or Mr Sheldrick can confirm, for us that at no point either from the minister's office or from the department was anybody solicited to bring these forward? You made it sound as though they came through your door rather than the other way round.

**Senator Canavan:** Other than the fact that the government has indicated an openness to receive proposals, that is a correct characterisation.

**Senator LUDLAM:** Nothing specific?

**Senator Canavan:** I was not aware of these proposals until it was indicated there was interest.

**Senator LUDLAM:** The same from you two gentlemen?

**Mr B Wilson:** That is exactly right. We were contacted at some point—I can't remember when; quite a few months after the previous decision—by the group in Kimba considering new nominations. We had talked to them only about the process that might be followed if they were interested in nominating. At all times, we made it clear that it was really a matter for them as to whether any nomination came forward. The government had no view about whether a nomination should come forward from Kimba or not.

**Senator LUDLAM:** If I remember correctly, under the former minister, both of you two gentlemen were involved in the whole site selection process from beginning to end. You have been with the department for quite some time. You would be aware that the proposals that were forwarded from the Kimba district the year before last ended up being quite divisive, setting family against family. You both spent a bit of time in the town, I presume. What reason do you have to believe that it will not be exactly the same this time?

**Mr B Wilson:** Certainly, there was division in the community. There is division in the communities in which consultation happens—that is, unfortunately, a product of a proposal being put forward. There are people who support it and people who do not. Different communities react differently. There was certainly division in Kimba.

Would it be any different this time round? Our sense, from having been in the community—and this is not presupposing the decision by the minister—as we went there in November as part of our new process to go into a community before any nomination is made, was that there does seem to have been an improvement in support or more general support in the community. We are not able to assess how much more support that is because we did not talk to everybody.

**Senator LUDLAM:** I understand.

**Mr B Wilson:** The groups that oppose it made it very clear that they still strongly oppose it. Whether that results in deep division, I guess, is a matter for that community.

**Senator LUDLAM:** I appreciate your candour.

**Senator Canavan:** Just to add to that, to give you reassurance, I met with a group that was the prime organised group that opposed as well and I am well aware of the points of view about division in the community on those things.

**Senator LUDLAM:** Thank you. During the process that Minister McFarlane set in train we critiqued it but we also supported it, up to a point, because it was a different approach from just sticking a dart into a map and saying, 'It's going there.' There was a process, there was a paper trail and, among other things, there were two reference groups that had a variety of scientific, geophysical, community consultation campaign, antinuclear campaign, as there was a representative from the Australian Conservation Foundation. So the process itself, while I would have argued that it was flawed, in some respects, was a process. Are you standing up any of that same procedural infrastructure as you evaluate these other sites or are you just winging it?

**Senator Canavan:** I would have to ask. I am not fully aware of those previous processes, so I might have to ask others about the comparison.

**Mr B Wilson:** In the last process we stood up an independent expert advisory panel, which had the membership you described, and one of the key roles of that panel was to help us develop an assessment methodology. The panel itself did not make decisions around—

**Senator LUDLAM:** I understand that.

**Mr B Wilson:** That methodology is now in place and we will be using that methodology to assess the proposals that come forward from Kimba. I cannot presuppose what decision the minister makes on the nominations from Kimba and whether we would stand up anything post that. I can draw parallels to what we have done for the other nomination at Wallerberdina

station where we have set up a consultative committee of locals. That committee very deliberately includes people who oppose it, people who support it and people in the middle. It is a wide-ranging stakeholder group. If the minister made a decision to go forward and if the can community wanted to go forward into the process, we would stand up something similar.

In relation to an expert panel, we are considering whether we stand up an expert panel for the Hawker process. If we do that, we would make that available to any other nominations that were around.

**Senator LUDLAM:** Since you mentioned Wallerberdina, let's go there. I might circle back round to Kimba right at the end. I do not have too many more. When will the cultural heritage surveys, part of phase 2 of that process, get underway?

**Mr B Wilson:** That will get underway once we have come to an arrangement for the survey with the Adnyamathanha community.

**Senator LUDLAM:** My next question was going to be about terms of reference or criteria. Is that still in play, then?

**Mr B Wilson:** That is something that we would be discussing with that community. We are now in the process of doing that with both the Adnyamathanha, the ATLA board, and the VYAC, the Viliwarinha Aboriginal community, who are the family group who own the property next to the Wallerberdina station. We are currently seeking representations from the steering committee to oversee the heritage process. Hopefully we can commence that shortly.

**Senator LUDLAM:** Speaking in regional media last month in *The Transcontinental* on 6 February Vince Coulthard, who is the CEO of the Adnyamathanha Traditional Lands Association, which you just referenced, said that ATLA remains 'totally opposed' to a nuclear facility at Barndioota. He was quoted as saying:

The government said they would not put the dump where there was community opposition, well we oppose it and as the peak body for the Traditional Owners of the Flinders Ranges area, the government must stop this dump based on our opposition.

Are you aware of whether their view has changed in the last four or five weeks?

**Senator Canavan:** I would certainly respect Mr Coulthard's views and all the Adnyamathanha people's views. I met with some in this sitting period we are in at the moment. I am not going to make my own judgements here. I am of course seeking to continue discussion with the Adnyamathanha people about the proposal under consideration. It is also the case that with regard to the cultural heritage survey we are doing it seems to me that from some Adnyamathanha people there is a desire and a view that this cultural heritage survey can provide clear benefits to the Adnyamathanha people independent and regardless of any decision on a facility.

**Senator LUDLAM:** I heard that when I was there.

**Senator Canavan:** There are some gaps in the heritage. I myself have been to Yappala Station and to the Barndioota property itself. There are clearly some very important cultural sites to the Adnyamathanha people in that area. Whilst there have been some heritage surveys involving the South Australian government there is still more to do. We are not yet at a place or a position to say this is going ahead or we are definitely putting a facility here. There is a long way to go there. The first thing to do is to get the cultural heritage survey completed. I

think we can commonly work on that together. We have obviously got other questions to deal with beyond that.

**Senator LUDLAM:** Can I be blunt because you folks have been very direct tonight. Are you just stringing these folk along while you prove up whether the Kimba site is going to fly? Is that what is going on?

**Senator Canavan:** Absolutely not. But I absolutely accept that there is no guarantee at all that the Barndioota proposal will proceed, because it is not in our direct hands. We have genuinely said we are seeking sites that have a broad community support, so we will not proceed at Barndioota unless that is the result. I cannot prejudge or predict those results following the heritage survey site assessment and the subsequent look at the sentiment in and around Barndioota. Likewise with Kimba, it is at a less advanced stage so there are no guarantees there as well. I have not accepted the proposal yet. The reason we are keeping open to these different options is that we cannot predict how any will evolve. I am of the firm view that Australia has to find a solution to this issue. We need to consolidate the waste we hold and we have a responsibility to look after the waste we produce ourselves in producing very important nuclear medicines.

**Senator LUDLAM:** There is a whole pile of stuff in there that I could contest, but it is late so I will not. Can I throw a couple more on notice, if that is okay, and then we can let these folks go.

**Senator KETTER:** I have some follow-up questions. I understand that this is a very complex process. Would you be of the view, Minister, that the process is tracking as expected, or would you say that there have been delays?

**Senator Canavan:** It far predates my role in the position, so it certainly has gone over an extended period. I think it is, as you describe, difficult or complex. I am not sure of the word you characterised it as, but it is an incredibly difficult proposal to successfully proceed with. I am certainly not making any criticism of my predecessors in this role. It has taken a long time. In terms of the specific proposals we are working on at the moment, I think it was important to do that on-the-ground assessment in Kimba before rushing into a decision. Any decision I make will be a better-informed one because of that work the department has done. In the case of the Hawker region and the Barndioota proposal, there are a lot of interested parties and I very much respect the views of the Adnyamathanha people. They are a diverse group, and we have to take our time and respect their positions and move forward with them as much as possible in unison with their desires and needs.

**Senator LUDLAM:** The process is running about 25 years behind schedule, depending on when we start your clock!

**Senator Canavan:** I might want to speculate on the reasons for that, and some of the opposition out there, but—

**Senator LUDLAM:** I did not say that.

**Senator Canavan:** it is late and we are tired, so we will leave that for another day.

**Senator KETTER:** Finally, I understand there are about 100 different locations around Australia where we currently store nuclear waste. Is that correct?

**Mr Sheldrick:** That is correct.

**Senator LUDLAM:** How many of those 100 sites will close if the dump gets on its feet?

**Mr B Wilson:** I cannot answer that.

**Senator KETTER:** Can you tell me: what is the cost to the—

**Senator Canavan:** The important thing for me in particular is that we have made commitments to the community of Lucas Heights to find a permanent store for the waste that is held there. I am very committed to ensuring that we honour the commitments we make to any community that accepts a waste facility. The Lucas Heights community went through a process when that facility was established; we promised to find it a permanent home, and I think we will live up to this promise as best we can.

**Mr B Wilson:** Could I also add that it is not about closing the number of the sites; if nuclear waste is generated or held, it needs to be stored somewhere before it is then moved somewhere else. We are about providing a long-term solution for that waste. Most of these sites are not built for long-term storage or disposal, so our aim would be to create a national facility where the waste can transit as quickly as possible to the national facility and then be looked after over the longer term.

**Senator KETTER:** I will finish by asking: what do you estimate are the costs to the Commonwealth of our current nuclear storage facilities across the 100 or so sites, and what is the expected cost of running the new waste storage facility?

**Mr B Wilson:** Again, I cannot answer that specifically. Quite a number of those 100 sites are not Commonwealth-owned sites; they are state sites or universities or hospitals, or sites like that. There are a small number of Commonwealth holdings, largely CSIRO and ANSTO but also Defence and a number of other establishments. We have not done a costing for what that holding is—that I am aware of—at this point. We are working through, as part of our process for the new facility, a detailed business case which will be looking at the costs of maintaining the status quo for the Commonwealth versus the costs of alternative arrangements such as this facility. That will all be part of the consideration that goes into cabinet's decision on the waste facility.

**Senator KETTER:** I am interested in those figures. Are you able to take those on notice?

**Mr B Wilson:** Yes, I will.

**Senator KETTER:** Thank you. Those are all the questions I have.

**Senator LUDLAM:** I have a couple of questions to put on notice on a couple of other subjects. I do recognise the lateness of the hour. Rum Jungle rehab—that is going to be assessed under the EPBC Act as a controlled action. Is that within your domain?

**Mr B Wilson:** The EPBC Act is under the department of the environment.

**Senator LUDLAM:** I get that, but I am wondering whether your department will play any role at all in developing the terms of reference for the preparation of the EIS. If that is complex, I am happy for you to take it on notice. Is that right?

I suspect you will also have to take this one, about Ranger uranium mine, on notice. I was directed to you when we were talking to the OSS on Monday, or whenever it was. What legal mechanism do you expect would be in place after the cessation of the current Atomic Energy Act section 41 authority to ensure that Rio Tinto meets its rehab obligations? Because it is outside the statutory window that is controlled by the Atomic Energy Act, what legal

mechanism will be in place to ensure that the company meets its obligations after that period has lapsed?

**Mr B Wilson:** We are very aware of that issue, and we are looking at it. At this point we do not have a definitive answer, but we are quite aware of that.

**Senator LUDLAM:** Whatever you can provide to me on notice would be good. Finally, over the last month or so I have written to federal environment Minister Frydenberg a couple of times on three separate uranium mine proposals currently under federal environmental assessment—again, a separate department. Have any of these letters been referred to your department or your minister, and has the department provided any advice on these or related issues? They related to seismic activity at Mulga Rock in the Goldfields region; acid and metalliferous drainage and seismic activity of surface water risks at Wiluna, or Cameco's track record with regard to the proposed Yeelirrie uranium mine. Is any of this ringing a bell?

**Mr Wilson:** We are not aware of any, but we will take that on notice.

**Senator LUDLAM:** Very much appreciated. Thanks your patience.

**CHAIR:** I think you are now officially free to go. Thank you very much for staying late tonight.

[20:51]

#### **Northern Australia Infrastructure Facility**

I welcome to the committee the Office of Northern Australia and the Northern Australia Infrastructure Facility. Ms Walker, I think you have given us a copy of your opening statement. Thank you very much. You are more than welcome to make an opening statement. Do try to keep it brief; we are trying to get through the agenda this evening within a reasonable hour. Welcome to Senate estimates.

**Ms Walker:** I will try to keep it brief. As you know, this is my first Senate estimates, so thank you for this opportunity. NAIF were established on 1 July 2016 as a corporate Commonwealth entity. There was an interim CEO in place, and the board and that CEO worked very actively to ensure that NAIF hit the ground running. We have continued to do that. I know there is tremendous interest in what NAIF have achieved to date. In my statement you will see that I have identified that as at 1 March we have had 100 inquiries from projects across a broad range of sectors: transport, resources, agriculture, water, tourism, energy generation and pipelines. We regard 47 of those 100 inquiries as active. It is a really good spread across the jurisdictions that are relevant to the north: 53 per cent for Queensland, 28 per cent for WA and 13 per cent for the Northern Territory.

We also think there is very good momentum in the pipeline. There is a net increase of 13 deals from the beginning of December to the beginning of March 2017. We have four transactions which are now in what we call the due diligence phase, and possibly a fifth one to come shortly. That is an important phase because that is when we start doing detailed assessment on proposals. We look at proponents' capabilities, we look at risks and mitigants, we look at the revenue and costs and then work with the other financiers and investors to determine whether there is a role for NAIF and how NAIF might play that role, because NAIF are what we call a gap financier. We can only finance if the project would not otherwise proceed with other finance. We have a mandate to put in what is called concessional lending terms of tenor or interest rate where we are serviced in priority to other lenders, but we have

to put the minimum concessionality in. It is very important that those deals are now reaching this phase. We have probably another 11 or 12 that we expect in this calendar year to be in the strategic assessment phase, which is the phase before that.

NAIF has been very active in seeking to facilitate the pipeline and in engaging with stakeholders. The statement says that we have met individually with 320 stakeholders and have attended eight different fora, through which we have reached out to a further 500 people. We have been very active in articulating the vision of NAIF and also identifying for potential proponents the opportunities that NAIF can help with. We are particularly focused, given that we are in the north and have such a proximity to Asia, on those opportunities. Fifty per cent of the world's GDP and middle class consumption is sitting there on our doorstep. We are planning a series of regional workshops as part of facilitation of the pipeline. We are getting strong support from regional industry bodies across the Regional Development Australia network. We will be working closely with Austrade and the Office of Northern Australia to facilitate connecting potential proponents with investors. We think this is an important part of NAIF's role.

That brings me to the timing of when the NAIF pipeline is likely to convert to actually funding deals, because I know there is strong interest in that. We have had support from people as we move around the north in understanding that for infrastructure financing, which is what NAIF do, there is a certain level of patience that is required, because infrastructure is complex and it does have long lead times. Foundational work results in deals that take some time to come to a point where we can assess them, in the context that we will lend for potentially up to 30 years. Getting the feasibility work and the planning in place is really important. The process that NAIF have been set up under is in contrast to a traditional government procurement, where government would do the feasibility, would decide that this is project that they want to develop and would then stand in the market with a tender and have a date for assessing that they control. That is different to the way NAIF are set up. While I mentioned the various active roles that NAIF have been playing in facilitating deals in the pipeline, and we have been very successful in attracting deals, we are not actually the proponent. We are dependent upon investors coming to us. We have another role different from traditional financing, which is as that gap financier. We need to partner with other financiers. We have a specific mandate to encourage the private sector into these projects, and under our mandate we can finance only 50 per cent of the debt for the infrastructure components of projects, so we need to work with and attract private sector and other investment.

We now have eight dedicated full-time equivalent staff available to NAIF. Two of those are specialists, what we call originators, and they are involved in understanding and attracting the pipeline projects. We also have access to the full team of Efic. That is how NAIF were set up. We were deliberately set up as a smaller unit that was able to leverage all of Efic's resources. That relationship has been working extremely well, and we also have the benefit of the Office of Northern Australia.

The board has met four times. They have visited regional centres, including Cairns, Darwin and Rockhampton. While they are there, they meet with regional leaders and economic groups in order to understand the regions and the infrastructure priorities. Governance has also been an area where there has been a significant process focus. The board has invested a

lot of time in understanding what governance is required and in putting that in place for the appropriate stages of where NAIF are at. They have confirmed the key principles of their mandate, they have developed a risk management framework, and there are various other policies—some of which have been published and some of which are internal. We are in the process of also refining the interface with the Northern Territory, Western Australia and Queensland jurisdictions because the Commonwealth money goes through those entities. I think a lot of work and good work is being done in that area.

**CHAIR:** Ms Walker, I do not mean to interrupt you but I know that Senator Ketter has a list of questions for you as long as your arm.

**Ms Walker:** That is okay.

**CHAIR:** I might just ask you to wind it up a little.

**Ms Walker:** I am nearly done anyway.

**CHAIR:** Mr Coffey, do you have anything you would like to add?

**Mr Coffey:** No.

**Senator LUDLAM:** I know you did not get to cover everything you want to but we have got your tabled written statement. Could you take on notice—I do not expect you to have this at the table with you—what proportion across the various categories, maybe excluding agricultural, the 47 inquiries that you classify as active across transport, resources and energy generation are fossil fuel related developments whether they be coalmining, transport infrastructure, gas pipelines or gas—onshore or offshore—or oil. I do not anticipate that you have got that with you but if you could provide that, that would be great.

**Senator Canavan:** I will have to take that on notice. The point I made when this was being debated in the Senate was some infrastructure has multiple users, so we will answer it as accurately as we can.

**Senator LUDLAM:** I get that.

**Senator Canavan:** I would say that some things like a port will service resources sectors, agriculture sectors et cetera.

**Senator LUDLAM:** If there is ambiguity, feel free to spell it out but it would be good to know. Ms Walker, how often do you or your staff communicate with the minister or with staff from the minister's office?

**Ms Walker:** I communicate with either the minister or his staff on an as-needs basis. Members of my team would also communicate with the staff at least once a month.

**Senator LUDLAM:** Fair enough, I did ask 'you or your staff.' For you or your senior staff, is it hourly, weekly, monthly? Is it hourly, monthly? I am trying to get a sense of the tempo of the contact. Is it through frequent? Is it very infrequent?

**Ms Walker:** It actually is not that regularly. If I had to think, in my time since I have been in the role, which is late October, I would say five or six times possibly with the minister.

**Senator LUDLAM:** Order of magnitude, that is fine. You described your assessment pipeline before and you gave us a couple of categories in your statement here. At what stage in your pipeline would you let the minister know that particular projects are being put in front of you for evaluation, or is there something of a Chinese wall operating?



**Ms Walker:** We have a process where we identify the top 15 or 16 deals that we think are probably most likely to move through the more active stages. It has limited information in it. It has the name of proponents and some very high-level detail and that is what is provided to the minister's office.

**Senator LUDLAM:** Okay, fine. So it sounds like it is relatively early in the evaluation pipeline? It is not that you wait until you have short listed?

**Senator Canavan:** Under the legislation, the NAIF is an independent statutory body. It has a process to decide on a proposal to provide to me as the minister. Suffice to say, that has not happened at this stage. There is not a proposal before me.

**Senator LUDLAM:** There is not?

**Senator Canavan:** There is not a proposal before me to make a decision on. Up until that point, it is up to the NAIF to do the assessment of the project.

**Senator LUDLAM:** Can I give you one specific example—it will not surprise you to learn which one it is. When you publicly announced in early December last year that the NAIF is looking into the Adani rail proposal, did you discuss that with the NAIF before you let the media know? Step us through how that announcement was made.

**Senator Canavan:** There was no formal announcement.

**Senator LUDLAM:** Was there a drop to a particular menu—

**Senator Canavan:** There was no announcement from government. I was asked questions about that particular project. I had spoken to both the NAIF and Adani about it and, of course, I was anticipating questions on this very high profile project so I discussed with both of them what the status was and what I should comment on in that regard. I have tried to be as upfront as I can. As I said in the previous answer, it is a matter for the NAIF to do the detailed assessment of this and the other projects, but discussions are ongoing with Adani, and I will wait to see the NAIF's advice on the project.

**Senator LUDLAM:** On notice if you need to, can anybody at the table please shed some light on which particular Adani entity has applied for the loan? I understand it is quite a complex corporate structure and there are various shell entities and goodness knows what else. Which particular entity is it that has lodged the request for assistance?

**Senator Canavan:** I am not aware.

**Senator LUDLAM:** I will maybe put that to Ms Walker.

**Ms Walker:** The NAIF has a protocol that it treats all its business dealings as commercial in confidence.

**Senator LUDLAM:** The minister announced one of them last December, so that is not working out super well.

**Ms Walker:** There are very limited exceptions for information that is able to be disclosed publicly; it is agreed with some of the proponents.

**Senator LUDLAM:** Are you heading towards not being able to tell us which particular Adani entity you are dealing with?

**Ms Walker:** Yes, because from a financing perspective, which the NAIF is, we regard it as very important to maintain the commercial in confidence information.

**Senator LUDLAM:** I gently remind you that it is public money that you are proposing to disburse.

**Ms Walker:** I am absolutely aware of that. We balance public accountability, which we are very aware of, and, obviously, we comply with the obligation in the investment direction which requires publication of details once an investment decision has been made. We think that is also appropriate and consistent with how the other lenders and investors would be expecting us to act, but, actually, I take this back to what is in the public's best interest and the best interest of achievement of the NAIF's objectives, which is to optimise the pipeline and to have circumstances which will most likely result in transactions reaching financial close.

**Senator LUDLAM:** As a member of the public, could you at least confirm for us that you are not going to be lending Australian public funds to a company whose ultimate owner is registered out of the Cayman Islands?

**Ms Walker:** I cannot discuss any particular details of any deal with the proponent until we get to the point where an investment decision has been made and then we publish.

**Senator LUDLAM:** So after you have made a decision you would let everybody know?

**Senator Canavan:** Can I just add something?

**Senator LUDLAM:** Please, Senator Canavan, help us out here.

**Senator Canavan:** We have provided the NAIF with a mandate and, of course, legislation approved by the parliament to try and invest in Northern Australia economic infrastructure. Under that legislation and that mandate there is no specific bar against foreign investors making applications.

**Senator LUDLAM:** I was not implying that there was.

**Senator Canavan:** Of course. I would fully expect any entity operating in this country, be they seeking or making a proposal to the NAIF or otherwise, to apply and abide by Australian laws. I have no evidence that Adani, who are an operating entity in Australia right now—operating the Abbot Point Coal Terminal—are not doing anything but abiding by Australian laws. I do not particularly find their company structure overly complex—

**Senator LUDLAM:** Then why not just disclose who it is you are dealing with?

**Senator Canavan:** I am not doing this for the NAIF, but you have made a characterisation on their structure. Many, many companies have a variety of different corporate entities. Adani is a very large business and they are actually not primarily a mining business, they are an infrastructure service-related business, so I think some of the characterisation of this company is being done either mischievously or by individuals and entities that do not have a lot of corporate knowledge about how companies structure themselves in the real world.

**Senator LUDLAM:** It is difficult to have this corporate knowledge when you will not disclose it. You would no doubt be aware that some companies in the Adani Group overseas have been alleged to have engaged in activities ranging from trade-based money laundering to environmental breaches and outright corruption. What kind of due diligence are you doing if you are not willing to disclose who you are dealing with—to ensure that the entity that you might be about to start writing very large cheques to has not been implicated in these practices overseas?

**Ms Walker:** If I can comment more on the generic process rather than specifics—

**Senator LUDLAM:** I am interested in the specifics, I am afraid.

**Ms Walker:** I think that I cannot discuss the specifics of a transaction—

**Senator LUDLAM:** Wow.

**Ms Walker:** and the actual due diligence that is being done, but what I can say is that the due diligence process is all about assessing the credentials and the capabilities of parties. It is also about taking into account relevant considerations and not taking into account irrelevant considerations. That, as a general principle, is how the NAIF board would be assessing any proposal, whether it was a port, a mine, an airport et cetera.

**Senator LUDLAM:** Are you in negotiations with Clive Palmer's Waratah Coal or any of his entities to help him build a so-called clean-coal-fired power station? Please knock that one on the head right now, if you can.

**Ms Walker:** Again, transactions that—

**Senator LUDLAM:** Just knock it on the head.

**Ms Walker:** are in the pipeline are commercial-in-confidence. For the same reasons that we—

**Senator LUDLAM:** We announced Adani is in the pipeline. Are we announcing Clive Palmer is there as well? If a journalist asked you, would you tell them?

**Senator Canavan:** I am happy that to disclose that I am not aware of that, but of course—

**Senator LUDLAM:** You would necessarily be.

**Senator Canavan:** it is a matter for the NAIF to assess those aspects. Clearly, in the case of Adani, there is a very heightened public interest and a heightened public scrutiny of it. That is appropriate. You and your political party are very focused on it, so I am trying to provide as much information as I can on that one, but I am not aware of Mr Palmer making any proposal.

**Senator LUDLAM:** And Ms Walker, you are prevented from disclosing anything, apparently. In terms of public interest immunity, the ground that you are claiming is commercial-in-confidence. Could you provide for us, in writing on notice, the specified potential harm to commercial interests. I need you to be quite specific about how the public or the commercial interests would be harmed if this information is disclosed.

**Ms Walker:** I am very happy to do that.

**Senator Canavan:** Yes, happy to take it on notice.

**Senator LUDLAM:** It is handy to have the minister at the table.

**CHAIR:** So it is harm to public interest, is that correct?

**Senator LUDLAM:** There is a public interest immunity ground being claimed by the officer. That is fine. It is commercial-in-confidence. That is a blanket that we need narrowing down to the specific commercial harm that would be created.

**Senator KETTER:** Ms Walker, thank you very much for your very detailed opening statement; that is very useful. My first line of inquiry is in relation to the 'pipeline of projects', as you call it. I notice that you use a number of different terms for different stages of the process. Can you tell me what are the stages, formally, within the process, from the expression-of-interest stage—I think you call that 'inquiry stage'; I do not know if those terms are synonymous—through to the final decision.

**Ms Walker:** There are, essentially, four major stages. The first one is what we call an inquiry and preliminary assessment stage. To give you some sense of what that is, it could be just taking a phone call from a potential proponent who is trying to get a sense of what NAIF's capabilities are and what its role is. So that would be stepping them through some of the mandatory and non-mandatory criteria, which are set out in the investment mandate, and there are other conditions. So it would be stepping people through that and understanding the parameters of the project that the person has called about, and trying to, at least at a very high level, assess whether it is something that would potentially meet our criteria or not. That is very high level.

**Senator KETTER:** That does not necessarily require any forms being filled out. It could just be a telephone conversation.

**Ms Walker:** It could be just a telephone conversation. Then the question is whether there is a follow-up, and we are, at this stage, happy to be relatively informal with how proponents come to us with information. Initially, we had expected that proponents would come with it much more developed than we are finding they are. That is actually why we refined this process a bit after I came on board.

The second phase is what we call a 'strategic assessment phase', or stage. Again, if the client has some detail on their proposal we would look at it, and on our website we have outlined the sort of information that, if it is available, we would look at, but we are not requiring that of each proponent at that point, because it really is very variable as to the quality of the information that we receive from different proponents. The purpose of that strategic assessment stage is for the NAIF team to approach the board and to understand whether there are any reasons why they might not want us to proceed with due diligence. Then they formally say to us, 'It is all right to proceed to due diligence'.

The next state is that detailed due diligence stage, which I described before. That is when we would require, throughout that phase, the development of the very detailed due diligence. We would be looking to work with the other 50 per cent lender and, obviously, the equity investors, and if it is a project where there is also non-infrastructure components there would be more financial parties. We would work with all of those parties to identify what due diligence expert reports we require during that phase, and we would need to get comfortable with the contents of those reports.

Towards the end of that detailed due diligence phase a proponent would be asked to submit, if they wanted to, a formal investment proposal. That would be considered by the board, and the board would decide either to finance or not to finance. That is what is called 'an investment decision', under the mandate. That decision may be conditional upon documentation—it, in all likelihood, would be conditional upon that. A final investment decision would not be made until that documentation is finalised.

Also, there are rights of the state and territories and the minister to actually say to NAIF that they should not proceed with making the loan. Again, you need to have exhausted the time periods for that to happen before you get to a point where you then have conditions precedent to the loan and, finally, funding. I hope that has been helpful.

**Senator KETTER:** Thank you. On the last occasion, Senator Canavan advised us that there were 80 projects that had expressed an interest and one project had advanced to due

diligence stage. If I read your opening statement correctly, there are four, nearly five, 'transactions', as you call them, at the due diligence stage?

**Ms Walker:** That is correct, yes.

**Senator KETTER:** The one that has strong prospects is still in the strategic assessment stage—is that right?

**Ms Walker:** No, there are four projects that are in due diligence and, as I said, we are expecting that there might be another one shortly. We think at least four have strong prospects of requiring NAIF finance and reaching financial close. There are a lot of gates that NAIF financing needs to progress through, but that is our expectation at this point. Of course, we are a gap financier, so, if the private sector or other financiers can fill the gap, then NAIF may have done its job by attracting other financing. But we expect that there will be NAIF finance.

**Senator KETTER:** You have helpfully given us a breakdown by sector and also by state of the number of inquiries that you have had. When you say you have had 100 inquiries, is that for that first-stage inquiry, preliminary assessment period?

**Ms Walker:** That is right, and that is tracking from NAIF's inception.

**Senator KETTER:** Can you break down the projects by federal electorate as well?

**Senator CANAVAN:** I think the difficulty is that, depending on the nature of the project, some could be quite large given the potential infrastructure. How about we take that on notice. There might be some construction we can place on that. We will see how we go.

**Ms Walker:** What I can say is that at the moment our pipeline does not take that into account, so we would have to do work on that.

**Mr Lawson:** A number of them are actually multijurisdictional let alone in a particular area.

**Senator KETTER:** Okay, please take that on notice.

**Proceedings suspended from 21:21 to 21:32**

**CHAIR:** We will resume with questions from Senator Ketter.

**Senator KETTER:** Ms Walker, could you give us a breakdown of the four projects that are in the due diligence stage, in the same way that you have done with the inquiry stage? How would you characterise those? I think we know that one is a pipeline.

**Ms Walker:** I have given you a breakdown at the very high level, because we obviously want to be as transparent as we can with the pipeline. But I think to break down four deals that are in due diligence would be revealing information about those transactions, and our protocol would be that we maintain commercial-in-confidence of what those projects are.

**Senator KETTER:** I am sorry; I said pipeline before. I think you told us that one of those four projects is a rail link.

**Ms Walker:** Yes.

**Senator KETTER:** So we know that.

**Ms Walker:** As I said, we have a protocol that has a very limited exception as to information that we can disclose, and we can on that one under our protocol. But I am not at liberty to reveal the others at this moment.

**Senator KETTER:** I am a bit confused as to why we can know one of those four but not the other three.

**Ms Walker:** As I said, our general protocol is that we regard all business information in relation to proponents—whether or not a proponent has approached us—as information that is commercial-in-confidence that can give signals to the market that are valuable. Perhaps when I respond on that other question—the question on notice—about why we wish to maintain commercial-in-confidence, that would be the way I would like to handle it.

**Senator KETTER:** Has there been a breach of protocol in relation to the rail link project?

**Ms Walker:** NAIF have not breached a protocol.

**Mr Coffey:** Senator, maybe I can answer that. Last year in estimates I answered that question and at the time that high-level information was released through my office and there was not a breach of protocol at that time. NAIF have a policy now that they treat that information as commercial-in-confidence and they will maintain that.

**Senator KETTER:** So there has been a change in policy?

**Ms Walker:** As clarification: on that particular deal, we had the consent of the proponent to acknowledge that they have expressed interest in approaching the NAIF. That is the information that I have made public.

**Senator Canavan:** While I am obviously not party to the protocols and policies of the Northern Australia Infrastructure Facility—and it is a matter for them—I only commented publicly on that particular project after speaking to the proponent and ensuring that they were comfortable with that. I have not sought to do the same with other projects, because there simply is not the same level of public interest. That is of course a judgement call on my behalf, but I am trying to be as open as I can. In fairness to Adani, while I am not here to talk to them, they have not tried to hide anything either. They are being completely open and upfront about their project. There will certainly be a lot of commentary on it and a lot of interest in it.

**Senator KETTER:** Moving to the gas pipeline applications, we know that there are five of those at least in the early stages. That is based on your statement.

**Ms Walker:** These breakdowns are of the 100 inquiries.

**Senator KETTER:** Okay.

**Ms Walker:** They will include the 47 active that are then in those stages from strategic assessment forward. I would need to confirm that, but that is my understanding. The five gas pipeline projects could be active or inactive at the moment.

**Senator KETTER:** At what stage are the active projects? Are they at the strategic assessment stage? Does that mean they have progressed?

**Ms Walker:** Four are in the due diligence phase and, as I said, we expect 11 or 12 more to be in the strategic assessment phase within the calendar year. So the others are still working through the process.

**Senator KETTER:** I was just asking about the gas pipeline applications. So you say that there are five amongst the 100 and we do not know how many gas pipelines are amongst the active, the 47?

**Ms Walker:** We do know that, but I am saying that the information that we are comfortable with sharing is at that high-level breakdown of the 100. In giving the jurisdictional split of the 47, I am not comfortable revealing below that level because I think that potentially reveals commercial-in-confidence information.

**Senator KETTER:** And the 13 transactions between December last year and 1 March? When you say 'transactions', do you mean preliminary inquiries?

**Ms Walker:** I am sorry if it has been confusing. That is a project in the pipeline. It could be at any of the stages.

**Senator KETTER:** I am finding it hard to correlate the terminology used in your opening statement with the four stages that you articulated in response to my first question.

**Ms Walker:** Whether a transaction is in the pipeline and whether it is in the 100 or the 47 or the 13, any one of those deals could be in any one of the five stages. The quality of information when projects—I use 'project' and 'transaction' probably interchangeably—come to us means that some of them will be better developed in terms of readiness for us to assess than others. And also, some of them will be less complex and require fewer approvals.

The speed with which a project can move through the stages will vary. There is no time line that you could use to say a project comes in at the inquiry phase and within X months it will be through the due diligence phase. That really depends on the complicity of the deal and the approvals that are required. There are a number of factors, and another one is clearly where the other financiers are in terms of how much of the overall project cost they can support. Then we determine whether there is a role for NAIF and whether there is a gap.

So it is not like a grants situation, where the process has a start date and you put your application in on a certain date, which will then be assessed on a certain date. It is quite flexible and it needs to be, just depending on the quality of the information.

**Senator KETTER:** I appreciate you are being helpful with the length of your answers, but I do have quite a few questions, so I will try to move my questions along.

**Ms Walker:** Apologies.

**Senator KETTER:** Moving to a bit more detail about the energy generation projects, you have indicated that there are 20 out the 100 inquiries. Is that the case?

**Ms Walker:** Yes.

**Senator KETTER:** Can you tell us the nature of those energy projects? Are they gas, renewable, coal-fired or all of the above?

**Ms Walker:** I do have that information, but at this point I would have to take it on notice. I do not have it with me at the moment.

**Senator Canavan:** We will take that on notice.

**Senator KETTER:** I have series of questions in relation to that. Are you able to say how many coal-fired power generation projects you are currently considering?

**Ms Walker:** No. I would have to take any more detail on notice.

**Senator KETTER:** If you are considering coal-fired power generators, when did you start progressing those applications?

**Senator Canavan:** We will have to take that question on notice as well, given that the premise goes to the previous question, which we did take on notice in terms of if there are any coal in the 20, but I am not aware of that. But your second question is redundant, so we will take that on notice.

**Senator KETTER:** Minister, on ABC radio, on 2 February, you said that you received interest over the past week associated with a commitment to build baseload power stations, including to support clean coal options. Have you referred any of those approaches to NAIF?

**Senator Canavan:** I have certainly had discussions with people, and I have indicated publicly and in discussions with others that we have a Northern Australia Infrastructure Facility that can take applications for energy infrastructure. As Ms Walker mentioned before, this is a proponent led process. So it is up to those potential investors to bring them forward to the NAIF. I certainly think coal has a huge future in the world, and there is no reason why we, in Australia, should not be looking at it as well, given that we are the world's largest coal exporter.

**Senator KETTER:** Ms Walker, are you aware of the interest that the minister has just told us about and have you received the follow-up inquiries from those parties?

**Ms Walker:** I think that was a question on notice I was going to take.

**Senator Canavan:** I should say too, for most of these investors, it is early days. I think, unfortunately, there has been a view that various Australian governments have not been supportive of the coal sector, but it is fantastic that we have a Prime Minister that has said loud and clear that we back the coal industry and we think it is a very strong and important sector for our economy. We still rely heavily, of course, on coal-fired power stations built years ago for our energy needs, and it is certainly an option that we should keep on the table going forward.

**Senator KETTER:** Ms Walker, I have a series of other questions here. I am just going to see how you respond to them to see how we go. Can you produce any documents where the minister, his staff, the department or the Office of Northern Australia have referred projects to NAIF?

**Senator Canavan:** We can take that on notice.

**Ms Walker:** Yes, I agree. Thank you.

**Senator KETTER:** Are you able to tell us how you have received or solicited coal-fired power proposals?

**Senator Canavan:** We will take that on notice as well, contingent on the other information to your previous questions.

**Ms Walker:** Yes.

**Senator KETTER:** Given that the minister is, at least on his own evidence tonight, talking about referring or encouraging proponents to come forward and go to NAIF, how can we be assured that the NAIF independence is guaranteed?

**Ms Walker:** I think you can be absolutely assured of that. We have an independent board that has been established to be just that, and they deliberate independently. The minister has no ability under our act to direct the NAIF board to support any particular project or individual, and the board will absolutely adhere to its obligations under the act. It is a—



**Senator Canavan:** Can I just add to that, too, that I support everything Ms Walker just said, but I do see it as part of my role to help promote the fact that we have a Northern Australia Infrastructure Facility that investors to this country should, certainly, be considering as an option. So I regularly, in discussions with businesses, investors and financial institutions, promote the government's policy on the Northern Australia Infrastructure Facility and encourage them to discuss with the NAIF any potential investments. I should add, I do that with the government-owned corporations as well in Queensland. I have made contact with many of those. It is not only the private sector that we are seeking to partner with. I think it is very important that we do that. We have received 100 expressions of interest or inquiries so far, but there is always more to do and I will continue to promote the NAIF.

**Senator KETTER:** I think you can appreciate that there is some concern when it is reported that you say at the Mackay Resource Industry Network luncheon that you want to make it clear that:

We back clean coal options...

and

... we will back investment in clean coal through our \$5 billion Northern Australia Infrastructure Facility.

**Senator Canavan:** We will certainly back proposals being brought forward to it. As I said earlier, we will absolutely back those investors that are seeking to consider this as an option. There are—

**Senator KETTER:** It sounds like more than an option; it sounds like you are making a direction.

**Senator Canavan:** I dispute that characterisation. There is nothing that I have said to the NAIF or publicly to direct them in any way to support a particular proposal. I will seek proponents who are interested to seek out the NAIF for investments. I will also put on the record that I do have a role here, as the minister. While the NAIF makes proposals, under the legislation there is a role for the minister and I want to give confidence to the broader investment community that we, as a government, do not have some ban on coal-fired power stations. So, if there is a proposal that meets the requirements and is brought forward to me, I will obviously consider the specifics at the time, but there is no jihad from our perspective against these power stations. We fully support our coal industry.

**Senator KETTER:** Ms Walker, can you provide any correspondence or records of conversations from the minister, from his staff or the department to NAIF regarding the consideration of coal power projects?

**Senator Canavan:** Take it on notice.

**Ms Walker:** Yes, I would have to take it on notice.

**Senator KETTER:** Minister, have you or your staff or the department spoken to NAIF regarding your support for coal power?

**Senator Canavan:** I do not recall having specific discussions with the NAIF about individual projects, apart from the broader desire to get projects off the ground, including in all of these infrastructure areas. I will take on notice the broader elements in terms of my office and what have you.

**Senator KETTER:** It sounds like you are directing the NAIF through the media rather than directly.

**Senator Canavan:** As I said earlier, I absolutely see a part of my role as the minister for northern Australia as being to promote the north and to promote the government's policies on the north. Given that this particular proposal is one where we require private sector investment to succeed and to meet the objectives that we have set, publicity for the NAIF is important. Part of that is, potentially, through the media, but I must say that more of it is about individual discussions and meetings that I have with businesses and investors willing to invest in Australia but in the north as well.

**Senator KETTER:** Has your department passed on directions to NAIF as to which projects to prioritise?

**Ms Beauchamp:** The department has not passed on any directions whatsoever. The obligations that Ms Walker talks about are clearly set out in the act.

**Senator KETTER:** Ms Walker, is it a condition of the NAIF's lending that a project must be able to demonstrate commercial viability?

**Ms Walker:** It is a requirement. It is a mandatory requirement that the project debt that NAIF puts in needs to be able to be repaid or refinanced. In that sense, there is an element of commercial viability. But there are obviously options for the NAIF to put its debt on concessional terms, and, as I think I mentioned before, that could be longer tenor; it could be being patient as to when interest and principal is repaid; it could be where we sit in priority as to other lenders in terms of when we are repaid. Those options are there because a project may not be commercial in the short term but may be in the longer term, and that is really a major objective of our mandate.

**Senator KETTER:** Are you aware that the government's chief scientist, AGL, Origin, EnergyAustralia, Gina Rinehart and Trevor St Baker have all rejected building new coal-fired power plants?

**Senator Canavan:** I am aware. I obviously take a keen interest in this issue. I am aware. They are welcome to their views. I know of others who see things differently. As I have commented previously, I do not think that the government, or we, more generally, should set up a policy which allows a few—some of those companies you mentioned have direct involvement in the energy sector; not all do, but some—to somehow have a veto on future investments in energy, be it coal, renewables, gas et cetera. So we want to keep all options on the table. There are other people with different interests out in the world that may seek to apply here. I would also make this point as to the future viability of investment in coal—and I am talking here broadly, not about the Northern Australia Infrastructure Facility specifically but about the use of our resources in this country. The former Labor government under Wayne Swan commissioned a GHD study on different power options in North Queensland, and that study concluded that an ultra-supercritical coal-fired power station could be commercially viable. Obviously a lot more work has to be done before bringing any such project to market, but that was a very detailed report and it gives some indication that there is certainly the potential for investment in advanced coal technologies here in this country.

**Senator KETTER:** Ms Walker, you said that projects need to be commercially viable—I think I am not putting words in your mouth—

**Senator Canavan:** Correct me if I am wrong, Ms Walker, but I think you did give a characterisation of what was meant by 'commercial viability'.

**Ms Walker:** Yes.

**Senator Canavan:** Obviously that could mean different things to us, financiers, ultimate owners of companies or investors who are putting in bids, so I think you have to be very specific about how you use the term 'commercial viability' in this context. Is that correct, Ms Walker?

**Ms Walker:** Yes.

**Senator KETTER:** Ms Walker, are you able to rule out financing coal-fired power under the NAIF?

**Ms Walker:** That is obviously a hypothetical question. I cannot rule out or rule in any particular project that would qualify and meet investment criteria, mandatory criteria and other conditions of the act.

**Senator Canavan:** Senator Ketter, we obviously expect the NAIF to implement the mandate and the legislation that has been given to them. That legislation was supported by us and the Labor Party as well. I recall that there were various amendments at the time put forward to exclude investment in fossil fuels. I welcome the fact that the Labor Party stood strong on that and did not accede to those, so there is no restriction on such investment under the legislation or the mandate.

I think it is unfortunate that since that time the federal Labor Party has given support to the idea that we can walk completely away from coal and desert the coal industry that employs thousands of people in this country, including many trade union members. Otherwise there has been bipartisan support for coalmining and the coal-fired power section in this country. It is unfortunate. The Labor Party will have to explain those decisions and positions. On this side of politics we back those thousands of jobs and we want to make sure we have a country that has affordable, reliable and increasingly environmentally-sustainable power.

**CHAIR:** I am channelling my inner Senator Macdonald tonight. These are questions he has passed onto me. He has directed them towards the minister but I suppose anyone on the panel can answer. The first is about the cost of transporting cattle in northern Australia. He would like to know whether the minister or the panel can advise what the government is doing to help alleviate that cost.

**Senator Canavan:** I will kick off, but Mr Coffey might make other comments. As part of the northern Australia white paper we put aside \$100 million specifically to invest in beef roads, to tackle the high cost of transporting cattle in northern Australia. It can sometimes be up to one-third of the cost of the final value of a beast. There is a significant need for investment in these networks. Our program built off in some respects the original beef roads program introduced by the Menzies government in the 1960s. Many of those roads are still integral arteries across northern Australia.

I think it is fair to say that the level of demand outstripped the \$100 million. There was huge and very keen interest in this program. I do commend the work of CSIRO in developing a transport model that could assess in detail the costs and cost savings of investing in certain roads on a per head of cattle basis. That helped inform the government's investment decisions, which were all announced late last year. There are some very important projects. I am from

Rockhampton and we will be able to get type 1 vehicles through to the meatworks in Rockhampton and save hours of time. Trucks have to decouple at the moment. It is risky and dangerous too. A young fellow was tragically killed doing that decoupling a few years ago.

This is hugely important to northern Australia. It has been a great program. The work CSIRO has done will be a legacy in informing government decisions I am sure for future investment in the road network. Mr Coffey, do you have anything to specifically add?

**Mr Coffey:** Yes, Minister. There are 38 projects in total under both the Beef Roads Program and the Northern Australia Roads Program, right across northern Australia, with \$700 million invested and, of course, leveraging state government contributions as well. We will see some significant transport put in place which will benefit the cattle industry and other industries in the north.

**CHAIR:** Terrific. Mr Coffey, you might have just answered Senator Macdonald second question which was about road connectivity in northern Australia and whether you could advise what the government is doing to promote road connectivity and the benefits that will flow from it.

**Mr Coffey:** Certainly. The methodology and the policy behind developing that north is about the movement of people and goods across northern Australia and for trade and investment. The north Australia roads package is an important part of that. It is about the key roads that we can improve so that we can open up land to enable the movement of goods and enable new industries to start up in those areas where we know there is prospectivity. We are also doing some water studies right across the north which links in with those. So it is not just about the roads; there is also rail and it is also about where there is prospectivity, whether it is with the water resources, the resources industry or other industry across the north. That is where the Office of Northern Australia comes in, to have a broad, overarching view and a strategic view about how these projects and initiatives are rolled out so that we can leverage the best outcomes in a strategic manner that is good for northern Australia.

**Senator Canavan:** I will just add that, in addition to the Northern Australia Roads Program and the Beef Roads Program, the government made a commitment at the last election to seal the Outback Way over the next decade. It is a major investment for our country. It will only be the third sealed road east-west across Australia. We had, through the Northern Australia Roads Program, \$28 million in round figures, I believe, put aside for the Outback Way. I will correct the record if I am mistaken. The election announced a further \$100 million for the Outback Way. It is an incredibly important project and builds on previous investments we have made on that road.

**CHAIR:** Thank you, Minister, and thank you, Mr Coffey. Senator Macdonald also asked about Townsville in the wake of the mining industry's transition. From the investment phase to the production phase, Townsville has been struggling to adapt and he wanted to know whether you could advise the government on whether the government has a plan to re-energise the Townsville economy.

**Senator Canavan:** Last year—I believe it was 9 December—a city deal was signed. It was the first city deal that the federal government has—

**CHAIR:** This is one of the pilot programs?

**Senator Canavan:** I do not know if it is characterised as a pilot, but it is in Mr Taylor's area of direct responsibilities. It is the first city deal we have signed, definitely, in Australia. It is great for Townsville's accolade. It includes the government's commitment to put in \$150 million to upgrade the Townsville port. There are huge opportunities to develop that area. There will be further work done through the infrastructure financing unit to look at ways of unlocking the development potential at the port. There are the commitments the federal government has made on the Townsville football stadium, along with the state government, and the urban renewal that can bring to Townsville. At the time we flagged that we would be basing the Northern Cooperative Research Centre in Townsville. Subsequent to the Townsville City Deal being signed, we announced, early last week, an establishment board. It is open for business now and is taking applications as well. Senator Macdonald and you know—and Senator Macdonald knows well—the difficult experience Townsville has gone through in the last couple of years. I must say that from the last few times I have been up there—and I am there regularly—there is definitely an uptick in confidence, thanks to both the state and the federal government's focus on these needed investments, but there is also the resurgence in the coal sector, with commodity prices increasing, and the announcements made by Adani last year that they would base their headquarters in Townsville.

**CHAIR:** That is terrific news. Mr Coffey, do you have anything to add to that?

**Mr Coffey:** No.

**CHAIR:** Thank you very much. That was very comprehensive. Senator Bushby, you have got no questions—I should check before I turn back to Senator Ketter.

**Senator KETTER:** There is Senator Macdonald as well to some extent, and I will turn to consider Townsville. My questions will be more to the Office of Northern Australia for this sector and perhaps to Ms Beauchamp. Can you tell us whether the department has identified a location for the CRC in Townsville.

**Senator Canavan:** Given we announced it, the establishment board last week—I know a little about this but if there are further updates since then, Mr Coffey, you might like to provide, or Ms Beauchamp, additional information. We have established a board, and one of the things they will be discussing is, as is my understanding, is the location for the CRC in Townsville. I know that there are certainly interested parties at the moment with a view as to where that location should be. Neither the government nor I have a specific view apart from trying to ensure that the location helps the CRC maximise its ability to meet its objectives. I am leaving that up to the board. I do not know if they have been able to have any further discussions—I would doubt it at this stage.

**Senator KETTER:** Ms Beauchamp, has the department played a role in engaging with any potential land holders for the site of the construction of the CRC?

**Ms Beauchamp:** I would have to take that on notice from people from the CRC program.

**Senator Canavan:** We should add, I suppose, just to help Senator Ketter: I know that it is a little confusing but the cooperative research centre and the administration for it is in a different part of the department. The Office of Northern Australia oversee a variety of CRCs around the country. Obviously, I have an interest in the northern CRC but the officials will probably—

**Ms Beauchamp:** I just have not got the details—

**Senator KETTER:** So, Mr Coffey, did you have an involvement or have you been discussing any potential locations with landholders?

**Mr Coffey:** No.

**Senator Canavan:** As I indicated, Senator Ketter, various parties have approached me about different options. As I say, I think it is most appropriate for the board to consider that. They have been charged with meeting their objectives and would be best placed to make that decision.

**Senator KETTER:** The program was first announced in the 2013 election; I understand it was a commitment in 2013.

**Senator Canavan:** That is a bit before my time. I am not sure that is quite correct.

**Ms Beauchamp:** At the time of the northern Australian white paper—

**Senator Canavan:** It definitely was an announcement from the northern Australian white paper—I can say that. I might just have to take on notice. I cannot recall it being a 2013 election commitment. That is going back a fair way, but it was a commitment under the white paper. It is also the case that, before the announcement of the white paper, there was a group called originally AgNorth—and then growNORTH—a group separate to government but they were certainly formed and interested in establishing a CRC in the north. So there had been ongoing and some public commentary about the potential for a northern CRC prior to the white paper and, in anticipation of the government's agenda for northern Australia, but I do not think the government exactly committed to the funding and the CRC specifically, until that white paper. I will take that on notice and correct any of that—

**Senator KETTER:** That is my information—I could be wrong but I understand it was part of the 2030 Vision for Developing Northern Australia. From my perspective, we are four years down the track. You have a board now, but when are they going to move into their premises and start to work?

**Senator Canavan:** They are starting to work. We have opened applications for under what is called a CRC-P program. The details of that—as I say, the officials are not here, but it is open for business now. In terms of establishing a physical location, that is a matter for the board now but that does not stop them and officials in the department from starting to consider those applications and making decisions on them.

For accountability, Senator Ketter, I said publicly when we announced it last week that it has been frustrating that it has taken a little longer than we expected to get this off the ground. The characterisation, as we announced this in the white paper in mid-2015, was we were hoping to have it established by late last year. It has taken a few months longer than we hoped. We have been at pains to ensure that it is commercially focused, focused on industry and delivering results. It is a little bit different, I am advised, to some of the other CRCs we have established, so those complications have contributed to those delays. It is up and running now. It is open for business, and that is good news.

**Senator KETTER:** Can you tell me how many staff will be employed by the CRC—or is that a board decision?

**Senator Canavan:** I do not have those figures at my fingertips, sorry. It is not a large number of staff. The benefits of the organisation are definitely about the \$75 million we have

allocated to it, which we spent right across Northern Australia. From memory, just to try to be helpful—and I will put a contingency on it—I think it is less than 10. I might take that on notice and get back to you, Senator Ketter.

**Senator KETTER:** Senator Macdonald placed a photo on his Facebook page on 20 February—

**Senator Canavan:** Did you like it?

**Senator KETTER:** I did not like it. I never like anything!

**Senator Canavan:** That is a bit mean, Senator Ketter. I hope you did not want to use one of those angry faces either.

**Senator KETTER:** He said that he was 'At the launch of the Cooperative Research Centre for Northern Australia at JCU this morning.'

**Senator Canavan:** It is correct to say that we made the announcement at the tropical health centre at James Cook University in Townsville. The CRC is focused on agriculture, food and tropical health. We see those as core natural advantages for the Northern Australian economy. We helped, under the white paper, provide funds to establish the tropical health centre at James Cook University, so it was an appropriate location to make the announcement. It was great to catch up. The last time I had been there, it was not an operating facility—it had only just been opened—so it was great to see people in the lab working on a variety of tropical diseases and viruses. They are doing fantastic work. They have a great person there who has come up from Melbourne who is world-renowned in tropical diseases. She is over the moon and stoked to be working in a tropical area with the latest you-beaut equipment to work on these viruses. These viruses are obviously quite contagious, so there need to be quite-detailed and accredited medical facilities to contain them and do the research they need. That is why it was launched there. That is no indication about its future potential location.

**Senator KETTER:** Thank you for that. I turn to water issues in Townsville. Mr Coffey, I am not sure if you will be able to help me here, but what is your view of the impact of the lack of available water in the area and that there are level 3 water restrictions? What is the impact on the development of Townsville?

**Mr Coffey:** Under the National Water Infrastructure Development Fund, there are a number of feasibility studies going on around Northern Australia, and some near Townsville, to have a look at the water resources in the area for both agriculture and potable water. Those processes are occurring. Decisions will be taken once those feasibility studies are completed and further information is known about what is available, and the next steps will then be taken.

**Senator Canavan:** Responsibility for those feasibility studies is with the agriculture and water department, so detailed questions will have to be put to them. I just add that I am very well aware of the issues in Townsville. It is an issue raised consistently by businesses in Townsville—Townsville Enterprise Ltd. We have put aside funds for three different projects in Townsville to try to alleviate the situation. It has been frustrating that it has taken a little bit longer, in discussions with state government, to get those projects rolling. A number of them have started; I am pretty sure the ones in Townsville have—or have been agreed to by the Queensland government, I should say—but I would need to check that with the Department of Agriculture and Water Resources.

**Mr Coffey:** They have certainly all been agreed to.

**Senator Canavan:** They have been?

**Mr Coffey:** Yes.

**Senator Canavan:** Okay.

**Senator KETTER:** Can you tell us a bit more about those three plans?

**Senator Canavan:** Keeping in mind that it is not my direct responsibility, there is a study into the potential construction of the Hell's Gate Dam, which is roughly north-west of Townsville, on the Burdekin River; a study on the raising of the Burdekin Falls Dam wall; and the upgrade of the Haughton River channel. The last two are certainly connected projects. The Haughton River channel helps at least feed water from the Burdekin Falls Dam, and if we were to upgrade or lift the wall there would apparently be potential need for consequent upgrades to the Haughton River channel. There are a variety of views in Townsville about the best steps forward, but that is why we are doing these studies. Hell's Gate, if it were to be built, is a much bigger project than is needed for Townsville alone, so a component of that study is looking at potential options for that excess water to be used in agriculture or other industries.

**Senator KETTER:** To understand what you said before, Mr Coffey: am I correct in saying that the ONA does not itself have plans to address water shortages in Townsville?

**Mr Coffey:** No. The responsibility sits with the Department of Agriculture and Water Resources and of course the state government. They determine and make some of those decisions, but we will work closely with those jurisdictions and departments to ensure that development across the north can take place. If there are challenges and issues, then we will be talking to the responsible departments about those types of things.

**Senator Canavan:** And, just to be clear, the government certainly has a plan to help tackle the water situation in Townsville, but the responsibility for that is with the Department of Agriculture and Water Resources.

**Senator KETTER:** In terms of the development of those three plans we were talking about, you have said they are not directly within your jurisdiction, but can you tell us which groups have been engaged with in developing those plans?

**Senator Canavan:** I will have to take that on notice. I know there has been a role for Townsville Enterprise Limited in this process. I am not sure of the status of that. As I say, there have been some disagreements and delays in deciding on funding agreements with the Queensland state government. I believe they have only been resolved relatively recently, but I do not have the up to date details on hand. I will take that on notice, and we will probably have to consult with the department of agriculture for that answer.

**Senator KETTER:** On the issue of compulsory land acquisitions, what discussions have you had, Minister, with the defence minister, in your capacity as minister for northern Australia, about the availability of land for the Singapore defence site?

**Senator Canavan:** I have had a range of discussions with Minister Payne, and some of those have involved landholders directly, including in Rockhampton recently. Could you just be a little bit more specific? I have spoken to her on an ongoing basis here, and it has been a very high profile and contentious issue.



**Senator KETTER:** When did these discussions take place?

**Senator Canavan:** I have spoken to her quite a few times in the last few months. If I could try to round it down to be more specific, it was the week the Prime Minister of Singapore was here that I was first briefed about the proposals. I think it is very important to stress here that it was never a decision by government to compulsorily acquire land. There was a proposal by the Defence department to expand training areas, and Defence indicated that they may seek approval for compulsory land acquisitions under the Lands Acquisition Act, but the government had made no decision there. Back then, I was first briefed on those proposals. Not long after that, I visited Stanage Bay and the Shoalwater Bay regions to talk to some landholders and businesses. I made, before Christmas, two separate trips to North Queensland, one to Townsville and one to Charters Towers, to talk to landowners and the council there about the Townsville training field area. There was a meeting in Marlborough earlier in the year that was quite well attended. Then there were a range of other discussions resulting from that. As I say, it is bit hard to catalogue discussions I have had with the defence minister, because they have been very regular. I think it is important to put on the record that the government has listened to the feedback from the community. We have made a decision that there will not be any forced land acquisitions, because that is the feedback we got from people. The very principle and reason why defence had put these up as proposals was to go and consult and to talk to people. We have done that; we have listened, and we have acted.

**Senator KETTER:** Minister, did you receive briefings from the department or from the Office of Northern Australia about the potential impact of the loss of prime beef growing land in North Queensland on the economy if Defence acquired properties around Charters Towers and Shoalwater Bay?

**Senator Canavan:** No, I did not, because the Defence department had commissioned what is still an ongoing study. They have commissioned KPMG to do a full socio-economic assessment of any expansion of the training facilities. Clearly, we were waiting on that advice, and now the government has made a decision to not proceed with forced land acquisitions, based on the community feedback, but not on that study, because it has not been completed. It is a matter for the Defence department. My understanding is that the study is continuing. They have recently have done consultations in the region, and that will obviously be something that is factored into the Defence department's final decisions on what will now be voluntary land acquisitions in Shoalwater Bay Training Area and Townsville Field Training Area.

**Senator KETTER:** Are you saying that neither the ONA or the department have made any assessment of the impact on the North Queensland economy of the loss—

**Senator Canavan:** I am not in the business of duplicating work unnecessarily. This is the Defence department's decision, and they have commissioned appropriately qualified people to make those judgements and decisions, and I was awaiting that advice.

**Senator KETTER:** Are you saying KPMG are performing that function?

**Senator Canavan:** As I said, you will need to direct those questions to Defence to get an up-to-date assessment of where that is at, but they have very recently—I know in the last few weeks—been discussing this and taking submissions from people. I presume that project is ongoing regardless of the decision the government has made recently about land acquisitions.

**Senator KETTER:** Minister, are you aware of any other options other than the land that was previously earmarked for compulsory acquisition?

**Senator Canavan:** Yes, I am. I mentioned trips particularly to the Charters Towers region—there was a group of landholders that were putting forward an option I believe west of Pentland, a town west of Charters Towers. It was a property apparently on sale—I cannot attest to it myself—but that was something that was put forward to the defence department and they had agreed to have a look at that. Again, you will have to check with them on the latest status but the last time I checked they were still looking at that option. To answer your question fully, there was a range of other options put by different people around the country, and I often did talk to Defence about the relative merits of those or otherwise. They would obviously put forward their proposals based on their assessments.

**Senator KETTER:** Is this the property which I understand is known as Longton?

**Senator Canavan:** I could not tell you. I would have to take that on notice. It is a matter for the defence department.

**Senator KETTER:** Are you aware of a proposal for Defence to acquire this property at Longton?

**Senator Canavan:** I am not aware of the name of the property.

**Senator KETTER:** It is south of Charters Towers.

**Senator Canavan:** It might not be the same one because Pentland is west of Charters Towers. I am aware, basically, of what I have just disclosed previously—that is the extent of my knowledge on those. I have referred them to the defence department. They are the ones charged to do the detailed assessment.

**Senator KETTER:** You have alerted the defence minister to—

**Senator Canavan:** And that was a while back now. I should say, I think Defence were aware of those proposals as well because they had been in constant discussion with the same landholders I was talking to.

**Senator KETTER:** Can you tell us what was defence minister's response to these other options?

**Senator Canavan:** As I said previously, the defence department, the defence minister, agreed to look at them.

**Senator KETTER:** Do you know whether they have actually, at this stage, examined the proposal?

**Senator Canavan:** I am not aware of the latest status of those assessments.

**Senator KETTER:** Is the minister aware that in February the member for Leichhardt wrote to the Minister for Defence suggesting that land near Weipa and RAAF Scherger be used instead of land at Shoalwater Bay and at Charters Towers?

**Senator Canavan:** I would have to check and take on notice whether I received a copy of that letter, but I was aware of those reports and others have put forward the Scherger option. I have raised it with Defence. They had a particular view on that option. I think it is appropriate for them to provide you information on their view on it. You will have opportunities to put those questions directly to them. Yes, I was aware and I did talk to Defence about them.

**Senator KETTER:** Have you urged the defence minister or the defence department to consider that land near Weipa, as suggested by the member for Leichhardt?

**Senator Canavan:** All I can say is that I did discuss that with them. I very much respect the Australian Defence Force. I think the advice they give to both the defence minister and to all of us here in parliament is well informed from a defence perspective—that is their expertise—and I take it on board seriously. I do not know all of the specifics but I know they looked at a range of options around Australia for these expansions. They chose, as their preferred options, the Townsville Field Training Area and Shoalwater Bay. I know Shoalwater Bay very well given my proximity to it. It is a world-class training facility and provides potential and training options that other parts of the country just cannot match. I think the proposals the defence department put forward are perfectly understandable, but I am not a military training expert and, while I am clearly very interested in those proposals and have had a lot of discussions with Defence about it, at some point you have to sit back and trust the experts on these matters.

**Senator KETTER:** I will just come back to Ms Walker, because I want to understand a bit about the expenses and costs associated with the running of NAIF. First I will ask: how much is each member of the board paid?

**Mr Coffey:** That is probably a matter for me. The payments for the board were set by the Remuneration Tribunal. The chair received \$146,960 per annum. The directors do vary for various reasons: Barry Coulter, \$43,825 per annum; Justin Mannolini, \$63,840 per annum; Khory McCormick, \$56,150 per annum; Sally Pitkin, \$63,840 per annum; Bill Shannon, \$71,520 per annum; and Karla Way-McPhail, \$56,150 per annum.

**Senator KETTER:** Thank you for that. Are members of the board eligible to receive bonuses for performance or for any other reason?

**Mr Coffey:** There are additional payments available if they are on particular audit committees. Members appointed to audit committees are entitled to \$7,690 per annum. And the chair of the audit committees are entitled to \$15,370 per annum. The chair will also receive an additional loading of \$34,000 per annum until 30 June 2017. And Mr Coulter has a particular arrangement where he receives an annual fee in lieu of other amounts, due to the fact that he is a former member of the Northern Territory parliament.

**Senator KETTER:** Can you tell us about travel? How much was spent on travel by each member of the board?

**Ms Walker:** I would have to take that on notice. I have an aggregated number. I do not have it for each member of the board. But I can provide that.

**Senator KETTER:** Okay. Thank you. Can you tell us how many trips each member of the board claimed an expense for how. How many full-time employees does NAIF employ in total?

**Ms Walker:** We have eight full-time equivalent. Three of those are seconded from Efic, and five are NAIF direct employees, and that includes me.

**Senator KETTER:** Do you have any teams within NAIF—for example, communications, media?

**Ms Walker:** We have access to the whole of Efic, as I mentioned before. If we wanted to hire consultants, we could do that. But we do not have that within NAIF.

**Senator KETTER:** So you do not have teams as such?

**Ms Walker:** I thought you said 'communications'. Sorry.

**Senator CANAVAN:** I think he did, but—

**Senator KETTER:** Just to use that as an example. Do you have a communications team or other functional teams within NAIF?

**Ms Walker:** We have origination specialists and we have execution specialists. Then we have shared services that we access from Efic, across all the range of the other services that we require. We have chief of staff as well. And we have ongoing recruiting.

**Senator KETTER:** So you are continuing to recruit to a particular target?

**Ms Walker:** Yes.

**Senator KETTER:** What is the objective?

**Ms Walker:** The total objective?

**Senator KETTER:** Yes.

**Ms Walker:** I think we would like to recruit a further two originators and I think three or four more execution staff directly into NAIF.

**Senator KETTER:** Are there any current vacancies in NAIF? You said you are recruiting.

**Ms Walker:** Yes. We have searches underway. So, yes, there are currently positions that we would be looking to fill. But, as I say, we have access to the full resources of EFIC and we have access to other resources in the market on an as-needs basis.

**Senator KETTER:** When you come back to me, can you tell me how many board meetings each board member has attended or missed?

**Ms Walker:** Yes, I can do that.

**Senator KETTER:** And how much was spent on office fit-outs for the NAIF headquarters?

**Ms Walker:** I do not have that information, but we could take that on notice.

**CHAIR:** Senator Ketter, it is 10.30. I am just wondering whether we could potentially move on. If there any further questions, we might be able to put them on notice.

**Senator KETTER:** Yes. Thank you.

**CHAIR:** Thank you very much then to the Office of Northern Australia and to the Northern Australia Infrastructure Facility.

#### **National Offshore Petroleum Safety and Environmental Management Authority**

[10:32]

**CHAIR:** Good evening to NOPSEMA. Thank you very much for joining us and for staying so late this evening. Does anybody have an opening statement that they would like to make?

**Mr Smith:** Thank you, Chair. I do not have an opening statement as such. And, in view of the time, that is probably a relief to you. There was just one point that I wanted to make before you launch into questions—that is, Mr O’Keeffe has just joined us in December as the head of our safety division after more than 30 years with the offshore oil and gas industry in Australia and overseas. So this is his first go. Also, given his background, I think he is bringing a tremendous amount of experience and insight to NOPSEMA which will benefit our safety functions.

**CHAIR:** Terrific. Welcome Mr O’Keeffe to your first Senate estimates. What a baptism of fire! We will start questions tonight with Senator Ketter.

**Senator KETTER:** Mr O’Keeffe, I think I am going to be spending a bit of time talking to you tonight. So thank you for coming. Perhaps I might start with Ms Beauchamp. Is the department aware of any instances where operators have failed to comply with their workplace health and safety requirements?

**Ms Beauchamp:** Operators within the offshore oil and gas industry?

**Senator KETTER:** Yes.

**Ms Beauchamp:** I think they are best directed to NOPSEMA.

**Senator KETTER:** Perhaps, Mr O’Keeffe? I might be too soon.

**Mr Smith:** It is a very broad-ranging question. There are instances where we think some operators are not acting in accordance with the obligations they have made in their safety cases for their safety side or their well operations management plan. And in most instances we issue recommendations or take enforcement action as we consider appropriate.

**Senator KETTER:** Have any injuries or deaths resulted as a result of a failure to comply with workplace health and safety requirements under the act?

**Mr Smith:** I am pleased to say that in the last 12 months it is the first year on record where there have been no fatalities and no serious injuries. In the last 12 months there have not been any. In the past there have been, and they have been reported on according to the events.

**Senator KETTER:** That is good news. Is the Offshore Petroleum and Greenhouse Gas Storage Act consistent with the workplace health and safety act?

**Mr Smith:** It is largely consistent with it. There are some differences.

**Senator KETTER:** Where are the inconsistencies?

**Mr Smith:** The inconsistencies that are brought to my attention most often are brought to my attention by the union movement. They typically relate to a couple of issues: one is access to the workplace for the union representatives and the other concerns access to the safety case for people who are not on the facilities.

**Senator KETTER:** Why do the two acts differ?

**Senator Canavan:** I think that goes to a matter of policy—for Mr Smith to make any observations he would like to. NOPSEMA was established a few years ago and I think its record of regulating this space is well-regarded. I am interested in the outcomes and in ensuring the safety of our offshore oil and gas workforce. You cannot take one year, but clearly the record has been positive to this stage.

**Senator KETTER:** That is good news, but can you tell me whether the workplace health and safety requirements of the Offshore Petroleum and Greenhouse Gas Storage Act are consistent with legislation internationally?

**Mr Smith:** The legislation that we administer was introduced just over 10 years ago. It was modelled on the UK model of outcomes based regulation of offshore oil and gas, which is also applied in other countries, like Norway and Canada, which, along with Australia, are recognised as the world-leading regulatory regimes for this. That has also been recognised through international bodies such as the International Regulators' Forum, where there are four members of the management committee, those countries being the United States, the United Kingdom, Norway and Australia. So I think it is fair to say that our regulatory regime is recognised globally as amongst the best in the world.

**Senator KETTER:** How do you work with health and safety regulators like Safe Work Australia, for example.

**Mr Smith:** We engage quite regularly with Safe Work Australia. Mr O'Keeffe and I met with them two weeks ago, for instance. In fact, I had the head of Safe Work Australia on the selection panel with me to fill the position that Mr O'Keeffe subsequently secured. So we have a very good relationship with them and work closely with them where we think it is appropriate, and where they do.

**Senator KETTER:** Is it NOPSEMA that is accountable for deficiencies in workplace health and safety standards in the industry?

**Mr Smith:** We administer our own legislation. We do not have any responsibilities for policy.

**Senator KETTER:** Do you actively monitor or regulate these health and safety standards?

**Mr Smith:** For offshore oil and gas?

**Senator KETTER:** Yes.

**Mr Smith:** Yes, we do.

**Senator KETTER:** Do you consider the health and safety guidelines in your act to be sufficient for remote and hazardous work, which is often required?

**Mr Smith:** Yes. I believe the regulatory regime has proven to be very effective, and leading-practice internationally.

**Senator KETTER:** Looking at the outcomes of the 2015 NOPSEMA operational review, did that review find any deficiencies in how NOPSEMA regulates health and safety under the OPGGS Act?

**Mr Smith:** The review found that we had a very robust regulatory regime and, to paraphrase it, that we did a good job in that regard. It did note that there were a couple of areas where we could improve. It made several recommendations. As I recall, they related primarily to transparency in regard to environmental approvals, and we have been advocating those sorts of measures to the industry since. The industry department has been following a similar line.

**Senator KETTER:** Are there any other deficiencies, if I can call them that?

**Mr Smith:** I cannot think of any specific to the safety side, off the top of my head. There would be some recommendations. For instance, there were several recommendations that we continue to pursue the sort of changes that we have been pursuing. For instance, in terms of engaging stakeholders, it supported the measures we have been taking and encouraged us to continue down that path, which we have done. We engage with the union movement regularly, and we see value in that. The report you are referring to was tabled in parliament, too, so all of the recommendations and the content of the full report are available publicly.

**Senator KETTER:** Did that operational review look at whether workplace health and safety requirements in the act were sufficient?

**Mr Smith:** It looked at the legislation and how we applied it, and the adequacy of those provisions to protect those workers in the offshore oil and gas industry, and found that we were doing a good job, yes.

**Senator KETTER:** So it did include health and safety issues?

**Mr Smith:** Yes, and I understand they also had meetings with the union movement. If that is the point you were getting to, I understand that they took submissions from the union movement, which would have gone to the issue you are talking about, I think.

**Senator BUSHBY:** Given the time I will put my questions on notice. I will give them to the secretary now.

**CHAIR:** There being no further questions, the committee's consideration of the 2016-17 additional budget estimates will conclude. I thank Minister Cormann, Minister McGrath, Minister Sinodinos and Minister Canavan, officers of the Treasury and the Department of Industry, Innovation and Science, and all witnesses who have given evidence to the committee this week. We look forward to seeing you all at future estimates. Thank you also to Hansard, broadcasting and to the secretariat: Sean, Alan, Patrick, Sarah and Ashlee.

**Committee adjourned at 22:41**